Evaluation Series No. 75

January 2005

Commonwealth Secretariat
Development Assistance to Member States in the area of Corporate Governance

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Printed and published by the Commonwealth Secretariat, Marlborough House, Pall Mall, London SW1Y 5HX, UK

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Acronyms and abbreviations

AMSCO	African Management Services Company
ACBF	African Capacity Building Foundation
CACG	Commonwealth Association for Corporate Governance
Cadbury	UK corporate governance code
CAMDA	Caribbean Management Development Association
CBC	Commonwealth Business Council
CCG	Centre for Corporate Governance, Kenya (formerly Private Sector Corporate Governance Trust)
CG	Corporate Governance
CFTC	Commonwealth Fund for Technical Co-operation
CIPE	Centre for International Private Enterprise
ComSec	Commonwealth Secretariat
CPAD	Communications and Public Affairs Division (ComSec)
CSAP	Commonwealth Service Abroad Programme (ComSec)
CSR	Corporate social responsibility
DfID	Department for International Development (UK Government)
DSG	Deputy Secretary General (ComSec)
EAD	Economic Affairs Division (ComSec)
ELASD	Economic and Legal Advisory Services Division (ComSec, now part of SASD)
EU	European Union
FDI	Foreign Direct Investment
FMM	(Commonwealth) Finance Ministers Meeting
GCGF	Global Corporate Governance Forum
GIDD	Governance and Institutional Development Division (ComSec)
GRI	Global Reporting Initiative
HRU	Human Rights Unit (ComSec)
HRS	Human Resources Section (ComSec)
ICGN	International Corporate Governance Network
IDFC	IDFC Asset Management Co India
ILO	International Labour Organisation
IMF	International Monetary Fund
IoD	Institute of Directors
JSE	Johannesburg Securities Exchange
LCAD	Legal and Constitutional Affairs Division (ComSec)
MDG	Millennium Development Goals
MICG	Malaysian Institute for Corporate Governance
MTSD	Management and Training Services Division (ComSec; now part of GIDD)
NED	Non-executive director
NEPAD	New Partnership for African Development
NGO	Non Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PAF	Project Approval Form (ComSec)
PIMS	Project Information Management System (ComSec)
PCP	Primary Contact Point
POC	Point of Contact
PSCGT	Private Sector Corporate Governance Trust (Kenya)
SASD	Special Advisory Services Division (ComSec)
SG	Secretary General (ComSec)
SME	Small Medium Enterprise
SPED	Strategic Planning and Evaluation Division (ComSec)
SRI	Socially Responsible Investment
STPD	Social Transformation Programmes Division (ComSec)
TOR	Terms of Reference
UN Norms	UN Norms on the Responsibilities of Transnational Companies and Other Business Enterprises with Regard to Human Rights

Glossary of corporate terms

Board of Directors: group of people legally responsible for running a company. The structure of the board varies greatly between companies.

Executive Director: director who is also an employee of the company and has managerial responsibilities.

Non-Executive Director (NED): director who provides experience and advice in board deliberations; An NED is not an employee of the company and may have employment elsewhere.

Chair: person who presides at board meetings.

Chief Executive (known as CEO in US): responsible for the management of the company.

Managing Director: holding a board appointment and responsible for management of the company.

Other Directors: may be distinguished according to their area of responsibility e.g. Finance Director.

Company Secretary: responsible for the administration of the legally-required paperwork involved in running a company; may or may not also be a director.

Company Auditor: independent accountants who examine the accounts prepared and signed by the Board of Directors and certify that they present a true and fair picture of the company's financial position, or point out failings where they do not.

Shareholder: an owner of shares in a company who stands to lose or gain financially depending on company performance; many shareholders are institutions managing funds such as pension funds rather than individuals.

Stakeholder: people who do not necessarily own shares but who affect or are affected by a company's actions, e.g., employees, consumers, local communities, suppliers.

Public Company: a company capitalised by sale of shares of stock that can be traded on the open market. Many Commonwealth countries do not have Stock Markets and, even in those that do, very few companies are listed.

Private Company: a company privately capitalised; shares are not traded on the open market. The vast majority of companies in the Commonwealth are private companies.

Incorporated Business: a business that has been legally registered as a company, making the company a separate legal entity from its owners. The business may be limited (liability of its members is restricted), or unlimited (liability of its members is not limited).

Non-Incorporated Business: a business that has not been legally registered as a company. Many are family-run or small enterprises, and most businesses throughout the Commonwealth fall into this category.

Triple Bottom Line Accounting: The Triple Bottom Line (TBL) focuses corporations not just on the economic value they add but also on the environmental and social value they add – or destroy. At its narrowest, the term is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. At its broadest, the term is used to capture the whole set of values, issues and processes that companies must address in order to minimise any harm resulting from their activities and to create economic, social and environmental value. This involves being clear about the company's purpose, and taking into consideration the needs of all the company's stakeholders. (*Source: SustainAbility*)

Acknowledgements

This study required the kind co-operation of a great many people. The Commonwealth 'corporate governance family' is a large and disparate one, but all members of it encountered as part of this study are characterised by willingness and interest to participate, to make time in busy schedules and to share information freely. Thanks go to all the individuals in the private sector, government, market support institutions, regulatory authorities, non-govern-mental organisations, development agencies and professional associations who gave interviews in Sri Lanka, Jamaica, India, Malaysia, Kenya, Tanzania, Rwanda, South Africa and London.[1] Significant co-ordination is required for country visits and thanks go to the Private Sector Organisation of Jamaica and the Private Sector Corporate Governance Trust in Kenya for working with the Secretariat to help co-ordinate visits. Members of international organisations Global Corporate Governance Forum, the OECD, the World Bank, DFID and CIPE kindly participated in the study, and in some cases, gave priority to participation when time zone differences across countries were less than amenable. Members of CACG, in particular Geoffrey Bowes, were most generous with their time and willingness to assist. Special thanks go to Michael Gillibrand, who gave endlessly of his time over the long period this study was undertaken. Thanks are extended to the individuals in the Secretariat who participated in the study and the SPED team for their support over the duration of this assignment. Particular thanks are owed to Keelin McCarthy for her invaluable input to this report.

[1] A full list of those interviewed in the course of this study and their organisational affiliation is attached in Appendix 6.

Executive summary

Since the mid-1990s, the concept of corporate governance has increased rapidly in profile. The Commonwealth Secretariat has undertaken work on this theme, led by its Governance and Institutional Development Division (GIDD)[2]. However, unlike other organisations which focus on promoting corporate governance in advanced and emerging market economies, the Secretariat from the outset focused on adapting and applying corporate governance to specifically assist its developing country members.

Work began, initially as part of the post-privatisation programme, in 1996. In the following year, GIDD helped establish the Commonwealth Association for Corporate Governance (CACG), which developed the Commonwealth Principles for Corporate Governance.[3] The key features of the Commonwealth's definition of good corporate governance articulated in the Commonwealth Principles are (i) conformance of companies to standards of accountability, (ii) performance, (iii) corporate social responsibility (CSR), and (iv) tackling corruption. The Principles are also characterised by flexibility to enable their adaptation to local circumstances and different organisations.

From 1997, the Secretariat embarked on corporate governance promotion through five main activity areas, usually delivered through or in association with CACG. These are:

- Pan-Commonwealth, regional and national policy workshops to launch the corporate governance programme
- Formation of national task forces to lead national programmes
- Development of national strategies for the promotion of corporate governance
- Establishment or strengthening of national professional institutes
- Conducting training courses for company directors.

By 2003, GIDD stated that some combination of these activities had been conducted in more then twenty-five countries: Bangladesh, Barbados, Botswana, Fiji, The Gambia, Ghana, India, Jamaica, Kenya, Malaysia, Malawi, Malta, Mauritius, Mozambique, Namibia, Papua New Guinea, South Africa (for the African region), Sierra Leone, Sri Lanka, Swaziland, Tanzania, Trinidad and Tobago, Uganda, Zambia and Zimbabwe. In Kenya and Sri Lanka, the Secretariat had also supported activities aiming to promote corporate governance among parliamentarians and the financial sector.

The evaluation: This study was commissioned by SPED as part of its annual evaluation programme. The task was to evaluate the corporate governance work from inception to the financial year ending June 2003, and to make recommendations for its improvement.[4] The evaluation faced substantial methodological challenges, in part due to the known difficulties associated with evaluating capacity-building projects, and in larger measure due to the absence of adequate project records, especially for the earlier projects. Available evidence indicates that, in the period

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[2] The Governance & Institutional Development Division, GIDD, was formed of a merger of the Management & Technical Services Division (MTSD) and the General Training Support Division (GTSD) in 2002; early corporate governance work was managed by GTSD but to avoid confusion this report generally refers to the division responsible as GIDD.

[3] See Commonwealth Principles for Corporate Governance, Appendix 8.

[4] See TOR, Appendix 7.

under review, 40 corporate governance projects were conducted throughout the Commonwealth, broadly in the five activity areas set out above. For these projects, 17 entries were found on the Project Information Management System (PIMS), along with 17 Project Approval Forms, 2 project files, and 7 temporary project files. No project completion reports were found. Total expenditure approved for corporate governance work is calculated at between £0.89 million and £1.06 million over the seven years 1996-2003.[5]

The evaluation team conducted the review between October 2002 and June 2003. In the first stage, interviews and document research were conducted at the Secretariat. In the second stage, field visits were conducted to Sri Lanka, Jamaica, India, Malaysia, Kenya, Tanzania, Rwanda, South Africa and London to interview government and private sector officials, corporate governance experts and trainees, as well as to observe delivery of the Commonwealth director-training course. Surveys were also conducted of previous trainees and experts in the field.[6] In the final stage these sources of evidence were synthesised into the findings and recommendations of this report.

The evaluation finds that the Commonwealth's work in corporate governance has had some notable successes.[7] The Commonwealth Principles for Corporate Governance are respected among international corporate governance practitioners and have been used as a resource when preparing national and sector codes in Kenya, Tanzania, Malawi and Sri Lanka. The Secretariat has also played a strong advocacy role in the promotion of corporate governance by supporting the participation of small states and developing countries in international forums on corporate governance and in advancing innovative applications of corporate governance, such as in banking, state enterprises and the public sector[8].

Individual components of the five activity areas have met varying degrees of success. Policy workshops, national tasks forces and national strategies have had limited impact, and progress has depended on the commitment of individuals, local political circumstances and the degree of interest in the Commonwealth's flexible approach to corporate governance, rather than alternative compliance-based systems. National professional institutes have been supported in several countries. The director-training course delivered by the Secretariat through the CACG and Private Sector Corporate Governance Trust of Kenya was highly rated by course participants. Although there was clear room for improvement in some aspects of content and delivery, overall 88 per cent of trainees were satisfied or better with the quality of training, and there was evidence that the training was having an impact in their workplaces.

The evaluation found a need to improve management of the programme, particularly in records and finance, and in co-operation with other organisations. The evaluation makes the following key recommendations:

Strategic recommendations

- The strategy of the Secretariat and its commitment to corporate governance was often unclear to international and national actors. Review the policy for corporate governance.

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[5] See Corporate Governance Projects, Appendix 1.
[6] See questionnaire data, Appendices 3, 4 and 5.
[7] Findings are listed in Chapters 3 & 4 next to the supporting evidence, and re-listed in Chapter 5.
[8] In 2003 the Commonwealth Association for Corporate Governance received the annual award of the International Corporate Governance Network.

In doing so, note the view held by some international organisations that the Secretariat is needed in the international sphere to represent the interests of developing countries and small states. Clarify the goals and roles of the Secretariat, CBC and CACG in promoting corporate governance. Share information and co-operate.

- The Commonwealth's director-training course is having a positive impact, but indefinite support would be unsustainably expensive. The Secretariat should seek partners and begin to devolve the course to appropriate member country institutions, either completely or as a Third Country Training Programme. In selecting partners, note that the course has had most impact when licensed to an established institution.
- Training should be focused on sub-Saharan Africa and small states and discontinued in countries such as Malaysia where the private sector is already an established provider.
- The Secretariat should strengthen co-operation with staff working on corporate governance at the World Bank, OECD and NEPAD. It should maintain an advocacy role representing developing-country interests and in reviewing international standards with potential impact on member countries. The Secretariat should represent the interests of small states, SMEs and countries which may suffer under some corporate governance measures.
- The Secretariat can maximise its impact in corporate governance by using its access to skilled professionals to provide targeted specialist advice when requested, such as that given to Central Banks and financial institutions in Sri Lanka and Kenya. Divisions should support the development of company and competition law, and employment law consistent with ILO core labour standards.
- Support for corporate social responsibility, such as the UN Norms, should be a more visible part of the corporate governance work.[9] In this, the Secretariat should co-operate with the CBC, which has taken an initiative in this area.

Operational recommendations

- The devolution strategy for the director-training course should continue to include content review to incorporate recommendations of this study on relevance and teaching methods.
- Increase the web-based accessibility of information about the Secretariat's work in corporate governance, including putting a downloadable copy of the Principles on the website. The activities of GIDD, LCAD, EAD, SASD and HRU in the corporate governance and CSR areas have potential overlap that has not been fully explored.
- The Secretariat must set out a clear policy for records management to improve the sustainability of assistance and maximise the potential to learn from reviews. The Secretariat also needs to ensure that staff understand and support these tools. In long-term capacity-building projects or work that is exploratory in nature it may be appropriate to supplement logical framework analyses with systems that can reflect a more realistic sense of time deliverables, such as change matrix forecasts. Systems that make it easier for divisions to co-operate on work would also be useful.
- When work is outsourced to Commonwealth associations or other partners, terms of reference must include a description of roles and responsibilities and reporting and records management requirements.

[9] See Table 2.

Chapter One: Introduction

1. Background to the study

The Secretariat's corporate governance programme[10] has been described as falling into four phases. The first phase dates from the mid-1990s when the work was not specifically referred to as corporate governance, but corporate governance issues were promoted as part of the Secretariat's post-privatisation work.

The second phase, dating from 1996–1999, saw the main development of corporate governance as a distinct body of work. The first capacity-building exercises were conducted in 1996-7, with training for board members of state enterprises in Sierra Leone, Mauritius and Ghana. The corporate governance professionals who delivered these courses were later to play a central part in the Commonwealth Association for Corporate Governance (CACG). In 1997 a resolution of the Commonwealth Business Forum recommended endorsement of capacity building for corporate governance in Commonwealth countries. This resolution was endorsed in the Commonwealth Heads of Government Economic Declaration in October 1997. The Secretariat's corporate governance work was formally launched after a meeting at Sundridge Park in 1998, which also launched the CACG, a New Zealand-based Commonwealth association, a voluntary network of institutions and specialists in corporate governance.

The key features of the Commonwealth's definition of good corporate governance are:

i) conformance of companies to standards of accountability;
ii) performance;
iii) corporate social responsibility (CSR);
iv) tackling corruption.

These underlying principles have been used as a policy basis for the Secretariat's corporate governance work and are also characterised by flexibility to enable their adaptation to local circumstances. They are aimed particularly at developing country circumstances. Furthering the Commonwealth's definition of good corporate governance, in 1998-1999, CACG developed the Commonwealth Principles for Good Governance, a corporate governance code focusing on roles and responsibilities of boards. The final version of the Commonwealth Principles was presented to and endorsed by the Commonwealth Business Forum and Heads of Government meeting in South Africa, 1999. During 1998-99, the Secretariat and CACG organised policy and training workshops to promote corporate governance in Africa, the Caribbean and the Pacific (working with the New Zealand government). Collaboration with the newly established Global Corporate Governance Forum was also a key aspect of work during this period.

In the third phase in 2000 and 2001, the short training course first delivered in Sierra Leone and Mauritius was expanded by CACG to a five-day company-director training course. Material from UK and New Zealand courses were also incorporated in this work. Workshops and training

[10] Although the corporate governance work is not strictly a programme within the terminology used for Secretariat strategic planning, it is referred to as a programme in this study. This usage reflects the terminology used in the Governance and Institutional Division (GIDD) project files and should not be confused with the thematic programmes into which the Secretariat divides all its work.

continued to be delivered, including in the Caribbean, Ghana, India, Malta and Sri Lanka. In some cases funding from the World Bank was provided but in this phase Secretariat activities were constrained by resource limitations.

Over the fourth phase, 2001 to date, a £300,000 training project aiming to train a critical mass of skilled company directors across the Commonwealth began. As well as with CACG, this course was delivered through partners including the Private Sector Corporate Governance Trust of Kenya[11], the University of the South Pacific and the Private Sector Organisation of Jamaica. The aim was to train a skilled core of corporate governance experts who, on themselves becoming trainers through the ‘train-the-trainer, process’, would make the course self-sustaining in Commonwealth countries.

Throughout phases two, three and four CACG continued to be commissioned by the Secretariat (GIDD) to deliver training courses and advisory missions in Commonwealth countries. GIDD also worked with another key Secretariat Divisions (ELASD now SASD) to support corporate governance work in the financial sector and with central banks in Kenya and Sri Lanka.

Over phases two, three and four, GIDD work falls into five main areas:

1. National policy workshops to launch the programme in countries
2. Formation of national task forces to take responsibility for leading national programmes
3. Development of national strategies for the promotion of corporate governance
4. Establishment or strengthening national professional institutes
5. Conducting training courses for company directors.

File information for many of the activities conducted under the programme is lacking. By 2003, GIDD states that some combination of these activities had been conducted in each of Bangladesh, Barbados, Botswana, Fiji, Gambia, Ghana, India, Jamaica, Kenya, Malaysia, Malawi, Malta, Mauritius, Mozambique, Namibia, Papua New Guinea, South Africa, Sierra Leone, Sri Lanka, Tanzania, Trinidad & Tobago, Uganda, Zambia and Zimbabwe. In Kenya and Sri Lanka the Secretariat had also supported activities aiming to promote corporate governance through work with parliamentarians and the financial sector. Map1 provides details of corporate governance activities over the period being evaluated, and Appendix 1 sets out the full list of corporate governance projects and activities on which documentation could be found.

2. Objectives of the Evaluation

This study was commissioned by the Strategic Planning and Evaluation Division. Its task was to evaluate work in corporate governance from inception to the financial year ending June 2003.[12] The specific objectives were:

- to assess whether projects and activities undertaken in the area of corporate governance have met their stated objectives;
- to determine whether the management by the Secretariat of these activities has been carried out in an efficient manner, reflecting best practice;

[11] Now known as the Centre for Corporate Governance, Kenya

[12] See TOR, Appendix 7.

