DBP’s ‘Good Governance Program’: A Key Component for Institution Building & Development Performance

In 2012, the Development Bank of the Philippines (DBP) upgraded to the next level its existing good governance system and has approved a holistic ‘DBP Good Governance Program’ (GGP), an umbrella framework to reinforce core ethical values critical to corporate governance – integrity, excellence, teamwork, service to others, and love for Filipino – values that dictate how the Bank deals with its stakeholders, including the National Government, clients, subsidiaries, regulatory agencies and its own officials and employees.

To ensure bank-wide implementation of the GGP, the DBP Board of Directors created a dedicated department – the Corporate Governance Office (CGO) – the first of its kind in all Government-owned or Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs) in the entire Philippine Government. It is headed by the Chief Governance Officer who oversees and coordinates implementation of the GGP and the overall compliance of the Bank with the Governance Commission for GOCCs (GC) rules and issuances, acts as the Bank’s Resident Ombudsman Coordinator, and has direct supervision over the Bank’s Administrative Discipline Unit.

For its good governance efforts, DBP holds the distinction of being the first GOCC to be initiated by the Institute of Corporate Directors (ICD) into the Performance Governance System (PGS) in 2012. Two years later, DBP achieved Compliant Status under the PGS that is administered by the Institute of Solidarity in Asia (please see con’t at the back...)

Retaining talents through ethical business practices

As businesses and companies become increasingly global, fraud, bribery and corruption become even more pressing concerns. Discerning executives know that companies which become involved in bribery and corruption scandals could face losses in terms of resources, clients, and reputation. Financial outflows, time lost to possible investigations and litigation, and damage to brand and relationships are all risks associated with corruption. There is, however, another asset which businesses stand to lose: their valuable workforce.

A recent Ernst & Young (EY) report titled “Fraud and corruption—driving away talent?” revealed that 74% of 101 employees polled from businesses in the Philippines would be unwilling to work for, or even resign from, companies and organizations that are perceived as being involved in major bribery and corruption cases. In the rest of the region, 78% of 1,508 respondents interviewed in 14 Asia-Pacific markets similarly said they would be repelled by unethical business practices. Thus anti-corruption strategies and fraud prevention is now not just an issue that goes beyond legal concerns and compliance, but is also a key factor for recruitment, talent retention, and business continuity. EY report recommends five areas that companies need to address to keep their people engaged: (i) strong ethical leadership, (ii) Anti Bribery and Corruption (ABAC) policies and guidelines must be relevant to be truly effective, (iii) call to action has to do with stepping up scrutiny of those third parties with which company does business, (iv) companies should look into adopting forensic data analysis (FDA) to reinforce their fraud, bribery and corruption risk management strategies, and (v) companies need to enhance the implementation of whistleblower hotlines.

Source: BusinessWorld, Roderick M. Vega, partner in SGV & Co.’s Assurance practice under Fraud Investigation and Dispute Services

The habits of highly effective boards

Beth Gazley writes that the highest-performing boards had the following attributes:

- **Strategic focus.** High-performing boards were twice as likely to invest substantial board meeting time to strategic considerations. Fully 99 percent of these boards were operating under an organizational strategic plan—and the plan was more likely to be one the board had worked jointly with staff to develop, rather than allowing staff to drive the planning. The result is striking: The top-performing boards also had healthier membership and budget growth. And their leadership was more stable, as their CEOs were less likely to report intentions to leave the organization.

- **Commitment to assessment and skills development.** These boards were twice as likely to set board-level performance goals for themselves, almost twice as likely to invest in board development activities such as mentoring and training, and twice as likely to engage in formal or informal board self-assessment.

- **Effective recruitment processes.** They were also more likely to recruit new board members broadly, by, for example, soliciting nominations from outside the board rather than depending on CEO nominations. They were more likely to screen prospective board members and to hold competitive elections rather than voting for a single slate. The result? Their CEOs were half as likely to report challenges finding board members who had the qualifications they needed and half as likely to report problems keeping the board members they wanted.

- **High participation levels.** Once these board members were recruited, the CEOs at top-performing associations were half as likely to report board meetings that failed to make a quorum or to report that board members had left office before their terms were up. These may seem like minor issues, but they weaken leadership, complicate governance processes for staff and other board members, slow down board decision making, and create a culture of weak accountability.

Source: http://www.asaecenter.org/Resources/AFindetail.cfm?ItemNumber=570510

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From Daniel Kaufmann, below are the ten myths on governance and corruption:

**Myth #1:** Governance and anticorruption are one and the same. We define governance as the traditions and institutions by which authority in a country is exercised for the common good. By contrast, corruption is defined more narrowly as the "abuse of public office for private gain."