- to identify any major constraints, which may have affected the implementation, impact and sustainability of the Secretariat's assistance;
- to examine whether the co-ordination of Secretariat operations was effective;
- to assess whether the Secretariat has made a distinctive contribution to meeting member governments' needs by working to its strengths, and whether it took the activities of other international organisations into account;
- to determine the extent to which the design of the projects took into account the gender dimension and to identify specific ways of making them more gender sensitive in the future;
- to assess the degree to which the needs of small states were addressed;
- to assess the degree to which the needs of SMEs were addressed;
- to identify the developmental results of the activities, learn lessons and recommend measures that will enhance the effectiveness and value and developmental impact of future support, taking account of the Millennium Development Goals for reducing global inequality and poverty, where appropriate.

3. Evaluation methodology

Corporate governance is described by GIDD as a programme, but according to the Secretariat's planning terminology it is a set of projects and activities within a sub-programme relating to public sector reform (see Table 6). Due to this categorisation, corporate governance is often seen within the Secretariat as a small specialist area, and strongly associated with the Governance and Institutional Development Division (GIDD). Notwithstanding, GIDD has worked on corporate governance with ELASD (SASD) and, within the wider Secretariat, with Economic Affairs Division (EAD), Legal and Constitutional Affairs Division (LCAD) and the Human Rights Unit (HRU) in anti-corruption and money laundering programmes or in the provision of legal advice in areas related to corporate governance. The evaluation adopted a narrow definition of the Secretariat's corporate governance work and for the purposes of this study only the work that GIDD itself described as corporate governance is examined in detail.

The evaluation study was undertaken by Liz Lange. The study was conducted in three stages between October 2002 and June 2003. In the first stage, interviews and document research were conducted at the Secretariat. In the second, field visits were made to Sri Lanka, Jamaica, India, Malaysia, Kenya, Tanzania, Rwanda, South Africa and London. These countries were selected on the recommendation of GIDD as those where much corporate governance work had taken place and lessons learned. These countries provided a cross section where corporate governance work had been done by national organisations with cooperation from the Secretariat. During field visits interviews were conducted with government and private sector officials, corporate governance experts, and trainees of the Commonwealth course. Delivery of a Commonwealth five-day director-training course was also observed in Rwanda.[13] This training course was delivered through PSCGT staff trained by CACG under the 'train-the-trainer' process. As such, it provided a good opportunity to examine how well 'train-the-trainer' was succeeding in enabling the initial Commonwealth training to provide sustainable developmental benefits. Throughout the second stage, contact was also made of all previous Commonwealth course trainees, country task force

[13] Rwanda is not a Commonwealth country but the Commonwealth course is delivered there through PSCGT. Repeated course schedule changes meant that initial plans to observe the course in a Commonwealth country, either Sri Lanka, India, Malaysia or Fiji, had to be abandoned. Since the course content is substantially the same wherever PSCGT teaches it, the evaluation is confident of the validity of basing comments on observations made in Rwanda.

members, and corporate governance experts who had worked with the Secretariat for whom details were available.[14] In the final stage these sources of evidence were synthesised to develop the findings and recommendations presented in this report.

The evaluation faced substantial methodological difficulties. In part this was due to the known difficulties associated with evaluating capacity-building projects, and the fact that insufficient time had elapsed between training and evaluation to enable meaningful impact assessments. In addition, corporate governance had begun as a somewhat exploratory area of interest, so clear goals against which performance could have been measured were not always articulated at the outset.

These problems were compounded by the inadequacy of project records retained at the Secretariat. Written information relating to the work was made available in the form of ten large boxes of unfiled papers, documents, books, reports from country ministries and miscellaneous notes. The laborious process of working through these papers and attempting to cross-reference information with the Secretariat PIMS system concluded that 29 corporate governance projects were probably conducted throughout the Commonwealth, broadly in the five activity areas set out above, over the period under review. No records were found relating to many of the countries in which GIDD reported conducting corporate governance work[15]. For the 29 projects for which some record was found, 17 entries were found on PIMS, along with 17 PAFS, 2 project files (for the projects conducted in co-operation with ELASD), and 7 temporary project files. No project completion reports were found, and records of trainees who had received corporate governance training were only available for the most recent courses. Total expenditure approved is calculated at between £0.89 and £1.065 million; the actual total remains uncertain without further detailed analysis of the financial records. [16]

The evaluation methodology had to be adapted to deal with these information gaps. In the absence of complete project documentation it was not possible to use the preferred evaluation technique of selecting a cross-section of projects and examining them from the planning stage onwards. Instead, the evaluation focused on examining the flagship and highest-cost project, the Pan-Commonwealth Director-Training Programme, in depth. It also focused on country case studies based on findings during field visits. In the absence of project documentation, even basic details of what had happened in each country, the aims, people involved, progress and outcomes, and the project titles under which the work fell sometimes had to be obtained during in-country discussions. Obviously, this has limited the capacity of the evaluation to identify problems.

The evaluation has necessarily been overly dependent on information obtained during interviews. It has sought to validate findings based on these sources by triangulating interviews, holding discussions with experts in a position to give independent comment on the Secretariat's work, and conducting many more personal interviews than usual in an evaluation study.[17] Wherever there remains insufficient evidence to comment objectively on projects or in-country work this is simply stated in the report.

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[14] See questionnaire data, Appendices 3, 4 and 5.

[15] Since the conclusion of the evaluation, the programme manager has confirmed that 40 projects were actually implemented; however, at the time of the study information on all these activities was not readily available.

[16] See Corporate Governance Projects, Appendix 1.

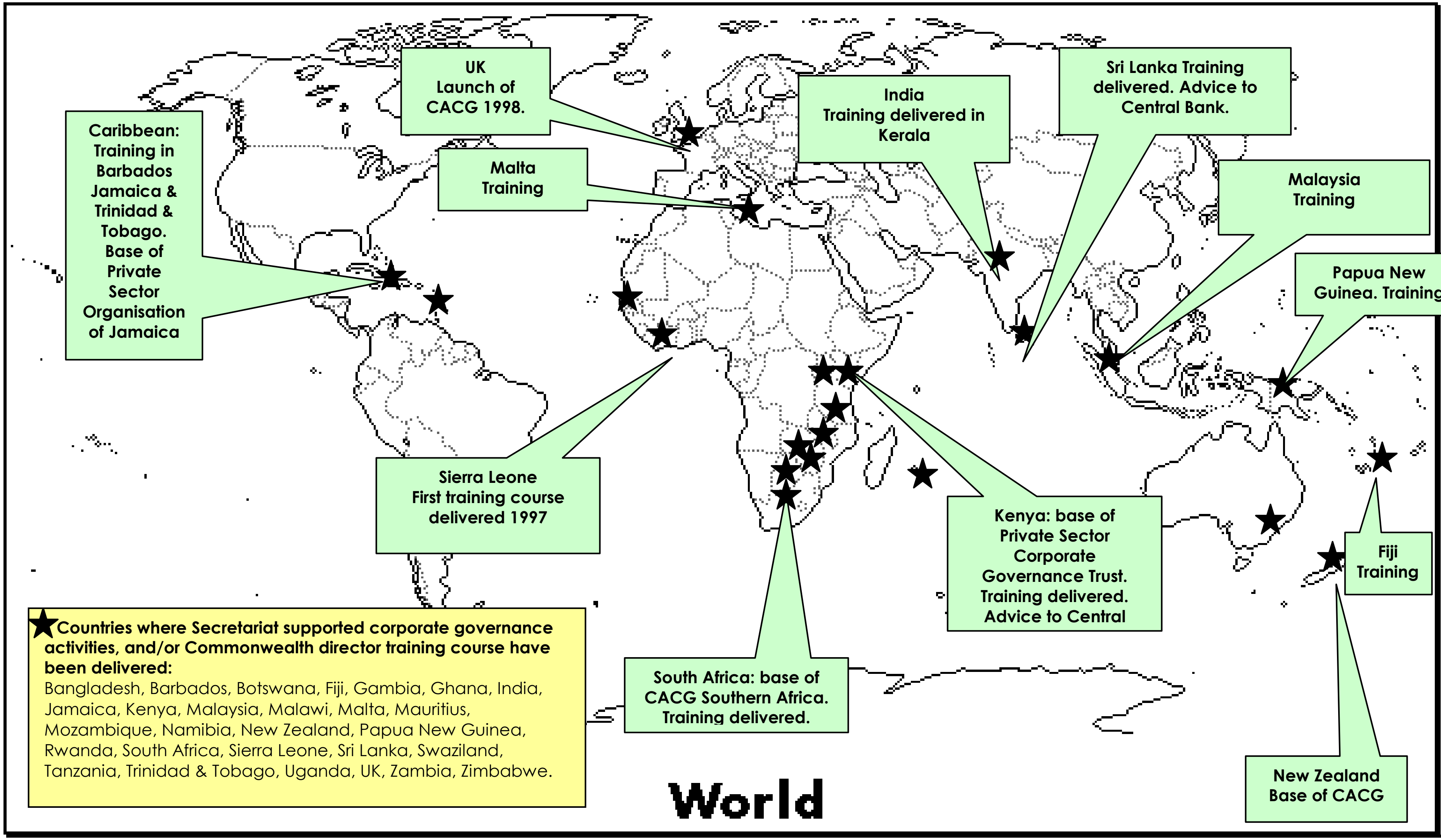
[17] A full list of those interviewed in the course of the study is available in Appendix 6.

4. Outline of the Report

The report is divided into five chapters. Chapter Two sets the context of the Secretariat's work into an international context with an examination of developments in corporate governance, corporate citizenship and corporate social responsibility over the period under review. Chapter Three examines the planning, implementation and management of the Secretariat's corporate governance work. Chapter Four examines particular programme elements, and the special themes (such as gender and small states) included in the TOR. Findings are presented in Chapters Three and Four alongside corresponding discussion. These two chapters draw on evidence set out in the ten detailed case studies in Appendix 2 and on the background information in Chapter Two. Chapter Five presents recommendations. For ease of reference findings are drawn together from Chapters Three and Four and presented again immediately before the recommendations.

Appendix 1 lists the Secretariat corporate governance projects identified under this study with a summary of available financial and file information. Appendix 2 analyses ten corporate governance case studies in detail. Other appendices include: the qualitative and quantitative data obtained from surveys of trainees, corporate governance experts and country task force members; a list of people consulted in the course of the evaluation study; a copy of the Commonwealth Principles for Corporate Governance; TOR for the evaluation study; bibliography of source and referenced material.

Map1
Map of Secretariat Corporate Governance Activities



Chapter Two: Corporate governance and corporate social responsibility

As seen in Chapter One, the Commonwealth's conception of corporate governance, articulated in the Principles, considers corporate social responsibility to be part of corporate governance. These two terms have increased hugely in profile since the mid-1990s. Despite their prominence they are often used with differing meanings, resulting in some confusion. This chapter sets out the main developments and debates surrounding corporate governance and corporate social responsibility, and gives background evidence for some of the findings in Chapters Three and Four. Readers familiar with the debates and international codes may wish to skip to Chapter Three which begins evaluation of the Commonwealth's work.

1. Corporate governance

The emergence of corporate governance

Corporate governance refers to 'the system by which companies are directed and controlled.'[18] At its narrowest, this covers the internal dynamics of a company, and the roles of directors, company secretaries and other key figures to ensure that companies are well run. 'Well run' has traditionally meant 'profitable to a company's shareholders', summed up in the famous quotation from the right-wing economist Milton Friedman that 'the business of business is to do business.'

Well before the 1990s however, this definition of a 'well-run' company and good 'corporate governance' was considered narrow. A combination of political factors and high-profile corporate scandals in the 1990s (see Box 1) led to a broadening of the focus beyond internal governance and accounting-sheet performances. It is now generally accepted that companies owe duties not just to their shareholders, but also to the wider stakeholders in society who are affected by their products, employment practices, environmental management or supply-chain policies. This raises questions which are now hotly debated: who is a stakeholder; and how far, among categories of stakeholder, do such duties extend? Even more controversial are questions of enforcement of such duties. Some argue for strict legal sanctions, others for voluntary codes, and others for some degree of triple bottom line accounting. These issues lie behind the debates on corporate governance and corporate social responsibility.

[18] Report of the Committee on the Financial Aspects of Corporate Governance (Cadbury Committee), 1992.

Box 1: Factors that put corporate governance and CSR on the development agenda

End of Cold War, globalisation of free market economic ideology: the ending of the ideological clash of the cold war gave way to a widely-held view that, rather than being a question of state or market, development should involve a partnership of state *and* market. The private sector was increasingly contracted to deliver services in areas that were previously the preserve of the state. At the same time, state-owned corporations were either privatised or held to greater accountability for the products they delivered. In this context, it seemed increasingly obvious that companies owed duties not only narrowly towards shareholders but also towards stakeholders in society.

Declining power of national governments, increasing power of global corporates: the increased economic might of a small number of corporate global powers, concerns that national governments were powerless to control foreign corporations even within their own borders, and high-profile corporate abuses in developing countries (See Box 1.2) focused attention on the potential negative consequences of corporate power. There were particular concerns that the economic interest of corporations would gain more weight than the developmental priorities of national governments as countries came under pressure to reduce the control they had over the private sector, sometimes as part of structural adjustment policies or in order to abide with free trade agreements.

Declining aid flows, increasing emphasis on attracting investment: direct development aid to national governments fell markedly from the 1980s, sometimes amid claims of poor public governance and corruption. There was increased focus on the need for countries to attract foreign direct investment (FDI) into their countries and businesses as a way to raise GDP and therefore reduce poverty. Attention was focused on enabling local companies to acquire characteristics that would enable foreign investors and rating agencies to be confident that they were well-run, and worth the risk of investment.

Asian financial crisis: the crisis that embroiled Asia, and then Russia and Latin America in 1997-1998 provoked a surge of interest in corporate governance. The crisis was widely attributed to failures of 'corporate governance' and 'crony capitalism' in local companies. Although the causes are now considered to have had more to do with failures in the international financial system, the crisis led to increasing focus on themes such as board composition, rights of shareholders, audit and disclosure policies and directors' independence, as well as on the regulation of financial markets.

Corporate scandals: corporate governance has tended to hit national headlines whenever major corporate scandals have occurred, with every country having a string of resonant names, such as BCCI, Maxwell/Mirror Group Newspapers, and Polly Peck in the UK. These have tended to trigger calls for greater executive, director and board accountability and reform of company practices and have led to national reviews such as the UK Cadbury Review. The reverberations from other corporate scandals and crises (see Box 1.2) have focused attention on these issues as well as on the social and environmental impact of corporate behaviour, so that corporate governance and CSR have become interlinked topics.

Enron: In December 2001 Enron became the largest corporate bankruptcy in US history when an investigation revealed that despite reporting global revenues of $100 billion and three-year earnings up 40% in 2000, it was in reality disguising a $15-20 billion debt through 3,500 off-balance sheet partnerships. In 2002 Enron's auditors, Arthur Andersen LLP, became the first accounting firm ever to be convicted of a felony in the US following its obstruction of justice during the Enron investigation, effectively spelling the end for one of the world's previously most respected accountancy firms. Thousands of ordinary Enron employees and shareholders lost their entire savings and pensions. Trust in capital markets plummeted as investors feared that they could not believe companies' financial reports. The case also raised wider concerns about the ability of corporations to influence democratic processes and convert economic power into political power: Enron was the largest single contributor to the presidential election campaign of Texas Governor George W Bush. The Enron scandal has led directly to the compliance-based Sarbanes-Oxley Act, which differs significantly from the principles-based European and Commonwealth approaches to corporate governance.

Table 1: Key national and international codes of corporate governance

Code	Summary
Basle I, 1998, and Basle Capital Accord ('Basle II', to come into effect 2006).	Aim to improve risk management by banks. Basle II sets out rules for internationally active banks in the field of accounting and disclosure practices for banks' lending business and related credit risk.
King I, 1994, and King II, 2002, Reports on Corporate Governance for South Africa. South Africa, Institute of Directors.	South African codes, including core corporate governance issues such as director independence, splitting CEO and chairperson positions. Set new ground by including key social responsibility requirements. Since 2003 all companies listed on the Johannesburg Securities Exchange must report on their social and environmental performance in compliance with King II.
IMF Code of Good Practices on Fiscal Transparency, 1998, updated 2001.	Code to promote clear roles and responsibilities in government and public sector institutions, including open information on government activities, open budgeting and reporting and the need for fiscal information to meet certain data quality standards.
OECD Principles of Corporate Governance, 1999 (being revised as of 2003)	Emphasise five key principles under each of which sets of measures are included: basic shareholder rights; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; the responsibilities of the board. These principles lean to an emphasis on the rights and treatment of shareholders and policies to satisfy market expectations. As many Commonwealth countries do not have prominent publicly listed private sectors, the application of these principles may be limited. Revised principles due 2004.
Commonwealth Principles for Corporate Governance, 1999	Sets out 15 key principles: integrity of board appointments; business strategy and values; monitoring company performance; compliance to laws; regulations and best practice; transparent communications; accountability to shareholders; relationships to stakeholders; balance of powers in company structures; effective internal control procedures; assessment of the performance of the board itself; proper appointment and development of management; proper application of technology; proper risk management; and annual review of the future solvency of the company. These principles purport to be universal principles that can be applied flexibly to different countries, economies and entities.
NEPAD Declaration on Democracy, Political, Economic and Corporate Governance, 2001.	Sets out eight prioritised codes and standards for achieving good economic and political governance, including Principles of Corporate Governance.
Sarbanes-Oxley Act, 2002	Represents the US, rules-based approach to corporate governance. The emphasis is on compliance, representing a tough response to the Enron scandal, and contrasting with more flexible principles-based approaches.
Combined Code on Corporate Governance, (Higgs Code) 2003	The latest UK approach, representing a 'comply or explain' approach. Companies are invited to state whether or not they comply with set standards and explain reasons for not doing so. Includes new definitions of the role of the board, more open procedures for board appointments, and formal evaluation of board performance.

Attempts to resolve these debates have lead to a plethora of global standards and codes of behaviour for the overall governance of the private sector. International corporate governance codes include the OECD and Commonwealth codes. There are also numerous national codes, published by professional organisations and regulatory authorities. Pension funds, insurers and financiers also set their own corporate governance guidelines. Many codes address the broader issue of governance of corporate behaviour, though they are not necessarily labelled 'corporate governance' codes: organisations such as NEPAD, the OECD, ILO, the World Bank Group and the Commonwealth produce codes in areas including accounting standards, insolvency regimes, securities markets and corporate social responsibility (see Tables 1 and 3). In addition, there are sector codes to guide companies operating in fields such as extractive industries, and single-issue codes, such as that to prevent the sale of 'conflict' diamonds. There is considerable overlap between the corporate governance and corporate social responsibility codes, but the former tend to focus on internal corporate management–related issues such as board diversity, director independence, director compensation and the rights of shareholders, while the latter tend to be more focused on the external effects of a company's operations.

Differing approaches to corporate governance

The main debate in promoting corporate governance is whether to take a prescriptive approach through legal rules with which companies must comply, or a voluntary approach through principles that guide a company, with precise enactment left to the company. The US approach, as set out in the Sarbanes-Oxley Act, adopts the former, with the Commonwealth Guidelines, Australian, Canadian, South African and European Union approaches tending towards the use of voluntary principles. The main criticism of the prescriptive approach is that it could promote inflexible rules unsuitable for many countries, particularly developing countries where corporations might be rated poorly on their corporate governance simply because accounting and other systems were not geared up to report under all the categories required. The main criticism of voluntary principles is that companies can 'demonstrate' under a self-chosen set of guidelines that they have good corporate governance and an impressive CSR record, ignoring factors that indicated a less attractive record of behaviour.

Linked to the debate on the prescriptive or voluntary approach is the focus on the internal management of companies, and the allocation of duties and powers among key staff to ensure that companies are both effective and accountable. Some approaches stress conformance to set rules on board composition, practices and policies, such as separation of the roles of Chairman and CEO, or insistence on a certain proportion of non-executive to executive directors. Critics of this approach argue that the benefits of rules such as these are unproven, and that it is more important to ensure that a company can actually perform well, and in accordance with legal and social expectations. Rather than rules, this approach stresses attention to the skills and competencies of the board and directors, and the overall professionalism of both.

A further debate focuses on the institutions that should be targeted in order to best promote good corporate governance. Institutions, legislative and policy mechanisms and enforcement measures contribute to strengthening the overall environment for corporate governance. Institutions include banks, professional organisations such as corporate lawyers, accountants and company secretaries, development financing institutions, governments and stock market regulators. The relevant institution is likely to depend on country circumstances.

2. Corporate social responsibility (CSR)

The emergence of CSR

Factors that focused attention on companies' internal corporate governance also put the spotlight on the issue of corporate social responsibility (Box 1). From the 1990s this interest was fuelled by growing concerns that globalisation risked entrenching trading and investment practices which put northern corporate profits over southern developmental priorities. Evidence for this was found in the many allegations of corporate abuses, including notorious cases in Commonwealth countries (Box 2). Similar concerns found expression among a very diverse group: activists who protested against the WTO; securities brokers who started trading 'socially responsible' investment funds; and professional bodies, government ministries, human rights activists, religious bodies, companies, trades unions, NGOs and others who drew up CSR codes.

Corporate social responsibility was a highly contested concept when it first emerged, but acceptance by companies has grown, notably among multinational companies working in developing countries. They have responded pragmatically to concerns about the 'licence to operate' from stakeholders and wider society in the wake of public outrage to corporate scandals and disasters.

As with corporate governance, CSR codes have multiplied, and worldwide there are now hundreds of different CSR codes and measurements. The daunting number of codes has led to pleas for a rationalisation. The UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (the UN Norms) are emerging as the leading comprehensive standard with regard to principles of business conduct, although arms of the private sector have voiced strong concerns about the perceived extent and reach of the standards.

Box 2: CSR: major Commonwealth cases

India: homicide
Three thousand people died within hours and tens of thousands suffered long-term lung and soft tissue damage following the 1984 leak of the deadly gas methyl isocyanate from the Union Carbide plant in Bhopal. Many died of complications in subsequent years, and an increased rate of birth defects is still reported. In 2002 the former CEO of Union Carbide, Warren Anderson, was charged with culpable homicide by a Bhopal court on the grounds that cost-cutting had compromised safety. The Indian government has sought to reduce the charges to avoid deterring companies from investing in India.

Nigeria: genocide, environmental pollution
Allegations against Royal Dutch/Shell because of its activities in the Niger Delta included genocide of the Ogoni people, environmental destruction, and collaboration with the undemocratic Abacha regime. The criticism of Shell was fuelled by local activists in the Delta, in particular the writer and environmentalist Ken Saro-Wiwa and other leaders of the Movement for the Survival of the Ogoni People (MOSOP). A 1990 'Ogoni Bill of Rights' accused the oil company of genocide. Saro-Wiwa was executed in 1994 after being found guilty of incitement to murder, following trial by a military tribunal widely regarded as a hanging court. No charges were brought against Shell but the company struggled to restore its reputation. Charges have since been filed against Shell in the US under the little-used 1789 Alien Tort Statute. [1]

Pakistan: bonded child labour
A 1996 *Life Magazine* article about a 12 year old stitching Nike soccer balls in Pakistan for 60 cents a day triggered a campaign against Nike in the United States and Canada. The issue of profiteering through child bonded labour dominated headlines. Soccer ball manufacturers, including Nike and Reebok, then sought to introduce measures into supply and subcontracting chains, with mixed success. Independent audits still show lack of compliance with labour laws and human rights standards.

Papua New Guinea: environmental Pollution.
Mining giant BHP operated a gold and copper mine in Papua New Guinea, which over a decade, turned into one of the biggest environmental disasters of all time. Overburden from the mine was disposed into the Ok Tedi River. The toxic waste spread through 1,000 kilometres of the Ok Tedi and Fly rivers, and across 100 kilometres of land adjoining the river, destroying fisheries, forests and village farming lands. PNG landowners filed a $4 billion claim against BHP in the Australian courts. BHP was subsequently found guilty of contempt of court by trying to prevent access to Australian courts by the PNG landowners, and later agreed to an out of court settlement. The PNG government was a 30% owner of the mine and Ok Tedi accounted for one-fifth of PNG exports.

Sierra Leone: blood diamonds
Diamonds have been used in Angola, Sierra Leone and the Democratic Republic of the Congo to finance wars in which an estimated 3.7 million people have died. This trade has come to be described as 'blood diamonds' or 'conflict diamonds'. In 1999 the United Nations placed an embargo on purchasing diamonds from Sierra Leone, Angola and Liberia to prevent rebel forces from using conflict diamonds to acquire weapons. This resolution was then transformed into the Kimberly Process, a certification system for monitoring the origin of every diamond from extraction to distribution. The process is not without criticism, some arguing that the 'conflict free' certification has enabled De Beers to use the UN to remove competition and allowed the company to function as a cartel.

South Africa: aiding and abetting the crime of apartheid
In 2002 two separate legal actions were filed in the US against 21 multinational corporations and banks that did business in South Africa during the Apartheid era. The companies are charged under the 1789 Alien Tort Statute* with aiding and abetting the apartheid regime in the crimes of apartheid, forced labour, extrajudicial killing, torture, sexual assault and unlawful detention. The South African government has opposed the lawsuits on the grounds that they will penalise companies whose investment in South Africa is sorely needed to alleviate poverty. It is also feared that the action will undermine the work of the Truth and Reconciliation Commission which was intended to air grievances and let the country move on

*The 1789 Alien Tort Claims Act is a hitherto obscure provision of the 1789 Judiciary Act that created the US federal court system. It reads 'The district courts shall have original jurisdiction of any civil action by an alien for a tort only committed in violation of the law of nations or a treaty of the United States.' In other words, foreigners can sue in US courts for violations of international law. The law has been used to sue Radovan Karadzic and Ferdinand Marcos for violations of international human rights law, and since the mid 1990s advocates have begun suing corporations under the act, with close to two dozen cases filed since 1996. Although there has not been a single judgement against a corporation, business was sufficiently worried to call for a sweeping reversal in Alien Tort interpretation, a call described by Human Rights Watch as 'a craven attempt to protect human rights abusers at the expense of victims.' The scope of the law is likely to be settled in a landmark decision by the Supreme Court in the Alvarez-Machain case, due in 2004. The US administration is seeking to curtail the ability of the law to be used in this way.

Table 2: Key codes of corporate social responsibility (CSR)

Code	Summary
ILO Core Labour Standards (Forced Labour Convention, 1930; Freedom of Association and Right to Organise, 1948; Right to Organise and Collective Bargaining, 1949; Equal Remuneration Convention, 1951; Abolition of Forced Labour Convention, 1957; Discrimination (Employment and Occupation) Convention 1958; Minimum Age Convention, 1973; Convention on the Worst Forms of Child Labour, 1999)	Together these form a set of core labour standards to be ratified by governments. Once a country ratifies labour standards they become legally binding within the country. Difficulties occur when attempting to control the actions of national corporations operating overseas.
Universal Declaration of Human Rights, 1949.	Interest is growing in using Human Rights declarations to hold companies as well as states legally accountable for rights violations.
OECD Guidelines for Multinational Enterprises, 1976, updated 2000.	Voluntary principles and standards, not legally enforceable, addressed by governments to multinational enterprises. Governments adhering to the guidelines encourage the companies operating within the countries to observe the guidelines whenever they operate.
Global Sullivan Principles, 1977, re-launched as the Global Sullivan Principles for corporate social responsibility, 1999.	Voluntary code of conduct set up as response to increasing pressure on multinationals to disinvest from South Africa in the 1970s.
Rugmark, 1994.	An example of an industry-specific code that aims to end child labour in the carpet industry. By agreeing to certain standards and accepting random inspections by Rugmark of looms, manufacturers gain the right to use the Rugmark label.
Global Reporting Initiative (GRI), 1997	Reporting standard rather than a performance standard. Established in 1997 with aim of designing globally applicable guidelines for preparing enterprise-level sustainability reports including social and environmental indicators (i.e. TBL accounting). All companies listed on the JSE now have to conform.
Social Accountability 8000 (SA8000), 1997.	A standard drawn up by the organisation Social Responsibility International that specifies requirements for social accountability to enable a company to develop and enforce policies and procedures in areas including child labour, forced labour, wages and benefits, working hours, health and safety, collective bargaining and management systems. Plants and factories voluntarily apply for certification and are given independent verification by an outside auditor such as SGS-ICS.
AA1000 Framework and AA1000 Series, 1999.	Standard developed by the organisation AccountAbility to complement the GRI's reporting guidelines. Helps users to establish a systematic stakeholder engagement process that generates the indicators, targets and reporting systems needed to ensure its effectiveness in overall organisational performance. Increasingly seen as the professional standard for social auditing.

Code	Summary
UN Global Compact, 2000.	Formally launched by UN Secretary general Kofi Annan in 2000, companies make a voluntary commitment to enact nine principles on human rights, labour standards and the environment.
Extractive Industries Transparency Initiative (EITI), 2002.	Launched by UK DfID in 2002 and endorsed by World Bank in 2003, the initiative encourages transparency of revenues generated from the oil, gas and mining industries where lack of accountability and transparency in transaction exacerbates poor governance. Private and state-owned companies are encouraged to disclose their revenue payments. Some 40 institutional investors representing US$3 trillion funds under management endorse the EITI, with forecasts this figure will reach US$7 trillion within the next few years.
Kimberley Process (Diamond Pledge), 2003.	An example of an industry-specific code. The diamond industry has agreed to a series of warranties aiming to guarantee that diamonds do not come from conflict sources.
UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, 2003.	Launched as a complement to the UN Global Compact, the norms set out the human rights responsibilities of companies in more detail than the Compact. The norms serve as a tool for advocates and checklist for companies seeking to improve their human rights record. The norms have been endorsed by Amnesty International and are emerging as the leading CSR standard.
Equator Principles	The Equator Principles, initiated by the International Finance Corporation in 2003, establish a framework for banks to manage environmental and social issues in project financing having regard to minimum 'safeguard' policies and guidelines established by the IFC. Twenty-five financial institutions worldwide (including a multilateral agency) now subscribe to and apply the Principles in assessing social and environmental risks of development as part of project financing.

Approaches to CSR: laws, codes or consumer responsibility?

Laws: One approach to CSR is to impose legal duties on companies. Although few would now argue against laws ensuring that companies have responsibilities to provide safe working environments for employees, to pay fair wages, to treat men and women equally, not to employ children below a certain age, not to pay bribes to attract business, and to take responsibility when their products cause harmful effects to consumers or to the environment, these were all controversial when introduced. Debates continue to rage over precisely where to draw the legal line to ensure that companies meet social responsibilities but are not so overburdened with duties that they become uncompetitive and can no longer contribute to economic growth. As seen in the rules-versus-principles debate outlined in the section on corporate governance, there are problems associated with taking a legal approach in developmental contexts. For one, companies investing overseas are bound by local legislation, often weaker than that in their home countries. For another, requiring overseas companies to meet the employment or social standards of the US or EU may be seen as protectionism by developing countries whose products might no longer be able to compete. In addition, well-meaning rules imposed from abroad may have perverse consequences. For example, children and families have sometimes suffered when children who are family income earners have been abruptly sacked from the supply chains of companies in order to fend off well-intentioned criticism of the use of child labour.

Codes: Another approach to CSR is for companies voluntarily to adopt certain standards beyond the legal duties they must fulfil. Examples of these codes are set out in Table 2. There are two main criticisms of voluntary codes. One is the economic argument that corporations should not take it upon themselves to spend their shareholders' money on areas not directly related to business profitability. Another concerns the issue of efficacy, arguing that, being voluntary, the codes and CSR statements are simply used by companies as public relations exercises that mean nothing, obscure legitimate concerns about corporate behaviour, and encourage corporate hypocrisy. For this reason, there is pressure for a legal requirement for companies to at least state which codes they comply with, and where they do not comply, explain reasons why not.

Consumer responsibility: A third approach is for consumers themselves to take more responsibility for the companies they support through their investments, purchases and voting behaviour. This has become an area of increasing interest since the mid-1990s. In response to demand from individuals, fund managers and institutional investors, the socially responsible investment (SRI) and 'ethical fund' sector has seen growth of as much as 40% per annum in recent years.[19] Increased interest in the sector is also reflected in the launch by stock exchanges of indexes such as the Dow Jones Sustainability Index and FTSE4Good, which focus on socially-responsible companies. The main criticism of this approach is the difficulty for consumers to make informed decisions, since they are dependent on voluntary disclosure by companies and measuring and comparing their ethical and environmental policies is extremely difficult.

3. Corporate governance and CSR as development instruments

Corporate governance and CSR are key areas being tackled by major development agencies (see Table 3). The rationale for this engagement has been set out above. The main areas of policy controversy are set out in Box 3.

One of the main aims of corporate governance reform is to enable developing countries to attract sorely-needed inward investment. However, as the spotlight on CSR increases, companies are deterred from investing in countries where they risk damage to their reputation on human rights and social responsibility issues[20]. Tables 3 and 4 set out this risk in the Commonwealth. Countries listed are not necessarily those with the worst human rights records but those where companies are particularly at risk due to the large amount of inward investment in the sectors mentioned. Companies are at added risk of people believing that they are contributing to human rights abuses merely because of the sectors in which they operate. The tables illustrate the importance of linking corporate governance with CSR issues to attract sustainable investment in the Commonwealth.

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[19] SRI assets held in the UK amounted to £225 billion in 2002, making it the fastest-growing area of investment. Source: *DfID and Corporate Social Responsibility*, p. 5.

[20] Some corporations, such as BP, have policies providing that if there is an unacceptable level of risk, especially risk of human rights violation, it will not proceed with in-country development.

Most debates around corporate governance and CSR focus on standards applicable to individual companies. Little attention is yet paid to the contribution that good corporate governance may make to the role of the private sector in overall development, especially social development. CSR, to some extent, picks up on this gap area, but the duty and function of a board of a company to manage risks impacting on a business (social, environment, political, regulatory, sectoral – refer to Box 2 and Tables 3 and 4) remains underemphasised in corporate governance debates.

Box 3: Problems with corporate governance and CSR as development instruments

1) Difficulty of proving link between adherence to standards and investment:
Corporate governance and CSR are promoted as ways to increase confidence in the accountability and efficiency of corporations. The aim is to create economic conditions conducive to both FDI and local investment through clear rules and effective enforcement. Some studies have been able to draw links between the adoption of specific corporate governance practices and increased investment.[1] Adoption of corporate governance measures also makes sense as some agencies will rate corporations without certain corporate governance practices as risky. However, other studies find no link.[2] In some instances, the market actually rewards behaviour that is unaccountable, corrupt and socially damaging. In addition, better-run companies may remain unable to attract investment if their products continue to face tariff barriers that damage their ability to compete.

2) Lack of enforceability:
Although international standards exist (Tables 1 and 2), there is no mechanism for enforcing them, and social responsibility is largely self-defined by companies. A recent Christian Aid study concluded that while a voluntary approach may be successful where there is already a significant degree of commitment to integrity and transparency, in countries where the diversion of revenues into the personal wealth of elites is seen as a prerequisite of power the necessary commitment to openness will not materialise. In other words, the current approach is least effective in some countries that most need to combat poverty. The study concluded that the current voluntary situation 'has left the worst corporate abusers effectively unrestrained and the victims of their actions without adequate means of redress'. [3]

3) Relevance to developing country circumstances:
Most companies in developing countries are state-run or non-incorporated businesses, often family-run. Efforts to make these companies adopt corporate governance and CSR measures designed for stock market-listed companies may actually reduce welfare in some instances by imposing an excessive burden of reporting requirements. For similar reasons increased reporting burdens may work against the interests of small states and poorer countries. Even among the minority of companies that are stock market-listed, rules relevant to some developing countries may not be practical or beneficial in others. Restrictions for example on the number of directorships may create difficulties in countries with a low pool of people qualified for such positions. Some CSR measures may also be insensitive to local circumstances and end up damaging welfare. For example, the current charges against 21 multinationals that invested in South Africa under apartheid are seen by some as undermining the South African Truth and Reconciliation Commission and deterring companies from investing. Consequently, organisations such as the Commonwealth Secretariat have supported flexible principles that can be adapted to country circumstances.

4) Difficulty of defining 'socially responsible' behaviour:
Perceptions of what is socially responsible are subjective, which is one reason why some economists argue that it is not an area for corporate involvement at all. For example, religious or other groups might see it as socially responsible to promote activity that others would see as damaging to human welfare. A good illustrative case concerns the controversy that surrounds abortion and contraception. Among the first groups to apply social criteria to institutional investing in the US were Catholic funds opposed to abortion and birth control. Women's rights activists and those attempting to control the spread of HIV chose, using the same argument of social responsibility to support the very products being criticised.

[1]E.g. studies by McKinsey see bibliography.
[2]E.g. an international survey of 32 large mining companies by PriceWaterhouseCoopers for the Mining, Minerals and Sustainable Development Project found that 'almost 80 per cent of organisations cited the "ability to link sustainable development to financial success" as one of the key obstacles to embedding the concept within their organisation.' MMSD & PWC, p. 16.
[3]Christian Aid, Behind the Mask: the real face of corporate social responsibility, 2004.

Table 3: Sectoral CSR risks in Commonwealth countries

Sector	Commonwealth Countries where inward FDI is most associated with sector
Extractives (including oil and gas)	India, Malaysia, Nigeria
Heavy manufacturing and defence	India, Kenya, Malaysia, Nigeria, Pakistan, Zimbabwe
Infrastructure and utilities	India, Malaysia
Pharmaceuticals and chemicals	India, Malaysia, Nigeria, Pakistan
IT hardware and telecommunications	India, Kenya, Malaysia, Pakistan, Singapore, Sri Lanka
Food and beverages	Ghana, India, Kenya, Malaysia, Mozambique, Nigeria, Pakistan, Sri Lanka, Zimbabwe

(Source: Amnesty International)

Table 4: Business sector and main CSR risks in the Commonwealth

Sector	Main Issues
Extractives (including oil and gas)	Operations in conflict zones (e.g. Coltan; diamonds in Sierra Leone); transparency of agreements between companies and governments; relationships with security forces; indigenous land rights; forced labour; complicity in third party abuses.
Heavy manufacturing and defence	Discrimination on grounds of sex and race; links to repression when exported military equipment is used for abuses; inhuman and degrading working conditions.
Infrastructure and utilities	Lack of rule of law; transparency of agreements with governments; access to finance and export credits, and to water and utilities; forced displacement; indigenous rights; relationships with security forces.
Pharmaceuticals and chemicals	Intellectual property rights; clinical trials; end-use of products; access to drugs; indigenous rights; contamination; process and product safety.
IT Hardware and telecommunications	Use of products in support of repression (e.g. surveillance); Coltan (Colombo Tantalite, material used in printed circuit boards. 80% of world supplies are in Africa and exploitation is linked to conflict in Congo); digital divide; collaboration in blocking internet sites; use of technology to curtail freedom of expression; forced labour in supply chains (e.g. Coltan); links to repression; access to knowledge.
Food and beverages	Working conditions in supply chains; impact on health; forced child labour (e.g. cocoa in Ghana); links with armed groups; impact on health; living wage; freedom of association.

(Source: Amnesty International)

4. International context of corporate governance and CSR to date

The main international organisations and initiatives relevant to corporate governance and CSR, and organisations particularly relevant to the Secretariat's work, are set out in Table 5.

Table 5: Main organisations and initiatives in corporate governance and CSR

Organisation/Initiative	Summary of Activities
Amnesty International Business Group	Established in 1991 the group comprises professionals working in socially responsible investment, law, social auditing and reporting and ethical investment. Promotes business commitment to UDHR and UN Norms in all countries in which they operate. Member of CORE.
Commonwealth Association for Corporate Governance (CACG)	Working in corporate governance since establishment in 1998. Wrote Commonwealth Principles for Corporate Governance and contracted by Secretariat to deliver much of its corporate governance training assistance.
Commonwealth Secretariat	Working in corporate governance since 1996. Staged strategy consists of country policy workshops, country task force development, development of national strategies, strengthening of local professional institutions and director training (see also section below). Much of training assistance contracted out to Commonwealth Association for Corporate Governance (CACG).
Commonwealth Business Council (CBC)	Since founding in 1997 corporate governance and corporate citizenship have been developed as two key topics with CBC running working groups in these areas. Works with governments and businesses, mainly organising meetings to encourage adoption of Commonwealth Principles. As of 2003 examining development of director training course. Working with NEPAD and DfID to encourage businesses to support NEPAD programme of action.
Corporate Responsibility Coalition (CORE)	UK-based campaign including Amnesty International, Christian Aid, Friends of the Earth, the New Economics Foundation, Traidcraft and the Unity Trust Bank. Aim is to persuade governments to address the failures of the voluntary approach to CSR with binding rules for companies including mandatory triple bottom line reporting, expansion of directors' legal duties to include specific duties of care in relation to the environment and society, and foreign direct liability.
DfID (UK)	Working with World Bank to build developing country government capacity to establish frameworks to encourage corporate governance, CSR and adoption of voluntary codes. Encourages businesses to abide by international codes of conduct such as OECD Guidelines for Multinational Enterprises. Supporting Extractive Industries Transparency Initiative, Ethical Trading Initiative, Fair Trade and work of AccountAbility. Also working with CBC to support NEPAD programme of action.
Ethical Trading Initiative	Alliance of UK retailers, NGOs and trades unions working to improve conditions in supply chains. Members agree to code of practice and independent monitoring of suppliers to identify any breaches and plan improvements.
Extractive Industries Transparency Initiative	Initiative backed by DfID, aims to increase transparency in payments by companies to governments and government-linked entities as well as transparency in revenues by those host country governments.
Fair Trade	Niche market for specially-labelled products that meet international standards agreed by the Fairtrade Labelling Organisation. Aim to give producers a guaranteed minimum price for their products.

Organisation/Initiative	Summary of Activities
Global Corporate Governance Forum (GCGF)	Provides convening venue for international corporate governance players. Funded and supported by the OECD and World Bank, mainly focused on emerging market economies, to improve corporate governance. Has developed toolkit for development of director and corporate governance institutes and some generic training courses. [21]
International Corporate Governance Network (ICGN)	Founded in 1995 to facilitate international dialogue on the development of global corporate governance practices. Network includes institutional investors, associations of pension's funds, investor responsibility experts, chartered secretaries and other professionals. Focus primarily on developed countries and some emerging economies.
NEPAD	Corporate governance a priority area set out in 2001 Declaration on Democracy, Political, Economic and Corporate Governance. Work based mainly on IMF Code of Good Practices, Basle II and Commonwealth Principles.
OECD	Principles for corporate governance currently under revision. Also promotes guidelines for multinational enterprises.
Transparency International	Publishes Global Corruption Report as part of efforts to improve transparency in public and private sector governance. Supports several international anti-corruption codes. Particular focus on extractive industries: mining, oil, gas and forestry.
UN	Promoting UN Global Compact and UN Norms under which businesses agree to abide by certain standards. The UN Norms, though contested by some in the private sector, could become a leading CSR standard. Also active in international accounting standards and practices for corporate governance and corporate citizenship.
World Bank	Promotes corporate governance. Some sponsorship of training, but no plans to introduce training courses. Incorporates some work previously undertaken by GCGF.
World Bank Institute	Working mainly with transition economies in former Soviet Union using OECD corporate governance principles. Organises regional roundtables and supports Global Corporate Governance Forum. A rapidly expanding programme examining CSR launched in 2000. Developing a director training course as of 2003.

[21] GCGF ceased operating independently in 2004, after the review work for this evaluation was completed. Work previously undertaken by GCGF is now conducted by the World Bank. References made to GCGF throughout this report remain.

Chapter Three: Planning and implementation of the programme

This chapter first examines issues surrounding the conceptualisation and planning of the Secretariat's corporate governance work and then discusses its implementation and management. The findings given here draw on evidence from Chapter Two and from the ten case studies in Appendix 2. Although some findings are supported by the commentary in several sections, each main finding is presented in bold only once. Chapter Four examines specific project and activity areas.

1. Conceptualisation of the corporate governance strategy

Chapter Two demonstrated that corporate governance, corporate social responsibility and corporate citizenship are rapidly increasing areas of interest and priority areas for development organisations[22]. Improved corporate governance and CSR are linked to increased sustainable investment and contribute to the eighth Millennium Development Goal, 'Development of a global partnership for development'. They also enable governments, through increased efficiency and resources, to contribute to the other MDGs.

When corporate governance first came onto the agenda the international focus was on rules-based approaches and on emerging markets and developed economies.[23] The Secretariat's approach was that prevailing models ignored realities in developing countries and that corporate governance should be applied not only in publicly listed companies but in all corporate entities, including banks, state enterprises and co-operatives, the NGO sector, and public services such as health and education boards. This approach was not prevalent in organisations concerned with international development at the time. The privatisation programme of the World Bank approached corporate governance as part of structural adjustment and focused on economies where at least 50 per cent of GDP was publicly listed. Interest in corporate governance in OECD countries was also focused on stock market listed companies, in this case in the context of accounting failures.

The Commonwealth's strategy was therefore conceived as an approach that would be more relevant to Commonwealth developing countries where few companies are listed. Consequently, the Secretariat prompted CACG to begin a consultative process with representatives from Commonwealth countries. This resulted in the drawing up of the Commonwealth Principles.

The Commonwealth Approach: The Commonwealth approach to corporate governance covers four themes:

1. conformance to standards of accountability (board structure, functions and accountability to shareholders and stakeholders);
2. company performance (strategic business direction for competitiveness);
3. corporate social responsibility; and,
4. tackling corruption.

[22] See Tables 1, 2 and 5.
[23] See Table 1

This is an expansive definition of corporate governance that is distinguished from other definitions in several key aspects. One is its flexibility. Another is its inclusion of corporate social responsibility as part of the definition. A further aspect relates to the explicit applications of corporate governance to development and to different types of organisations, especially state organisations. Other organisations separate out CSR and corruption from corporate governance in theory and in practice. The OECD addresses these areas in separate codes.[24] The World Bank has separated corporate governance and corporate social responsibility in practice – the former was conducted through the Global Corporate Governance Forum until 2004, the latter through the corporate social responsibility unit within the Private Sector division of the Bank. The recent revisions of other international codes to incorporate greater flexibility and stronger recognition of CSR/stakeholder issues suggest that the initial conceptualisation set out in the Commonwealth definition was indeed more accurately attuned to the needs of developing countries. Evidence from in-country interviews and the fact that the Principles have been used as a resource in several Commonwealth countries (and NEPAD) also supports a finding that the initial Commonwealth conceptualisation of corporate governance was more suitable than other codes for its developing country members.

Commonwealth strategy: In tandem with the set of Principles and the Commonwealth policy approach, a corporate governance strategy for the Commonwealth was articulated, conceived as a five-year strategy applicable throughout the Commonwealth. This was divided into five main activity areas:

1. Pan-Commonwealth, regional and national policy workshops to launch the corporate governance programme in countries.
2. Formation of national task forces to take responsibility for leading national programmes
3. Development of national strategies for the promotion of corporate governance
4. Establishment or strengthening of national professional institutes
5. Conducting training courses for company directors.

These five components of the strategy are evaluated in detail in Chapter 4 and Appendix 2. Evidence suggests that the strategy was well conceived. For example, Kenya successfully pursued a similar strategy, although it evolved independently of but in close coordination with the Commonwealth framework. Evidence also suggests that the Commonwealth was indeed filling a development gap by moving ahead with in-country director training. At the time, the Commonwealth was the only international organisation taking steps with actual country implementation, focused on capacity building. Other international organisations, including the OECD and the World Bank, concentrated on policy debates, codes, training at the international level and some case study development.

Further components of the strategy were to focus on the banking sector and to include parliamentarians. The rationale for the focus on banking was that in many Commonwealth countries the equity market is very small and more companies rely on debt financing from their banks. In this situation there are no institutional investors to encourage good corporate governance, but this role can be played by the banks. Central banks can exert moral suasion and influence over the commercial banks by setting requirements for all listed commercial banks in accordance with the standards set by the Bank of International Settlements. The commercial

[24] Guidelines for Multinational Enterprises, Code Against Bribery and Corruption of Foreign Officials, OECD Principles of Corporate Governance.

banks in turn can recommend good practice to their corporate customers (including private and family-owned companies not subject to the stock exchange) to reduce risks and encourage better performance.

The rationale for the focus on parliamentarians was that corporate governance is also linked to and cannot progress without improvements in national public and democratic governance. Many companies complain that constraints to good company performance are external to the corporate sector and stem from government inefficiencies. Some of these deficiencies are associated with politicians and civil servants, weak regulatory structures, company and competition law, the professions (e.g. auditors and financial advisers) and with the national policy environment. Corporate governance therefore needed to involve government policy makers, national assembly select committees and civil service structures. Achieving good governance at the enterprise level was linked to the support of the institutional, legal and policy environment.

Box 4: Secretariat's perception of its comparative advantages

- Access to government ministries and central banks
- Access to low-cost expertise due to goodwill towards the Commonwealth
- Trust and perceived neutrality
- Consensus-based convening power
- Similar governmental structures and systems of Parliament, civil service and public administration across Commonwealth
- Similar systems of company and common law
- Similar systems of commercial and professional institutions, accounting, management and business practices
- Common working language across diverse states
- Relevant Commonwealth experience in South Africa, Malaysia, India
- Responsiveness to small-expenditure project requests
- Capacity for innovation and policy entrepreneurship.

The corporate governance strategy was strongly conceptualised and in line with the Secretariat statements on comparative advantages (see Box 4). The conceptual approach to corporate governance, which incorporates generic principles applicable to all entities, has demonstrated effectiveness in financial institutions, state-owned corporations, newly privatised corporations and public and larger private organisations.

However, the model is less effective than it could be in supporting corporate governance in unlisted companies and SMEs, the majority of the private sector in the Commonwealth. There are strong indications that the cultural characters of developing countries and smaller states will influence the extent to which corporate governance is adopted, suggesting that there could be some limitations on the depth to which a generic model can achieve impact in some countries. The application of corporate governance through the banking system to unlisted corporate clients was one approach to tackle this weakness. These issues are examined further in Chapter 4.

The corporate governance strategy was conceived as a five-year strategy. Considerations for implementation would include the level of budget required to build and sustain institutional capacity and strategies across Commonwealth countries, political parameters, country constraints and the extent of facilitation and co-ordination required. It is unlikely that the full range of implementation requirements and challenges was considered at the design stage of the programme. This is in part due to the exploratory nature of the work: the Secretariat would progressively build on developments as they occurred, dealing also with the impact of staff and budget cuts after the programme was launched and the constraints of working with a short-term budgetary cycle. Consequently, although components of the corporate governance programme were delivered in some countries, all of the outcomes anticipated at the design phase have not been achieved. This suggests that even if the concept was correct, the priorities were too broad and the strategy too ambitious for available resources. It appears that the corporate governance work has now primarily devolved into a series of director training initiatives rather than national policy initiatives, with training delivered as a component of the larger strategy.

FINDING 1: Corporate governance and corporate social responsibility are fields of increasing interest and priority areas for international development organisations. Improved corporate governance and corporate social responsibility are linked to increased sustainable investment and as such form part of the eighth Millennium Development Goal: development of a global partnership for development.

FINDING 2: The Secretariat was the first international organisation to focus on developing country needs in its corporate governance strategy. Its flexible principles incorporating conformance, performance, corporate social responsibility and anti-corruption are applicable to a range of corporate organisations and thus more suitable than rigid principles to the needs of its developing country members.

FINDING 3: The Secretariat's strategy of building local capacity through a training course for directors of state companies was developed ahead of other donors. The inclusion of parliamentarians, the public sector and the banking and financial sector correctly identified a strategy for promoting corporate governance relevant to Commonwealth countries. However, the strategy was too ambitious for available resources.

Table 6: Corporate Governance in the Secretariat's Strategic Plans

Projects commencing FY 1994/95 – 1996/97				
Strategic plan	**Programme**	**Sub-programme**	**Lead Division**	**Activities**
Commonwealth Secretariat Second Strategic Plan: 1994/95 – 1996/97	C	C 10.3 'Facilitating the mobilisation of private capital for development and assisting with the promotion of the role of the private sector in development, and with parastatal reform.'	ELASD	C.10.3.d. 'Assisting the implementation of privatisation'
	"	C 12.1. 'The development of flexible and responsive management structures, processes and systems.'	MTSD	C.12.1 b. 'Commercialisation of public sector activity.'
	"	C 12. 2 'Enhancing strategic managerial capacity.'	MTSD	C.12.2.a. 'Developing strategic management skills and capacities in Commonwealth countries.'
	"	"	MTSD	C.12.2.b. 'Developing Commonwealth management training institutions and networks.'

Projects commending FY 1996/97 – 1999/2000				
Strategic plan	**Programme**	**Sub-programme**	**Lead Division**	**Activities**
Commonwealth Secretariat Third Strategic Plan: 1997/98 – 1999/2000.	B.2: Economic Development	B.2.1. 'Commonwealth consultations and policy development on national, regional and international economic issues.'	EAD	Activity area not specified in project documentation
		B.2.2 'Advice on economic management: private sector and capital market development; economic and legal advice on exploitation of mineral, petroleum and marine resources; debt and development resources management.'	ELASD	Activity area not specified in project documentation
		B.5. 'Public Sector and Public Service Reform.'	MTSD	B.5.e. 'Developing public-private sector partnerships including public service reform, and strengthening corporate governance.'

Projects commencing FY2000/01 – 2001/02				
Strategic plan	**Programme**	**Sub-programme**	**Lead Division**	**Activities**
Commonwealth Secretariat Two Year Strategic Plan 2000/01 – 2001/02.	B.3	B.3.5 'Public service reform and public sector reconstructing.'	Not stated	Not stated
	B.7	B.7.1. ''Training to enhance skills for development.'	"	"
		B.7.2. 'Provision of experts for development'	"	"

Projects commencing 2002/03 – 2003/04				
Strategic plan	**Programme**	**Sub-programme**	**Lead Division**	**Activities**
Commonwealth Secretariat Two Year Strategic Plan 2002/03 – 2003/04.	2: Good Governance and the Rule of Law	2.2. 'Civil service reform, decentralisation, public sector restructuring, e-governance and combating money laundering and corruption.'	Not stated	Not stated

2. Planning of the Secretariat's work in corporate governance

The Secretariat's work in corporate governance was developed by a special adviser, rather than from a central policy planning process. This is in line with the job description of special advisers to develop new policy initiatives where identified, but the process throws up some issues about planning at the organisational level.

In this instance, the area of corporate governance was identified in the course of the privatisation work being conducted and was developed under the public service reform sub-programmes. It was later included as an activity of the strategic plan. Table 6 sets out where corporate governance has been located in the Secretariat's strategic plans. This process illustrates a tension between the policy innovation function embedded with special advisers at divisional levels and the institutional capacity of the Secretariat to innovate.

Strategic planning: Strategic plans for the Secretariat emerge from the process of discussions at meetings of the governing bodies and resources are allocated based on programmes developed within the division. At this level, there appears to be an absence of tools to monitor emerging development trends and critically examine areas of strategic advantage for the Secretariat. It is not easy for emerging issues to fit within the overall planning approach, and even if a division develops a policy area with potential implications for other divisions, work will tend to be slotted into the programme of the initiating division.

Divisional co-operation: This planning process has reinforced the tendency for divisions to work in isolation from others on 'their' issues. This presents difficulties for cross-cutting areas such as corporate governance. GIDD tended to work alone on this issue, even though other divisions (such as EAD, LCAD and SASD) were working on related areas. There is also direct overlap in corporate social responsibility with the work of the human rights unit and the social sector programmes of the Secretariat. Internal structures and policies to encourage cross-divisional planning and co-ordination of activities across the Secretariat are weakly defined. The onus for cross-divisional co-ordination thus rests with individuals and is subject to time and resource constraints. Two divisions, (then MTSD and ELASD) co-operated well on work with the banking sector in Kenya and Sri Lanka, but the capacity was lost when the key officer concerned left and the position was not filled.

Institutional learning: Related to this, there is no apparent formal knowledge management system to ensure that information and resources gained in fieldwork are fed back into the Secretariat to promote institutional learning and strengthen capacity. Resources produced, such as the Kenyan code for corporate governance in state-owned enterprises, could serve as useful resources for work in general privatisation or institutional restructuring.

The potential to deploy processes for institutional strengthening is also under-utilised. The Principles for Corporate Governance in the Commonwealth have been under review using a process of rolling consultations with corporate governance practitioners from various member countries. There is no internal process that similarly engages various divisions of the Secretariat, or other Commonwealth associations such as the CBC, in the review. Incorporation of the experience of various divisions in the review process could foster cross-divisional learning, strengthen the Principles and reinforce the underlying developing-country consensus foundation of them.

Project documentation: Moving from planning at the institutional level to planning at the project level, the absence of documentation for the corporate governance programme has already been noted. It seems that one factor discouraging record keeping was that the Secretariat's systems were not perceived as useful to capacity-building programmes. This argument has some validity. The Secretariat has introduced logical framework (logframe) analysis as a planning tool and completion of a full logframe is required for all projects costing over £15,000. The few logframes completed were done only for the funding approval stage and not updated. Logframe planning has not adequately engendered data and analysis to assess long-term results and developmental impacts of the programme. Logframe analysis suits well-defined programmes with short-term measurable results and where the project area is exploratory or experimental a logframe is more difficult to apply. There are problems in assessing the quality of project purpose, the quality of expected outputs, the availability of baseline monitoring data, and also with attribution. Crediting change to a specific intervention is difficult where several donors are working in the same area. There is limited ability to assess quality of process or overall project impact and it can be difficult to evaluate institutional capacity-building projects, typically the product of a long-term change process, not of annual inputs and outputs.

Where planning documentation was completed, it needed to be improved. Some of the goals described in the project documentation, such as improving GDP or attracting FDI, are too remote to be of critical value in the short-term evaluation of impact, and more measurable targets need to be identified. Mileage charts were not completed and there were no project completion reports for any of the 29 corporate governance projects being examined.

The evaluation sought to find out why so little of the required project documentation was completed and noted that some administrative tasks, including follow-up reports on projects, were seen as an overwhelming burden on the programme staff when added to other responsibilities. This particularly relates to a phase of staff and budget cuts and upheaval over the period of divisional merger (MTSD was merged with GTASD to become GIDD). The absence of feedback on project documentation and the perceived lack of Secretariat interest in generating useful lessons to improve planning were also factors influencing poor follow-through with project documentation requirements. Projects conducted jointly with ELASD seemed less severely affected by these problems.

FINDING 4: Corporate governance falls within the Secretariat's own perceptions of its comparative advantage. However, at the programme-planning level there is an absence of tools to examine emerging development trends and the validity of the Secretariat's perceptions of comparative advantage. There is a particular absence of tools to weigh up priorities when there are several potential areas of comparative advantage competing for funds.

FINDING 5: At the individual project level, existing Secretariat project planning and reporting systems do not have the full support of Secretariat staff. This is partly because logframe planning has not adequately captured analysis that would assist the Secretariat to assess long-term results and developmental impacts of capacity-building projects such as in corporate governance.

3. The Secretariat's institutional approach

One consequence of corporate governance work emerging from planning at divisional level rather than a central policy planning process is that there does not appear to be a strong 'institutional' voice advocating it. In the course of interviews with corporate governance professionals in international and country institutions, many identified an absence of a strong institutional commitment from the Secretariat. The Secretariat's policy on corporate governance is not clear to outsiders; its strategy cannot be accessed via the website, and anyone outside the Secretariat would find it difficult to determine the Secretariat's position. Even within the Secretariat itself, professional officers interviewed for this study were more familiar with the OECD principles. The absence of a perceptible institutional 'voice' and commitment suggests that the corporate governance work at the institutional level is not well known, not well understood or not wanted. While one division works to establish the Secretariat as a voice for developing countries in international work on corporate governance, at the institutional level corporate governance does not seem to be a Secretariat priority, or appears to be considered the work of others, such as the CBC.

Given this, it is commendable that the Secretariat's corporate governance work has managed to achieve the international profile it has. Interviews repeatedly confirmed that the Secretariat has established itself as an advocate for corporate governance at the international level, and that it has areas of comparative advantage in the field as follows:

The convening power and 'brand value' of the Commonwealth. This is evident in some countries, and has been effective in reinforcing the mandate for corporate governance reform, reinforcing the credibility of the message and adding weight to national initiatives. It is clear from interviews and survey feedback that the Commonwealth name has attracted people to policy forums and training courses, and that the influence of the Commonwealth has acted as an impetus to corporate governance in some areas. In small states level, this brand endorsement and the provision of resources have enabled the commencement of national initiatives in countries such as Jamaica, and Papua New Guinea and elsewhere.

The Commonwealth's image as a trusted advocate for developing countries and small states. This has assisted it both in endorsing corporate governance measures in countries where other international organisations may be met with suspicion, and in getting international organisations to include development issues on the corporate governance agenda. The Secretariat's involvement was characterised by members of some international organisations as an important signal to all stakeholders, including parts of the international community that have been reluctant to extend governance to the international sphere. It was strongly reinforced by several international organisational representatives that there are some economies, namely small states and some developing countries, whose interests would not be represented in the international corporate governance movement, including international policy setting, without the Secretariat's work.

Expertise of Secretariat staff. Experts have brought targeted professional advice to countries. The targeted legal and professional advice to sectors such as the banking sector was well regarded by people involved in national initiatives and by some members of the international community.

However, there was a wide perception that the Secretariat as an institution has not fully grasped its comparative advantages in this area or was not committed to building on them. Some international organisations perceived there to be under-utilisation of Commonwealth strengths, particularly to build on the Commonwealth's political neutrality and access to governments to promote corporate governance which would encourage stability and provide a framework for transition economies.

Resources may also be a constraint. The Secretariat's comparative advantage as a trusted advocate with high-level access is unfortunately not backed up by large financial resources. In fact, the CFTC budget for development projects was halved over the period examined in this evaluation.[25] The comparative advantages have enabled it to become an advocate for corporate governance in developing countries and to draw on skills and goodwill to develop the flagship five-day director-training course through CACG. However, the Secretariat's constrained financial resources mean that paying for delivery of the course is not seen as part of its comparative advantage. This issue is examined further in Chapter Four.

FINDING 6: There is no Secretariat-wide strategy for corporate governance. The institution's policy for the area is not clear or accessible and its commitment to working in corporate governance does not appear firm.

FINDING 7: The corporate governance work to date has positioned the Secretariat at the international level as an advocate for developing country issues. Its work has revealed several areas of comparative advantage on which it could continue to build work in this area: convening power and brand value; image as a trusted advocate for developing country and small states issues; access to professional expertise.

4. Issues arising from work conducted with CACG

The corporate governance work has been delivered mainly through the Commonwealth Association for Corporate Governance (CACG). The CACG is one of the many Commonwealth civil society groups that are sometimes referred to as the 'Informal Commonwealth.' Formation of Commonwealth associations is an informal process unregulated by the Secretariat, which holds no license to any kind of 'Commonwealth' brand name. Commonwealth associations can be established by any group interested in creating networks across the Commonwealth in their area, and there are organisations of trade unions, professionals including teachers, medics and lawyers, or single-issue advocacy groups in areas such as human rights. Some of these groups have now undergone a process of formal affiliation to the Commonwealth. As a condition for this affiliation, they are subject to a degree of formal checks by the Secretariat on their work, such as presentation of annual accounts and providing proof that their work is in line with Commonwealth values.

[25] The Secretariat's work is funded by several budgets, the largest of which are the ComSec budget and CFTC budget. The CFTC budget is for development projects, including the corporate governance work being examined, and any member government may draw on this fund with project requests. The ComSec budget supports the operations of the Secretariat headquarters, including staff and servicing costs, and the work of several divisions. In practice the budget split is somewhat artificial since most staff are involved in development work, as are the divisions directly supported by the ComSec budget.

The case of CACG is somewhat unusual in that rather than evolving independently of the Secretariat it is essentially a creation of one of its divisions[26]. Although some funds were received by CACG from the New Zealand Foreign Ministry, the World Bank and private company sponsors, GIDD support through the Sundridge conference provided the impetus for creating the organisation. Although CACG accounts were not made available to this evaluation, contracts from GIDD for the delivery of training sources have remained by far the organisation's main source of project funds. This raises concerns about the sustainability of the CACG.

CACG and CBC: The major issue relating to the work done with CACG is that its mandate overlaps with part of the mandate of another Commonwealth organisation, the Commonwealth Business Council (CBC), which was formed shortly beforehand. Initially CBC was intended to be the umbrella organisation but in 1998 the CBC policy was not to get involved with in-country training operations but to concentrate on policy forums. As training was required by the Secretariat it initially worked with CACG on training and with the CBC on forums. Later, when CBC became interested in training and CACG in policy forums it created unnecessary confusion and inefficiencies. Both CACG and CBC are attempting to work in corporate governance in the same countries with minimal or no co-operation between them GIDD has chosen to work more with CACG than with CBC, and initial efforts at co-operation between the two voluntary organisations soon broke down completely. Instances of duplication and overlap in delivering assistance have occurred.

By working together, the Secretariat, CBC and CACG potentially offered a structure addressing the spectrum of interests from public to private sectors in a co-ordinated manner, but the overlapping mandates and tension between the associations have prevented such co-ordination. Corporate governance work has been hampered by the absence of a Secretariat policy regarding the role, function and respective responsibilities of CACG and CBC, actively co-ordinated by the Secretariat to ensure that the two organisations co-operated rather than competed. It should be noted that many of those interviewed did not distinguish between the Secretariat and the CACG, with some interviewees believing they were the same organisation. This has had implications for the Secretariat as discussed in the next section.

CACG and the Secretariat: Several aspects of the Commonwealth relationship constrained the way CACG was able to operate. CACG had limited independent fundraising success, attributed to the perception that the Commonwealth was a multilateral institution or wealthy donor and that CACG itself was a Commonwealth institution. With limited independent funding, CACG worked to the annual budgetary cycle implemented by the Secretariat. Funding uncertainties due to budget cuts and ambiguity about the Secretariat's commitment to CACG's work were seen by CACG as limiting their capacity to develop a vision and structure for long-term goals. CACG has also been constrained in the way in which the funds have sometimes been dispersed and by the short notice sometimes given for the delivery of assistance. As such, the association often felt that it was in a reactive, crisis management mode which inhibited its own capacity development. CACG's organisational arrangements were seen by some within CACG to contribute to these difficulties. Challenges associated with co-ordinating an international group and once-a-year council meetings were seen as making it difficult to steer and develop CACG.

[26] The Secretariat collaborated with individuals prominent in the field of corporate governance who had been working to establish an international association of institutes of directors to promote corporate governance.

CACG's inclusiveness: Concerns were raised in some countries about the level of developing-country inclusiveness in the CACG structure and the deployment of training resources, despite the primary focus of the training on these countries. The extent to which developing country nationals are represented on the CACG Council and the use of what some see as a small and exclusive training team are two aspects of CACG's own governance that some interviewees would like to see addressed. The attitude of many trainers and trainees in developing countries consulted in this study towards the use of trainers and training case studies from developed countries suggests that a broadening of the base to better reflect developing country interests in the programme would be viewed positively. Allied to this, enhancements to the training to incorporate material attuned to the situation of developing countries (as identified in Chapter 4 and Appendix 2) would also be viewed positively by recipients of training in developing countries.

Accountability: Contractual arrangements between the Secretariat and CACG were characterised by a degree of informality, and did not adequately ensure clarity of expectation between organisations. This has made it difficult to unravel precise accountabilities and compounded the methodological problems faced by this evaluation. For example, when details of trainees were requested, CACG was able provide lists only from the most recent courses, and does not appear ever to have been required to retain these. Likewise, CACG and GIDD each thought that the other was responsible for monitoring and impact assessment; as a result neither was conducted. This made it difficult even to begin to follow up the impact of the mass training course project for which the Secretariat paid somewhere in the region of £300,000. There is a clear need to improve the TOR of all contracted work. Contracts between the Secretariat and CACG appear to have contained terms of actual programme delivery but omitted to describe terms relating to general responsibilities and discretions.

Issues raised during the course of the review include ownership of intellectual property rights in the five-day director-training course, use of the Commonwealth name and the identity and implications of policy-making by an association under the actual or implied name of the Commonwealth. The state of documentation covering the relationship between the Secretariat and CACG is such that adherence to appropriate general terms and discretions is a matter of informal acceptance and reliant on the goodwill between parties. The informality of the arrangement has benefited the Secretariat; there are consistent reports of contractors providing services far in excess of the level covered by the contract because of goodwill and commitment to the relationship. Unfortunately, as the knowledge of these verbal agreements rests with the one officer, as does the relationship of goodwill, it would be very difficult for another officer to have a full picture of these arrangements or of the terms governing programmes and services between the Secretariat and CACG.

FINDING 8: The use of a Commonwealth association to deliver the corporate governance programme is not as effective as it could be due to the apparent absence of policies and processes governing the mandates, responsibilities and co-ordination of work.

FINDING 9: At the individual project level, contractual arrangements between the Secretariat and CACG have not been sufficiently detailed to ensure clarity of expectation between the organisations and to ensure the smooth transition of work to new Secretariat project officers.

5. Co-operation with other divisions and organisations

It has been noted that the Secretariat, CACG and CBC have not co-operated well on corporate governance. It has also been noted that within the Secretariat, despite the potential overlap of corporate governance across the work of several divisions, and despite the strong interest shown by Secretariat staff in the course of the study in corporate governance and CSR issues, co-operation has been limited.

Networks across the Commonwealth: Good use has been made of the convening power and access of the Secretariat to build up significant professional networks. There have been determined efforts to create these, even when initially rebuffed, as was the case with the first approaches by GIDD to interest the UK IoD in developing training packages for Commonwealth countries. The networks were most successful when they included and drew on existing professional organisations interested in corporate governance. Links have been forged between CACG and IoDs or professional institutes (such as the UK Institute of Chartered Secretaries) throughout many parts of Africa, India, Sri Lanka, South East Asia, the Pacific and the Caribbean. Many corporate governance and professional associations have affiliate status with CACG. The Secretariat and CACG are working actively with many of these associations on corporate governance work, some under formal licensing arrangements to deliver the director training.

Other international organisations: The corporate governance work has also been linked to the work of other international bodies through co-convening Pan-African forums and through joint funding of programmes. Co-operative work has occurred with DfID and GCGF through Secretariat facilitation of country access and contacts. Links appear firmer with organisations focused on the more technical side, such as training and board reform. Strong links have not yet been established between the Secretariat's corporate governance work and international organisations and initiatives focused on CSR (see Table 5).

On the technical side, Commonwealth contacts and access are considered exemplary, have been utilised by the international community to support their own work and are rated as an important contribution to the international corporate governance movement. However, it appears that much of this access has depended on the contacts of an officer in one division, influencing the extent to which work is embedded in institutional mechanisms and raising a question of sustainability.

The Secretariat's impact in parts of the international arena has been constrained due to the damage to valuable links between the CACG and some international organisations in some instances arising from disputes. As the Secretariat's corporate governance work is so closely associated with the CACG, this has flowed on to affect relations with the Secretariat. Confidential interviews revealed that some international donors had become reluctant to fund the Secretariat in this area. This has resulted in lowering the visibility of the Secretariat's work in international arenas. The interviews also revealed that there is scope for relationships to be repaired and for new opportunities for collaborative work in the international sphere to be developed if senior echelons of the Secretariat take a role.

FINDING 10: The Secretariat, CBC and CACG have not co-operated well and at times have competed for funding. Poor co-operation between CACG and some international donors has damaged the Secretariat's work.

6. Issues arising from the way the programme was managed

Section 4 above has already revealed weaknesses in the contracts between the Secretariat and CACG. Other areas of the administration and co-ordination were not always strong, with requests to deliver programmes at short notice and last minute changes to schedules apparently impacting on the organisation of assistance delivery and on CACG's ability to make longer-term plans. Concerns were also raised by those in contractual relationships with the Secretariat about the quality of the Secretariat's financial management, with instances of long delays in processing payments. There are some cases where individuals personally financed Secretariat projects to ensure continuation of commitments until the official payment was processed. Available documentation indicates this was caused by late submission of accounts to the Secretariat's financial department and delayed processing once claims were submitted.

Record-keeping: The management of information relating to the corporate governance programme is not to a satisfactory standard. Although other evaluation studies have found that information retention at the Secretariat was inadequate, there is still no institution-wide policy for filing. Unhappily, this study has to repeat the same finding with the same consequent recommendation. Although PIMS records and the papers found in boxes indicated that 29 projects[27] were conducted over the period under review, only nine project files were found for corporate governance projects. Of these seven were marked as 'Temporary Project Files' containing only the minimal documentation required to authorise project expenditure. The exceptions were the two projects conducted in collaboration with ELASD, the files for which contain fuller information about ongoing project progress, although these are also incomplete. No project completion reports have been submitted for any of the projects.

It is not possible from available information even to be sure of how much has been spent on the corporate governance work, with best estimates between £0.89 and £1.06 million. The intranet projects data warehouse is not complete. For example, a check on files relating to programmes in Sri Lanka and Malta revealed no corporate governance work, even though other documentation suggested corporate governance projects had been conducted in each of these countries. Although GIDD listed a large number of countries in which it has conducted corporate governance work, these could not all be verified from available documentation. The state of information is such that it would be difficult to hand over the programme to a new officer and expect any continuity of service.

Human resource constraints: Policies around Secretariat human resources exacerbated these problems and have constrained the quality of the corporate governance work. The upheaval surrounding the merger of Secretariat divisions, combined with a policy of leaving posts unfilled for months as a cost-saving measure, meant increased workloads. Administration seemed to be the first area sacrificed when time became a constraint. Staff also reported that they did not receive

[27] Recent information from GIDD indicates that over 40 projects were completed between 1997 and June 2003, suggesting either the definition of 'project' is being loosely used (interchangeably with 'activity') or there are more serious gaps in the documentation than previously believed.

instructions for the effective filing of information and that during refurbishment of the Secretariat premises were actually instructed to throw away large numbers of documents especially those over five years old. Without adequate systems to translate individual experience into the institutional fabric, the benefits of contacts generated through the Secretariat are lost when the individual officers leave. The savings in staff costs have therefore been achieved at least in part at the expense of the quality and integrity of the development work.

The budgetary cycle: As is common, the budget cycle seems to encourage divisions to prioritise spending money over careful forward planning. The Secretariat gives funding to divisions each financial year; funds left unspent towards the end of the year are returned to a central fund to be re-allocated. Unforeseen delays in project implementation can mean that the expenditure planned at the beginning of the year is sometimes transferred to the following financial year. Rather than risking an under spend on the overall budget new projects are sometimes hurried through preparation in order to enable the expenditure within that year. The amount of £300,000 was secured for the mass training course for directors in this manner, an amount considerably in excess of previous annual allocations for corporate governance work. While it enabled the large scale training programme to be developed, had the funding levels been more predictable, the planning process could have been more thorough and the difficulties experienced by CACG, which had to try and adapt materials for projects at very short notice, would not have occurred.

The character of the budgetary cycle and successive budget and staff cutbacks also required adjustments to the progressive implementation of the work as first conceived. Decisions were made to try to achieve initial goals despite fewer resources, and project administration and co-ordination suffered as a result. Uncertain funding environments can discourage effective long-term planning and careful management. As capacity development involves process and organisational change over longer periods, the budgetary cycle could also discourage commitments to development projects that do not yield visible short-term results or can be susceptible to cuts in successive years.

Monitoring: This has been an area of weakness. Although the project appraisal cited methods for monitoring progress, little monitoring was undertaken. This was because of failure to build the planned extranet monitoring tool, attributed to lack of resources. As already noted, there was also a lack of clarity of expectations between the Secretariat and the CACG, limitations in the capacity of CACG, associated with its volunteer nature, poor retention of contact information and practical difficulty in tracking the progress of trainees across the Commonwealth. Some questioned whether it was realistic to expect volunteers, such as task force members, to provide reports to the Secretariat. The difficulties associated with monitoring diverse efforts across many countries were evident, and indicates that a reconsideration of monitoring methods is needed for programmes of this nature if the Secretariat hopes to generate lessons for improving assistance.

PCPs: All requests for corporate governance technical assistance came through Commonwealth institutions, such as central banks, regional organisations or professional institutes. But not all were made through the designated Commonwealth PCP. The PCP for each country is supposed to be selected from a relevant ministry due to their expertise in the development issues of their country, and their role is to prioritise requests to the Secretariat for CFTC-funded work. In this way, the Secretariat seeks to ensure that it works in each country in the areas of greatest developmental need. However, in some cases, the PCP was unaware of corporate governance work being undertaken in their countries on regional or banking projects. In others, requests through the PCP were made as a subsequent formality once corporate governance work was already underway. Several PCPs expressed irritation at this. The reasons for variations to the PCP clearance and routing should be examined. Circumvention of the formal PCP conduit limits member governments' capacity to co-ordinate their development activities, possibly impacting on effectiveness.

FINDING 11: The quality of management relating to the corporate governance work was poor. This relates in part to administrative shortcomings at the project officer level and in part to shortcomings in administration of management support systems and inadequate resources.

Chapter Four: Assessing programme elements

This Chapter examines the separate activities that make up the Secretariat's corporate governance work. In doing so it draws on the longer case study write-ups presented in Appendix 2. It also examines specific issues that the evaluation was asked to examine relating to gender, small states, small and medium enterprises and developmental impact, although some of these are touched on throughout the report. As has been stated elsewhere, outputs and outcomes for programme elements were difficult to identify due to the limited availability of records. Where it was not possible to fill gaps through other sources this is stated in the analysis and the evaluation is regrettably unable to give detailed findings and recommendations for these components.

1. Influence, advocacy and principle setting

The Commonwealth Principles for Corporate Governance: In virtually all the countries visited the Commonwealth Principles were influential with people familiar with the work in this area. Director training provided most exposure. The Commonwealth Principles have clearly influenced some of the codes since drafted, and are known to have been used as a resource during the drafting of national codes in Kenya, Tanzania, Malawi and Sri Lanka and the NEPAD code. It is otherwise difficult to tease out the relative influence of Secretariat activity in advocacy of the principles. The Principles are seen as less relevant where the focus is on the OECD Principles of Corporate Governance to improve the legal and regulatory capital market environment, as in Malaysia. This is in spite of the complementary focus of the Commonwealth Principles on the role and functions of boards and directors, which is applicable to all enterprises.

Opportunities for closer co-operation with international organisations in the development of corporate governance principles have not been maximised due to poor co-operation between CACG and some international organisations. This is underlined by a lack of clarity among some in the international community about the role and functions of associations with the Commonwealth name and the extent to which they represent the Secretariat. The ability of the Secretariat to impact on the various principles in the international arena will be improved if the senior levels of the Secretariat are able to take an advocacy role and if areas of policy complementarity can be highlighted.

The Secretariat has been influential at the international level in raising the profile of developing country issues relating to corporate governance through the Principles, by co-convening policy forums and through co-operation among professional officers and international organisations. However, the international influence that has been achieved has been strongly associated with minimal staff in just one division and with specific individuals in the CACG, and is insufficiently embedded in institutional mechanisms to support the sustainability of international policy influence.

FINDING 12: The convening power and implied political endorsement of the Commonwealth is evident in some countries and has reinforced the credibility of efforts and added weight to national initiatives.

2. Policy workshops and forums

The impact of the policy workshops held in Commonwealth countries cannot be measured as there is insufficient information about who attended or what the objectives were. As identified in the country case studies (Appendix 2), there is evidence reinforcing the important function of awareness-raising and sensitisation through workshops and policy forums. However, whether workshops led to improved corporate governance depended on the financial and human-resource capacity of country institutions to co-ordinate a follow-through effort based on new awareness. The Commonwealth implementation framework recognised these ingredients, but in some countries there was awareness-raising without adequate resources to sustain efforts, such as through Commonwealth backing or in-country fund raising, and it was not possible to capitalise on the gains of awareness-raising.

The choice of contacts and linked institutions influenced the impact of the Secretariat's work. Choosing IoDs as key institutions to lead a corporate governance effort was problematic in some countries where sections of the private sector were viewed suspiciously or seen as inappropriate role models for the principles espoused. IoDs were often seen as too partisan. State-enterprise commissions and privatisation agencies, although interested in promoting corporate governance, have likewise been viewed problematically in some sections of the private sector. Sundridge Park and the Pan-African Forums, which attracted professionals from throughout the Commonwealth to consider policy issues, were highly visible workshops that appear to have been seen as significant turning points by many in the corporate governance community. However, there is the difficulty of direct attribution to the Commonwealth alone, as some forums had assistance and participation from several other donors.

International, regional and national policy workshops fit with the Secretariat's areas of comparative advantage in having high-level access, and with its image as a trusted advocate for developing countries and small states. Greater impact could be achieved through closer co-ordination of policy forums with PCPs and POCs who were not always aware that the Secretariat was engaged in this work in their country. Workshops could also better incorporate other Secretariat divisions and Commonwealth associations to maximise opportunities offered by this area of comparative advantage. The Secretariat has not capitalised on its ability to build strong support for corporate governance at senior political levels within member countries.

FINDING 13: Corporate governance awareness-raising in policy forums is an influential component of corporate governance reform programmes, but the development impact in countries will be limited without sufficient resources to sustain these efforts.

3. Country task forces

Impact: From the responses to the evaluation questionnaire, the main impact of the task forces was in raising corporate governance awareness in state enterprises, although the statistical basis for finding even this impact is extremely weak. The Secretariat states that country task forces were formed following initial workshops and training in Commonwealth countries. It is not possible to obtain a clear picture of the work of these task forces or to assess their impact. Little file information was available and very few contacts (12) were identified that related to the CACG meeting held at the time this review commenced. Of these, only three responded to the questionnaire (see

Appendix 5). It is difficult to draw conclusions from this low response, other than to observe that respondents considered the only substantial assistance of the Secretariat was in assisting networking.

Support by the Secretariat: The task forces appear not to have been well supported by the Secretariat. Assistance to local task forces appears to be primarily in the form of advice and mentoring by the Secretariat and CACG where possible, rather than through financial assistance or sustained policy and programme work. The attempt to co-ordinate task force efforts from London or from the CACG New Zealand base caused practical difficulties. The effort needed to co-ordinate and build a task force was neither suited to CACG, a volunteer organisation, nor the Secretariat working on its own, given its constrained human and financial resources.

Co-ordination of support: The Secretariat is well placed to have a significant policy influence on existing task forces. However, the Secretariat and other Commonwealth organisations have not worked well together to use the potential of the Commonwealth brand to foster formation of task forces. The potential to co-ordinate with the work of SASD, EAD, LCAD and HRU, who could all assist various constituent groups represented on task forces, has not been maximised. In the absence of this, and without adequate resource backing either through funding from the CFTC development budget, resources obtained independently by task forces or through partnerships with other development organisations, the Secretariat is not well placed to sustain national task forces through the Commonwealth.

Demands on task force members: The impact of the task forces has depended very much on personal factors and local circumstances, as can be noted from the ten case studies in Appendix 2. In some countries, such as Jamaica, there was a climate of interest in corporate governance and an existing strong institution to which a task force could be linked, but some task forces, for example in Zimbabwe, were limited by factors beyond their control and task force members appear to have lost interest or momentum. The expectations of task force members were sometimes unreasonable, given their voluntary status. Task force members were called upon to organise the accommodation, location and dates of training, which CACG trainers would then deliver. In some instances, the weak network of contacts by the task force added to the costs of the corporate governance programme as it was unable to organise training locations and attract sufficient interest in the courses. This also hampered this evaluation, when training courses that were scheduled for observation were repeatedly postponed or cancelled. The presence of a strong individual who could act as a policy entrepreneur to galvanise efforts seemed to be crucial in sustaining a task force.

Representation on task forces**: The choice of contacts for a task force is an important factor affecting success. Evidence suggests that success was linked to the extent to which a constituency representative of a broad range of groups and institutions in society could be convened. Some study informants questioned the decision of CACG and the Secretariat to focus on private-sector contacts (though in a number of countries the initial task force was built around the public sector as part of the privatisation work). These informants felt that strong links with such individuals could create the suspicion of self-interest among the private sector organisations they sought to influence. A broad public and private sector representation on task forces appears to have been more successful. Overall, however, most study respondents identified financial and human resource capacity as the main factors influencing whether task forces held together and gained momentum.** (See Finding 14)

4. National strategies for promotion of corporate governance

Paucity of information on this issue has hampered the assessment although some conclusions may be drawn from evidence gained during fieldwork. Success appears to have depended on local factors, including the climate for corporate governance. Other factors were the level of institutional backing, the involvement of a broad section of societal groups, and the availability of financial and human resources. Unfortunately, the Secretariat was seeking to pursue this strategy with too few resources and partners, and without enough involvement from Ministries, from across the Secretariat or from organisations such as the CBC or international donor organisations.

Secretariat's support role: The involvement of the Secretariat with national initiatives co-ordinated by others has added weight and credibility to national effort. Some respondents in developing countries noted the value of implied endorsement from an international organisation perceived as politically neutral in advocating a topic that can be politically risky. While the Secretariat is not well placed to initiate and sustain financially the work needed to develop a national strategy, it is well placed to have significant policy influence over the shaping of national strategies. It is also well placed to give targeted professional advice on a country's own national strategies. For instance, work in the banking and finance sectors in Sri Lanka and Kenya (analysed later in this report) illustrates the capacity of the Secretariat to co-ordinate the resources of different divisions of the Secretariat to provide effective assistance in specialist areas of national strategies.

Support beyond the programme: The extent to which the Secretariat is already involved in this kind of targeted advice in the corporate governance and CSR field is actually under-reported in this study, since it examines only work within the GIDD-defined programme. Other divisions of the Secretariat are already heavily involved in many related areas of member governments' work. They offer advice to particular sectors, advice on related legal and regulatory structures, and work on human rights and environmentally-sustainable development. This work need not be expressly linked to a national corporate governance strategy to have impact. However, doing so might improve the weight behind some national strategies. Equally, it might make sense for GIDD to call its corporate governance work by another name, and link it to anti-corruption or sustainable development strategies in some countries. However, both suggestions may add layers of bureaucracy which add to costs and administration. If more information on what different divisions were doing was available within the Secretariat, professional officers could use their judgement and link the different programmes to national strategies in the interests of the member states' development.

FINDING 14: The Secretariat, working on its own, is not well-placed to initiate and sustain national task forces or national policy strategies throughout the Commonwealth and has not always identified the right institutions when it has attempted to do so. Where task forces have already existed such as in Kenya, the Secretariat has been able to use its convening powers to assist them with links and contacts. Secretariat legal and economic specialists have also assisted existing national strategies, as with the financial sector in Sri Lanka and Kenya. Secretariat divisions also offer considerable professional support in corporate governance-related areas, even if it is not expressed as part of national corporate governance plans.

5. Establishment of national professional institutes

CACG has been well supported in its efforts to promote local institutes of chartered secretaries because of its relationship with and support from the UK ICSA. Efforts to promote local institutes of directors did not get similar support from the UK IoD in the early stage of the programme, although this changed later.

The Secretariat seems to have achieved greatest success when working with existing institutes such as chartered secretaries. Feedback from corporate governance experts suggests that analysis of institutions and targeting of those most capable of driving corporate governance is also needed. Kenya and Malaysia, which demonstrated most success with corporate governance, are the only countries visited during this study where corporate governance institutes were known to be established as dedicated entities. In others, a partisan group such as an IoD has taken up the issue. For reasons identified in Chapter Three, the opportunities to develop corporate governance through the network of structures and institutions throughout the Commonwealth were under-utilised, although over time CACG has built up a significant network of linked associations. Overall, the Commonwealth has not worked to its full strengths in this area.

FINDING 15: Development of national professional institutes was most successful when working with existing professional institutes.

6. Capacity building with CSAP Volunteers

Part of the GIDD early corporate governance strategy sought to promote local institution building through the deployment of qualified directors as Commonwealth Service Abroad Programme (CSAP) volunteers, where appropriate. This was not effective, apparently due to a lack of suitable candidates; practical difficulties also arose when volunteer directors needed to attend regular board meetings in their home countries. Although CSAP uses voluntary assistance, it does entail costs to recipient countries in providing housing and basic amenities. Anecdotal evidence suggests that this support from countries was not forthcoming, though without file information the reasons for failure cannot be confirmed. The CSAP strategy was conceived as a main component by which the on-going capacity-building of institutions and the development of policy instruments and national strategies would be sustained with director training. No alternative strategy to support institution building appears to have been developed when the CSAP strategy failed.

FINDING 16: The strategy to support local institution building through the deployment of CSAP experts was not effective and was discontinued.

7. Mass training programme and course for directors

As one of the key components of the Secretariat's work in corporate governance, and the single most expensive CFTC project within the corporate governance programme, the course for company directors is examined in detail in Appendix 2.

Rating the course: In summary, the training was highly rated by former course participants with 88 per cent more than satisfied with the quality of training. All those surveyed said that they would recommend it. Most trainees stated that training had a positive impact on their personal development, giving new knowledge and contacts. Slightly fewer considered that they had gained practical skills, highlighting the scope to move from teaching concepts to practical application. Half stated that board policy changes had taken place as a result of their training and almost half also considered that the training had led to an increase in board accountability and transparency. These responses would suggest the training met its target in fifty percent of cases.

Trainees seem to have found it particularly difficult to assess the impact of their training on the performance of their organisation. The only area of clear impact seems to have been on risk assessment and risk mitigation, with 58 per cent saying that this had improved in their organisation. There was no evidence that reforms had increased domestic or foreign investment.

Delivery of the course: Many trainees requested greater variety in teaching methods, with less emphasis on lectures and use of PowerPoint slides and more opportunity for group discussion and sharing of personal experiences. Many trainees requested more local examples in training materials, Commonwealth best practice cases to be shared, materials customised to local circumstances rather than generic courses and less use of trainers from developed countries, particularly New Zealand. Several questioned the absence of mechanisms to assist trainees systematically apply the lessons learnt in training.

The strategy to achieve ongoing corporate governance reform in companies by requiring trainees to implement an action plan has not been successful. The difficulties with the strategy are: practical limitations on individual trainees to act alone and influence board change; lack of commitment to the idea of a training action plan; lack of CACG or Secretariat follow up on plans; and, lack of CACG resources to maintain a follow up programme. The five-day length of the course was cited by many as a problem even though this allows limited exposure by participants to the main disciplinary areas of corporate governance. Suggestions include breaking the course into modules delivered over a period.

Course curriculum: The course consists of generic training modelled on developed-country corporate governance, particularly in New Zealand. It emphasises the performance and conformance aspects, including board roles and responsibilities. Content is not linked to developing-country governance issues and corporate governance aspects of the role of the private sector in development, and there is scope to address these more directly. Tackling resistance to reform (including political pressures) and the implications of institutional cultural differences would be important subjects. Within the limitations of the course duration, it could also pay more attention to particular issues facing target trainees in the risk assessment, CSR and corruption modules. In some countries, attention should also be given to the role and responsibilities of the company on issues like HIV/AIDS and human rights. An approach that considers the sustainable-development implications of CSR issues and the real financial risks of failing to address them (see Box 2, Table 3 and Table 4) is likely to be more persuasive than the underlying philanthropic model of CSR presented in the existing training course.

Teaching methods: Interactive methods, critical thinking, exercises to apply concepts and action-focused devices to encourage training impact were all under-utilised. Low use of these techniques and the loss of the trainee after training through minimal follow-up and networking systems limit the impact and its sustainability.

The Secretariat has addressed an important gap area by introducing training and capacity-building across the Commonwealth to people responsible for governance of various entities. Capacity development is an essential adjunct to support institutional, legislative and policy change. No other international organisation offers such assistance within countries. At the time of the review, the Commonwealth was the only international organisation that had attempted to adapt international corporate governance to developing country and small state circumstances in a capacity development programme. However, given the large expense of promoting such a course across the Commonwealth, providing ongoing training and capacity development is not within the Secretariat's comparative advantage. A range of constraints have limited the extent to which the Secretariat has been able to achieve its goals through the CACG. Avenues which could have supported the Secretariat tackle capacity building, such as development partnerships and co-ordinated implementation plans with donors, have been under-utilised.

The evaluation revealed that the training had most impact in small states such as Jamaica where the Commonwealth initiated corporate governance and was the only assistance provider, and where training was licensed to an established institution. The training had least impact on countries such as Malaysia that had already developed local training. Where there were several corporate governance training products on the market, there was limited ability to distinguish the specific features of the Commonwealth director training except among those who had close exposure to the course.

Box 5: Trainees' comments on five-day director-training course

'I was disappointed that there were not more case studies or documentation citing best practices/experiences in other Commonwealth countries.'

Examples 'need to be anchored to on-going economic reforms in the region otherwise it seems to have no relevancy.'

'Overseas presenters <u>must</u> undertake prior research to understand the landscape of the countries represented in the course.'

'This should not be an academic course but a skills imparting exercise.'

'The current course attempts to cover too much in the short time.'

'Poor public governance is a big factor in (Country X) and this was not really addressed, making the participants feel that the course was not reflective of the domestic reality.'

'This course and its contents apply to any organisation, but the issue I raised was the support mechanisms, follow up and evaluation after the course so that participants can apply the lessons learnt systematically. What we do for the ones who are obviously challenged by good governance I do not understand.'

'In order to assure long term impact and accountability of trainee directors I suggest that we introduce a tiered certification, based on feedback and evidence of action plans or impact of good governance in the institutions that have benefited from the training.'

Source: Comments made by respondents to questionnaires administered as part of this study. The questionnaire sample group and their responses are in Appendix 3.

FINDING 17: The mass training programme has had most impact in small states (and in Kenya) where the Commonwealth had initiated corporate governance and was the only assistance provider, and where training was licensed to an established institution.

FINDING 18: Training was highly rated by trainees and there was evidence of impact on board accountability and transparency. However there was a need to make the training less dependent on developed-country examples and more relevant to country circumstances, particularly in the risk assessment, corporate social responsibility and corruption modules.

8. Train-the-trainer

The division projected that the five-day director-training course would become self-sustaining through the 'train-the-trainer' process. According to the plan, after an initial cadre of trainees were trained through CACG with the Secretariat's direct support, those trainees gaining over 70% in the corporate governance exam at the end of the course would themselves become trainers. In this way, the Secretariat would sow the seeds of a training course without overstretching its limited funding, and the impact of the course would 'cascade' through the Commonwealth.

Country-level constraints: This strategy has been successful in Kenya through the work of the PSCGT, which has now trained a significant number of professionals across East Africa. However, in other regions the effectiveness of this mechanism has been very limited because of the slow devolution of training to accredited country teams. This is despite the fact that there is now a cadre of trainees in many African countries, the Caribbean, Pacific Islands, India and Sri Lanka who have earned over 70% on the course and are therefore eligible to deliver the course as trainers (provided they also have direct experience as board directors and expertise as trainers). The main reason stated in interviews and field visits for this delay is that it is taking considerable time to identify appropriate institutions to be accredited. There are also issues surrounding whether registered training organisations or a dedicated corporate governance institute is the appropriate body through which to proceed, given that training can be a significant revenue source. Issues surrounding the identification of 'territories' for licenses to deliver the training course are taking time to resolve, and there are different preferences relating to whether to import outside experts and what sort of quality control measures to put in place.

Secretariat and CACG constraints: Although a distinguishing feature of the course is the Commonwealth 'brand' and certification, the Secretariat is not well placed for the level of co-ordination required to administer a training system licensed throughout the Commonwealth. There are also questions over whether the CACG as a volunteer organisation is well placed to administer the system. Issues around agreement of licence criteria, enforcement of standards, exercise of discretion and decision-making between the Secretariat and CACG have not been formalised. There are apparently no clear systems for how this will be managed. The informality in arrangements between the Secretariat and CACG and absence of systems means that a new project manager will have few starting points to resolve these issues. Intellectual property in the directors training course is owned by the Secretariat, under the contract between the two parties. Ownership of successive enhancements made to course materials by accredited organisations using their own resources and know-how is not clear. There is no clear basis for the Secretariat to identify priorities in resolving issues in this area.

As the strategic device by which capacity development resources would be built up and sustained in countries, the train-the-trainer scheme seeks to address a significant gap area. However, evidence suggests that such a scheme throws up some complex legal and administrative issues, solution of which may be difficult. It also seems unreasonable to expect CACG volunteers to undertake the training.

FINDING 19: Success in train-the-trainer efforts has been limited because of the slow devolution of training to accredited country teams, despite the apparent pre-qualification of trainers capable of delivering the course in many countries in Africa, the Caribbean, the Pacific, India, Sri Lanka and South East Asia. The associated administration is extensive and not an area of Secretariat comparative advantage, or a duty CACG volunteers can reasonably be expected to undertake.

9. Dedicated sector initiatives

GIDD included projects aimed at sensitisation of politicians in order to gain support and build capacity for corporate governance at top political levels. The Secretariat was the first international organisation to convene a forum in Africa for consideration of corporate governance principles for parliamentarians. It was attended by parliamentarians from a number of African countries.

Design of the Africa forum: The impact, however, was limited, as the forum consisted of meetings to raise awareness, without further financial support. GIDD's strategic plan for building on this policy forum was clear, but lacked sufficient funding resources. There were limited requests for follow through on this work.

Difficulties in reaching parliamentarians: Efforts to extend assistance to parliamentarians in other countries have not been successful although – after fieldwork for this study was conducted – GIDD reports that significant work has been undertaken with parliamentarians in Pacific countries. Shortcomings regarding engagement with parliamentarians include weak links into parliament and the corporate governance institutions in some countries, lack of co-ordination with PCPs and other priorities among parliamentary members and associations. As noted in the case studies in Appendix 2, there are strong indications that political sensitivities have hampered the ability to advance far with this strategy for promoting corporate governance. Some interviewees from within and outside government suggested that efforts to apply corporate governance principles within government departments and corporations were not well understood. They were perceived as a risk to existing power structures and were therefore highly sensitive. Notwithstanding these difficulties, international development experts consulted for this study identified work with parliamentarians and at higher political levels as an area where the Secretariat, because of its high-level access, could play a stronger advocacy role.

Success with banking and finance sector: The work conducted in the banking and finance sector in joint ELASD/MTSD/GIDD projects was effective. Government and Central Bank representatives in the countries involved commended the Secretariat's work in this area. Commonwealth assistance produced tangible outcomes in the banking and finance sector in Sri Lanka and Kenya through policy development, sensitisation and awareness-raising and training. Assistance is being sustained through governance codes and embedding principles in supervisory guidelines for banks. Plans for the Central Bank of Sri Lanka to spread corporate governance awareness through regional development banks, and through local and provincial governments, are likely to increase the impact and sustainability of Secretariat assistance. The banking sector can also reach SMEs and family businesses through lending policies. The use of the Secretariat's professional staff resources to assist central banks to be the prime agents of change in this way made excellent use of its strengths. There is scope for repetition of this model in Commonwealth countries where there is a small, unlisted private sector and where central banks can play a similar role for change.

Despite the successes in this area, the work came to a halt when the responsible ELASD officer left and the position was not filled[28]. Professionals in member countries who had previously been involved with this work regretted the withdrawal of Secretariat support from this area and stated that on-going activity is necessary to entrench and sustain developments that have been achieved.

FINDING 20: Targeted assistance to the banking and finance sectors delivered by ELASD and GIDD produced tangible outcomes through policy development, sensitization and awareness-raising and training.

10. Sustainability of the corporate governance work

The study has uncovered numerous reasons to be concerned about the sustainability of the Secretariat's corporate governance work. It is insufficiently embedded in cross-agency planning and coordination mechanisms and difficulties in project documentation may make a smooth handover of the work to incoming officers difficult. Ironically this problem may be mitigated by this report which will be the first document attempting to rationalise what the Secretariat has been doing in the field.

Within the Secretariat: At the technical level, work is too closely associated with staff in just one division. Contact information has not been adequately retained and key contacts, relationships and reputation sit with individuals. At the divisional level, there is a lack of systems or mechanisms to integrate the work across other relevant work areas of the Secretariat. At the management level, rotation of posts and the decision to defer filling vacated posts affected the capture of institutional memory.

Ongoing links: In delivery, the report has shown that contracts with service delivery providers on a range of matters necessary for sustainability are too informal. At the institutional level, the overall commitment of the Secretariat to corporate governance is ambiguous and has contributed to lack of certainty about the future of the programme. Within the programme, some activities have been commenced without sufficient technical, financial or human resources from the Secretariat to ensure sustainability. Trainee information was effectively lost after training was completed through lack of retention of details and absence of formalised networking systems; the action plan strategy, whereby trainee progress would be tracked, has not been successful.

Cascading: The train-the-trainer strategy has achieved mixed results. It was seen as the main device by which sustainability of the Secretariat's assistance would be achieved through a cascading effect throughout the Commonwealth. It has been successful in Kenya through the work of the PSCGT. However, the devolution of training to local institutions with self-sustaining capacity in other parts of the Commonwealth has been slow and many practical challenges associated with the administration of such a system have been highlighted.

[28] There was some follow-up work with central bank governors in 2002 but at the time of the study the work was being continued in a joint project with DFID and GCGF in Bangladesh.

FINDING 21: The Secretariat's corporate governance work is insufficiently embedded in appropriate mechanisms or supported with sufficient resources to ensure sustainability of the assistance.

11. Gender issues

Gender was not addressed as a separate issue during director training, and questionnaire results indicated that trainees considered the course to have had no impact on gender equality in their organisations (Appendix 3). No projects had been conducted jointly with or in consultation with the Social Transformations Programmes Division (STPD). Gender disaggregated statistics on trainees did not appear to have been kept and were not made available for this study. There was high participation of women in some initiatives, for example in Jamaica, and women have been well represented in training teams. The course brochures and invitations specifically invited women to participate. However, since company directors are targeted as trainees, existing gender inequalities in some societies make it more likely that men will participate in the courses. The Secretariat or CACG do not appear to have worked with existing networks of business women, such as the Commonwealth Business Women's Network. Efforts to extend some invitations to courses through these kinds of networks would be likely to improve the gender balance of people represented at courses and create more valuable networks for both men and women.

As has been noted in the comments on training, the director course did not pay as much attention to CSR compared to the focus on the conformance and performance aspects of company governance, and hence gender issues that would have been included were lacking. Study informants reported some gender insensitivities in training materials and course instruction.

The gender-related aspects of CSR, including issues such as pay gaps, employee rights, sexual harassment and human rights, have not been brought to the fore in any of the Secretariat's corporate governance work to date. These issues have potential overlap with the work of several Secretariat divisions outside of GIDD, including STPD, Legal and Constitutional Affairs, Special Advisory Services and Human Rights, but no projects in these areas have been attempted to date.

FINDING 22: Gender was not addressed as a specific or separate issue in the corporate governance work and enhancements can be made to training courses and targeting of training to better reflect gender issues in development.

12. The needs of small states

The Secretariat has made efforts to ensure that small states are a priority in this programme. In 1999 corporate governance was initiated in the Caribbean and later in Jamaica. It was later extended to the Pacific and Papua New Guinea during the period of this evaluation. Small states have particular difficulties in initiating corporate governance. Many are isolated and poor in resources. They may have limited access to information, and few resources to keep abreast of governance standards, to support change and to develop capacity. In some small states it can be difficult to access and use networks; several operate in disenabling environments with archaic legal and regulatory structures.

Corporate governance and CSR present specific concerns for small states, (see Box 6) and the programme has attempted to deal with these by extending awareness-raising and training assistance, and by including some small states in the revision of the Commonwealth Principles.

Aspects of Commonwealth corporate governance policy do not translate easily to the realities of small state private sectors. Some strong disagreement was expressed about the Commonwealth advocating that directors be independent of management and ownership of a company. Where there are few people able to become directors and where there are constraints associated with small, traditional societies, such as entrenched networks, a more realistic approach could be to emphasise qualifications and development of skills to run a company in a competent and transparent manner rather than the director being independent. A strength that has not been developed is the potential of the Secretariat to share corporate governance information with smaller states with fewer resources or the opportunity to keep abreast of international developments. This could include sharing information and intellectual property generated by the Secretariat, and facilitating access to resources produced by professional associations in the Commonwealth, such as new draft codes, consultative documents on company law review, and banking prudential guidelines.

FINDING 23: Aspects of the Secretariat's policy and training programme do not translate easily to the needs of small states. The potential disadvantages to small states of corporate governance codes need to be addressed.

Box 6: Special Commonwealth priorities: small states

The Commonwealth defines small states as those with populations under 2.5 million. Under this definition over half its 53 members are small states. Small states face particular issues in the corporate governance and CSR sectors.

- Small states face a problem of diseconomies of scale in implementation of corporate governance and CSR international standards. For instance, a country with a small number of listed companies may find it costly to set up a separate entity to regulate a stock exchange. Not to do so will be portrayed as a failure to be transparent and will risk low scores on assessments of transparency and corruption. To do so is to incur high set-up and operational costs. The vast number of standards in corporate social responsibility and their intersecting nature makes adherence without significant resource backing impossible.
- There is not yet a proven link between corporate governance and proclaimed outcomes of increased domestic investment and foreign direct investment, though there is increasing evidence of a positive link. Poor corporate governance is certainly a disincentive to investment. The costs of corporate governance implementation could be a disincentive when proclaimed outcomes are remote and unproven.
- Some small state economies are heavily specialised in banking or other services which they are now under pressure to regulate in the interests of more open governance and free trade. However, implementing the measures may destroy competitive advantages in these sectors as long as the other sectors in small states remain insufficiently developed to replace them.
- CSR standards which require overseas companies meet the employment or social standards granted in the US or EU are seen as protectionist measures by small states, whose products may thus no longer be able to compete.
- Standards often emanate from the priorities of developed economies with minimal consultation with small states. Without involvement in shaping standards, small states could be suspicious of motives for their creation and may see no moral responsibility to adhere to them.

13. Small and medium enterprises

Corporate governance for SMEs is still being explored and debated. Challenges with it (and corporate social responsibility) are the cost of implementation and compliance, the preference among some to retain closed control (including reluctance to bring in outsiders, like independent directors, into family businesses) and poor understanding of the concept, especially aspects relating to organisational strengthening. Development agencies in this sector which were consulted during the study preferred to see a focus on ways to strengthen company performance. They also stressed a need for more assistance in developing export markets while also helping them meet export conditions and standards (such as social and environmental supply chain standards).

Box 7: Special Commonwealth priorities: SMEs

There is no Commonwealth definition of an SME, and no universally accepted definition. Most Commonwealth companies are not the publicly listed companies that corporate governance rules were first drawn up to regulate, but non-incorporated businesses, often small-scale and family run. Enterprises such as these are usually included in the somewhat vague 'SME' grouping. Such enterprises face particular concerns in the corporate governance and CSR sectors:

- While big businesses can handle increased regulation and paperwork, their smaller competitors often cannot. Some standards do not allow for local issues. Suppliers may be eliminated from the supply chain either because they are seen as risky, or because they cannot prove their compliance with certain standards. Standards risk exacerbating problems for small suppliers as the codes tend to reflect the priorities of buyers, and be set without consultation with suppliers affected by them.

- The introduction of social, environmental and labour rights clauses under the umbrella of CSR is seen by some SMEs as protectionism by the back door. They may enforce inappropriate cultural standards with the net effect of reducing overall welfare, and causing unreasonable bureaucracy which would stifle SME growth.

- Certain requirements for corporate governance may be unrealistic. For example, some countries have very few trained people who could become independent directors. Some time may be needed to develop a suitable pool of people enabling choice for companies so they can meet the policies for such qualification.

- Initiatives to improve CSR, such as triple bottom line reporting, may impose unreasonable demands on small businesses. For this reason some experts in the field suggest that they may be appropriate only for companies over a certain size. Satisfaction of social and environmental certification and assurance standards can be similarly burdensome. Recognising the onerous task involved in reporting and assurance, alternatives are being explored, such as maintenance by authorities and agencies of central databases to record training given, certificates achieved and other forms of enterprise development. Third parties could log onto to this database information to make their own assessments.

The Commonwealth strategy has not focused specifically on SMEs, except through the support to the banking sector, though they represent the largest part of the private sector in many developing countries. Otherwise to date there have been no strategies to promote corporate governance specifically through SMEs and smaller private and unlisted companies[29]. Methods could include adaptation of the director training, preparation of customised SME corporate governance principles, targeted marketing, partnering with SME associations or development of market mechanisms, such as corporate governance banking principles for SMEs. However, the benefits of extension of corporate governance and CSR to SMEs need to be balanced with potential costs. Emphasis should be on governance to strengthen company performance, and principles for achieving organisational sustainability, rather than on imposition of a raft of international standards.

[29] CACG is continuing to work on an SME code.

FINDING 24: The Secretariat's work has not yet focused specifically on corporate governance for small and medium enterprises. There are challenges in developing an appropriate strategy including cost of implementation and compliance.

14. The development needs of governments and the MDGs

As set out in Chapter 2, the developmental rationale for the Secretariat's promotion of corporate governance measures is to improve the running of state-owned entities and private companies, and to attract increased domestic and foreign investment of a quality that, by taking account of CSR, is also sustainable. As such, the measures seek to contribute to the eighth MDG, 'Development of a partnership for development,' and to contribute to governments' abilities to meet all of the other development goals by increasing the revenues available to them (see Box 8).

Box 8: Millennium Development Goals

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development.

Problems: Table 3 identified some of the problems associated with attempting to use the adoption of corporate governance and CSR activities as development instruments. The main areas of controversy are the difficulty of proving a link between adherence to standards and any increased performance or investment; the lack of enforceability of standards; the question mark over the relevance of standards to developing country circumstances and the difficulty of defining 'socially responsible' behaviour. Although the economic links between corporate governance and increased revenues are plausible, there remain situations in which corporate governance and CSR measures can work against the developmental interests of SMEs, small states and developing countries. In this context, the Secretariat's approach of promoting flexible principles that can be adapted to country circumstances has clear developmental advantages over inflexible codes and the need for assistance to be demand-driven is obvious.

Successes: The corporate governance work that most clearly demonstrated developmental impact was that involving direct professional assistance to governments in targeted areas, particularly that done with the central banks in Kenya and Sri Lanka. In other areas, particularly training, the time lag since the programme began is not long enough to assess its impact on capacity, performance or investment. There is some evidence to suggest that the work is improving some of the Secretariat's target areas, but it is too soon and the evidence is insufficient to draw definite conclusions. Awareness-raising and training has occurred across many African countries, India, Sri Lanka, South East Asia, the Pacific and the Caribbean. The Secretariat has also successfully positioned itself as an advocate for the concerns of developing countries on corporate governance issues at the international level.

Potential for improvement: The study identified some areas in which the developmental impact of the assistance could improve. One is in the targeting of director training, which attracted participants mainly from the private sector with few directors from state-owned companies among the names made available.[30] While CHOGM declarations and the mandates of ministerial meetings have stressed the importance of both the public and private sectors in development, the Secretariat is better positioned to work with governments and government departments. This is the kind of area where the roles and mandates of the CBC and the Secretariat need to be more clearly articulated to ensure complementarity and not competition.

Country needs: The Secretariat also needs to ensure that its corporate governance work is meeting real developmental needs identified by member governments. The Secretariat seeks to ensure that CFTC assistance meets a country's development gaps by co-ordinating requests through the PCP who prioritise according to national developmental needs. PCPs did not always initiate the request for the corporate governance work done in their country, therefore some were not involved in co-ordinating the assistance which may have diminished its developmental impact[31]. That said, all member governments consulted identified corporate governance as a high priority area for assistance. During interviews, government representatives identified governance in banking and the finance sectors, support for privatisation reform, and sensitisation and capacity building at senior political levels as priority areas. Another priority identified was the use of corporate governance and corporate social responsibility to safeguard societal interests in the context of privatisation.

Sustainability: The questionable sustainability of some of the assistance, as discussed above, raises the most concerns about the longer-term developmental impact of the work under evaluation. Impact has been limited in many cases because delivery has been without sufficient resources for sustained technical assistance or follow-up. Devolution of training to the country level has also been very slow. Assuming that the link between corporate governance promotion and developmental impact is indeed sound, addressing those areas acting as a drag on project sustainability would have the biggest likelihood of improving the developmental impact of the work.

Millennium Development Goals (MDGs): The promotion of corporate governance seeks to put governments in a stronger position to address all the MDGs. But the activities of corporations also impact directly on the achievement of MDGs, both positively and negatively, and this could be articulated more clearly in the Secretariat's approach. The definition of corporate governance adopted in the Commonwealth Principles considers corporate governance and CSR as interlinked. Tables 3 and 4, together with the Commonwealth case studies set out in Box 2, demonstrated the importance of this link by identifying the risks of not taking account of CSR issues. Although this link is clear, the Secretariat's corporate governance work to date has been relatively quiet on the issue of corporate social responsibility and corporate governance links to social development, and the director-training course has concentrated on the conformance and performance aspects, albeit in response to the priorities of directors themselves. Stronger co-operation among Secretariat divisions working in areas relevant to CSR, including the gender sections in STPD, the Human Rights Unit, and the legal and special services divisions, and the environment and small states sections in

[30] Since so few trainee names were available it is possible that more public sector employees have been trained than this study recognises. In the absence of records it is impossible to know.

[31] As a number of programmes were developed under mandates and through local partner institutions, central banks, prime minister's or president's offices, or through regional organisations, some PCPs did not always include corporate governance in their country programme requests. Others indicated no objection to proposals from national institution. In some countries the PCP was not interested in supporting the requests from partner institutions' for assistance.

the Economic Affairs Division (EAD), would foster a greater emphasis on CSR issues and the role of the private sector in development in the Secretariat's corporate governance work.
Notwithstanding the somewhat contentious issues are involved, the respective roles of the Secretariat and CBC (which have taken the initiative on CSR) need to be clarified to ensure that Commonwealth organisations and the Secretariat focus efficiently on development objectives and co-operate rather than clash in their efforts to meet member countries' needs and the MDGs.

To ensure developmental impact the Secretariat also needs to maintain and build on the position it has managed to mark out at the international level as an advocate for developing country issues in corporate governance. With the current question mark over the Secretariat's own commitment to the area, and the confusion over the respective roles of the CBC, CACG and Secretariat, there is a real risk that momentum will be lost with staff rotation. Divisions of the Secretariat already cover many corporate governance and CSR issues in their work, even if the link is not explicit. While there is no suggestion that the Secretariat should realign all its development work to corporate governance and CSR issues, it would be valuable for it to express an explicit link more often that it does. Corporate governance, corporate citizenship and corporate social responsibility are issues that show no sign of slipping off the international development agenda and the Secretariat's input into the compilation or revision of standards affecting its member countries is important to enable it to influence these high-profile areas.

FINDING 25: Many PCPs have not been central to discussions on the corporate governance work conducted in their country, possibly diminishing its developmental impact.

FINDING 26: Although corporate social responsibility is incorporated into the Secretariat's definition of corporate governance, support for CSR is not very visible either in the work undertaken to date or in the training course components.

Chapter Five: Recommendations

This chapter presents recommendations to the Secretariat based on findings described in Chapters Three and Four. For ease of reference, the findings are drawn together here. Throughout the report and in the case studies in Appendix 2, suggestions to improve programme elements or management are made. For clarity of focus in the recommendations, the smaller suggestions are not included here, although it is hoped that they will assist staff working in these areas. The ten recommendations concentrate on priorities identified in the evaluation for Secretariat action. To assist follow-up, those who should take action to achieve each recommendation are also identified.

Summary of findings

The Secretariat's Corporate Governance Strategy

1. Corporate governance and corporate social responsibility and corporate citizenship are fields of increasing interest and are priority areas for international development organisations. Improved corporate governance and corporate social responsibility are linked to increased sustainable investment and as such form part of the eighth Millennium Development Goal: development of a global partnership for development.
2. The Secretariat was the first international organisation to focus on developing country needs in its corporate governance strategy. Its flexible principles incorporating conformance, performance, corporate social responsibility and anti-corruption are applicable to a range of corporate organisations and more suitable than rigid principles to the needs of its developing country members.
3. The Secretariat's strategy of building local capacity through a training course for directors of state companies was developed ahead of other donors. The inclusion of parliamentarians, the public sector and the banking and financial sector correctly identified a strategy for promoting corporate governance relevant to Commonwealth countries.

Planning corporate governance activities:

4. At the Secretariat programme planning level there is an absence of planning tools to critically examine emerging development trends and the Secretariat's areas of comparative advantage.
5. At the individual project planning level, existing Secretariat project planning and reporting systems do not have the full support of Secretariat staff. This is partly because logframe planning has not adequately captured analysis that would assist the Secretariat to assess long-term results and developmental impacts of capacity-building projects such as the corporate governance work.

Secretariat's institutional approach:

6. There is no Secretariat-wide strategy for corporate governance. The institution's policy for the area is not clear or accessible and its commitment to working in corporate governance does not appear firm.
7. The corporate governance work to date has positioned the Secretariat at the international level as an advocate for developing country issues. Its work has revealed several areas of comparative advantage on which it could continue to build in this area: convening power

and brand value; image as a trusted advocate for developing country and small states issues; access to professional expertise.

Collaboration with CACG:

8. The use of a Commonwealth association to deliver the corporate governance programme is not as effective as it could be due to the apparent absence of policies and processes governing the mandates, responsibilities and co-ordination of work.
9. At the individual project level, contractual arrangements between the Secretariat and CACG have not been sufficiently detailed to ensure clarity of expectation between organisations and the smooth transition of work to new Secretariat project officers.
10. The Secretariat, CBC and CACG have not co-operated well and at times have competed for funding. Poor co-operation between CACG and some international donors has damaged the Secretariat's work.

Programme management:

11. The quality of corporate governance programme administration was poor. This relates in part to heavy workload, administrative shortcomings at the project officer level, staff shortages and to shortcomings in administration of management support systems.

Assessment of programme elements:

12. The convening power and implied political endorsement of the Commonwealth is evident in some countries and has reinforced the credibility of efforts and added weight to national initiatives.
13. Corporate governance awareness-raising in policy forums is an influential component of corporate governance reform programmes, but development impacts in countries will be limited without resources to sustain continuation of efforts.
14. The Secretariat is not well-placed to initiate and sustain national task forces or national policy strategies throughout the Commonwealth and has not always identified the right institutions when it has attempted to do so. Where task forces have already existed, the Secretariat has been able to use its convening powers to assist them with links and contacts. Secretariat legal and economic specialists have assisted parts of existing national strategies. Secretariat divisions also offer considerable professional support in corporate governance-related areas, even if it is not expressed as part of national corporate governance plans.
15. Development of national professional institutes worked best when working with existing professional institutes.
16. The strategy to support local institution building through the deployment of CSAP experts was not effective and was discontinued.
17. The mass training programme has had most impact in small states (and in Kenya) where the Commonwealth initiated corporate governance and was the only assistance provider and where training was licensed to an established institution.
18. Training was highly rated by trainees and there was some evidence of impact on board accountability and transparency. However, there was a need to make the training less dependent on developed country examples and more relevant to country circumstances, particularly in the risk assessment, corporate social responsibility and corruption modules.
19. Success in train-the-trainer efforts has been limited because of the slow devolution of training to accredited country teams, despite the apparent pre-qualification of trainers capable of delivering the course in many countries in Africa, the Caribbean, the Pacific, India, Sri Lanka

and South East Asia. The associated administration is extensive and not an area of Secretariat comparative advantage, or a duty CACG volunteers can reasonably be expected to undertake.

20. Targeted assistance to the banking and finance sectors delivered by GIDD and ELASD produced tangible, sustainable outcomes through policy development, sensitisation and awareness-raising and training.
21. The Secretariat's corporate governance work is insufficiently embedded in appropriate mechanisms or supported with sufficient resources to ensure sustainability of the assistance
22. Gender was not addressed as a specific or separate issue in the corporate governance work and enhancements can be made to training courses and targeting of training to better reflect gender issues in development.
23. Aspects of the Secretariat's policy and training programme do not translate easily to the needs of small states. The potential disadvantages to small states of corporate governance codes need to be addressed.
24. The Secretariat's work has not yet focused specifically on corporate governance for small and medium enterprises. There are challenges in developing an appropriate strategy including cost of implementation and compliance.
25. PCPs were not always able to manage their own countries' requests for CFTC funds as corporate governance work was conducted in their countries without their request or knowledge, possibly diminishing its developmental impact.
26. Although corporate social responsibility is incorporated into the Secretariat's definition of corporate governance, support for CSR is not very visible either in the work undertaken to date or in the training course components.

Strategic recommendations

Recommendation 1: Review Secretariat policy for corporate governance and set out a framework for the goals and roles of the Secretariat, CACG and CBC in corporate governance.

Actors: DSG (Development Co-operation), GIDD (corporate governance staff), CBC, CACG.

Possible actors: EAD, SASD, HRU.

The strategy of the Secretariat in corporate governance was often unclear to international and in-country stakeholders. Its commitment to the area appears ambiguous. In reviewing Secretariat policy, note is made of the strong view of some international organizations that the Secretariat is needed in the international sphere to represent the interests of developing countries, especially small states. The Secretariat should also set out a framework for the goals and respective roles of the Secretariat, CACG and the CBC in corporate governance and establish policies for operation, including the co-ordination of activities among parties.

Recommendation 2: Identify suitable member-country institutions and devolve the Commonwealth five-day director-training course.

Actors: GIDD (corporate governance staff), CACG.

Possible actors: Training institutions in member countries, CBC.

The Commonwealth's director-training course is having a positive impact, but indefinite support would be unsustainably expensive. To overcome this, the Secretariat should continue to seek development partners among members of the international community, development banks, bilateral agencies and donors, and expand its coordinated strategy to devolve it fully to appropriate member-country institutions. (Note that the course has had most impact when licensed to an established institution.) Training should continue to be focused on developing countries particularly small states and cease in countries, such as Malaysia, where the private sector is already an established provider and the market does not see any distinction in the Commonwealth product.

Recommendation 3: Cultivate the role of the Secretariat as an advocate for developing-country issues in corporate governance.

Actors: DSG (Development Co-operation), GIDD (corporate governance staff).
Possible actors: EAD.

The Secretariat should expand and develop co-operative relationships with organizations working on corporate governance at the World Bank, OECD and NEPAD and seek to maintain an advocacy role. It should continue collaboration on the review of international standards which have the potential to impact significantly on member countries. The Secretariat should focus particularly on representing the interests of small states, SMEs and developing member countries who may otherwise experience negative developmental consequences when corporate governance measures are introduced as part of international relationships or agreements.

Recommendation 4: Provide targeted specialist advice on request to central banks and financial institutions, as well as in company and competition law and employment law consistent with ILO core labour standards.

Actors: DSG (Development Co-operation), GIDD, SASD.
Possible actors: EAD, LCAD, HRU.

Given its limited resources, the Secretariat can maximise its development impact in corporate governance by using its access to skilled professionals to provide targeted specialist advice when requested, such as that given to central banks and financial institutions in Sri Lanka. Divisions should also support the development of corporate governance reforms through company and competition law, and employment law consistent with ILO core labour standards.

Recommendation 5: Increase support for corporate social responsibility as an intrinsic part of corporate governance.

Actors: DSG (Development Co-operation), GIDD (corporate governance staff), CBC.
Possible actors: EAD, STPD, HRU.

Although inclusion of corporate social responsibility as part of corporate governance is one of the key distinguishing attributes of the Commonwealth's definition, Secretariat support for CSR has been very limited. Though contention surrounds the issue, there is scope to improve advocacy of CSR by cultivating better links with organisations working in the field (see Table 5), and by improving the content of some of the corporate governance work, e.g., by strengthening CSR issues in course materials. There is also potential for the corporate governance work to complement and strengthen the work that Secretariat divisions are already doing in CSR-related areas, such as sustainable environment, human rights and gender equality. In any action, the Secretariat should collaborate with the CBC, which has taken an initiative in this area.

Operational recommendations

Recommendation 6: Include content review as part of the devolution strategy for the director-training course, and incorporate the findings of this study on relevance and teaching methods.

Actors: GIDD (corporate governance staff), CACG.

Possible actors: Secretariat professional staff

The study found scope to improve the relevance of some aspects of the director-training course to its targeted trainees, including a wider selection of examples from across the Commonwealth. Secretariat staff may be able to identify useful examples from their experience to enhance the content. Teachers should explore methods of making the training more interactive, practical and focused towards adult learners.

Recommendation 7: Increase the accessibility of information about the Secretariat's work in corporate governance.

Actors: CPAD, GIDD (corporate governance staff), CSD.

Possible actors: SASD, EAD, LCAD, STPD, HRU.

The Secretariat's work in corporate governance and its intrinsic links with corporate social responsibility are not well understood even within the Secretariat. Increase the web-based accessibility of information about the Secretariat's work in corporate governance, including putting a downloadable copy of the Principles on the website. Resources generated by the work (such as country codes) should also be posted on the Secretariat website so that a suite of resources is built up for access by member countries. This should also enable professional staff in Secretariat divisions to seek opportunities for co-operation. The work of a number of divisions (GIDD, LCAD, EAD, SASD and HRU) has potential to link into and contribute value to the overall approach to corporate governance and CSR but this has not yet been fully explored.

Recommendation 8: Set out a Secretariat-wide policy for records management and review design and management procedures.

Actors: SG, CPAD, CSD, PMRU and SPED.

Possible actors: All staff.

The Secretariat must set out a clear policy for records management to improve the sustainability of corporate governance assistance and maximise the potential to learn from reviews. The Secretariat also needs to ensure that staff understand and support these tools. In long-term capacity-building projects or work that is exploratory in nature it may be appropriate to supplement logical framework analyses with systems that offer a more realistic sense of time deliverables such as change matrix forecasts. Systems that make it easier for divisions to co-operate on work would also be useful.

Recommendation 9: Improve the clarity of terms in contracted work, including any reporting requirements and ownership of any intellectual property.

Actors: GIDD, HRS.

Possible actors: Any staff administering contracts.

The sustainability of the Secretariat's work in corporate governance has been negatively affected by the informality and simplicity of contractual arrangements. Whenever work is outsourced to associations or any other partners, contracts must include clauses detailing roles and responsibilities, reporting and records-management requirements of the contractor. GIDD should require CACG and sub-licensed deliverers of Commonwealth director training to provide a very brief report back to the Secretariat at the conclusion of each course sponsored by the Secretariat, a summary of trainee feedback, and a list of trainee names, contact information and gender. These reports should address corporate governance impact issues rather than quality of training delivery.

Recommendation 10: Keep PCPs informed of ongoing activities in their countries.

Actors: DSG (Development Co-operation), CFTC programme officers.

The study found that PCPs did not always know that schedule and focus of Secretariat corporate governance work in their countries, thus limiting their capacity to co-ordinate development assistance and possibly diminishing the development impact.