**Myth #2:** Governance and corruption cannot be measured. It is true that less than a dozen years ago virtually no internationally comparable measures of governance or corruption existed. But in recent years, the World Bank and others have sought to remedy this.

**Myth #3:** The importance of governance and anti-corruption is overrated. Thanks to these and other advances in empirical measurement, a number of researchers have examined the impact of governance on development. The research generally shows that countries can derive a very large "development dividend" from better governance.

**Myth #4:** Governance is a luxury that only rich countries can afford. Some claim that the link between governance and incomes does not mean that better governance boosts incomes, but the reverse—higher incomes automatically translate into better governance.

**Myth #5:** It takes generations for governance to improve. While it is true that institutions often change only gradually, in some countries there has been a sharp improvement in the short term. This defies the view that while governance may deteriorate quickly, improvements are always slow and incremental.

**Myth #6:** Donors can "ringfence" projects in highly corrupt countries and sectors. With the possible exception of some humanitarian aid projects, the notion that the aid community can insulate projects from an overall corrupt environment in a country is not borne out by the evidence. The data suggest that when a systemic approach to governance, civil liberties, rule of law, and control of corruption is absent, the likelihood of an aid-funded project being successful is greatly reduced.

**Myth #7:** Fight corruption by fighting corruption. A fallacy promoted by some in the field of anticorruption, and at times also by the international community, is that one "fights corruption by fighting corruption"—through yet another anticorruption campaign, the creation of more "commissions" and ethics agencies, and the incessant drafting of new laws, decrees, and codes of conduct.

**Myth #8:** The culprit is the public sector in developing countries. A common fallacy is to focus solely on the failings of the public sector. The reality is much more complex, since powerful private interests often exert undue influence in shaping public policy, institutions, and state legislation. In extreme cases, "oligarchs" capture state institutions. And many multinational corporations still bribe abroad, undermining public governance in emerging economies.

**Myth #9:** There is little countries can do to improve governance. Given the long list of interventions that have not worked, as well as the role often ascribed to historical and cultural factors in explaining governance, it is easy to fall into the pessimist camp. That would be a mistake.

**Myth #10:** There is not much the IFIs can do. Some development experts are skeptical about the ability of IFIs and donors to help countries improve their governance—either because of a conviction that "the macro matters more," a mistaken belief in historical "determinism," or a view that the interventions needed to improve governance are politically sensitive and thus difficult for outsiders to encourage.

**Good corporate governance guidelines**

Good corporate governance encourages board members to work for the benefit of stockholders and stakeholders. The concept of corporate governance refers to the way that boards oversee their companies, and to their accountability to shareholders and to the company itself. This, in turn, will affect the behavior of the companies toward stockholders, employees, customers and other stakeholders. A company is free to set its own mechanisms for corporate governance, but there are some commonly held principles and codes. The ultimate objective of a corporate governance framework is the promotion of efficient markets, consistent with the rule of the law. Investor confidence can be increased by following good corporate governance guidelines.

**Shareholders.** At the core of corporate governance is the division between ownership and management. The shareholders, as owners of the corporation, put their trust in the directors of the company. The governance framework should protect their rights, providing them with opportune information and allowing their participation in the decision-making process. Minority and foreign shareholders must receive equitable treatment.

**Stakeholders.** While the main duty of a corporation is to its shareholders, the corporate governance framework should recognize the rights of stakeholders — employees, providers, creditors and debtors — as actions that harm the stakeholders tend to harm shareholder value in the long term. Corporations and stakeholders should cooperate in the creation of jobs, wealth, and sustainable, financially sound enterprises.

**Transparency.** As a result of the financial scandals at the turn of the century, transparency became closely linked with governance. (ISA) which, along with sister institution, ICD, is the leading advocacy and accreditation agency for good governance in the public or government sector. The Bank holds the distinction of being the first GFI to reach this level.

The Bank also received the Silver Governance Trailblazer Award, one of the only four government agencies to have been awarded. The Bank is on track to be accredited as an "Island of Good Governance", a project of the ISA to be presented during the APEC meeting in 2016. Through the PGS, the Bank has remained focused in financing projects in its core development mandates (infrastructure and social services with Local Government Units, electric cooperatives and water districts and financing of micro, small and medium enterprises) and, at the same time, delivered robust and sustainable revenue sources.

To ensure sustainability and implementation of the DBP’s strategy, the Bank has also institutionalized the PGS mechanism of a ‘Multi Sector Governance Coalition’ (MSGC) through the creation of DBP Advisory Council composed of high impact sectoral leaders. As a key player in the banking industry, DBP has set the bar higher in the advocacy and practice of good governance in its policies and all levels of banking operations. The performance of the Bank has proven that good governance pays, leading to a robust financial condition that allows the Bank to deepen and widen its developmental mandate.

The ‘DBP Good Governance Program’ won the 2015 ADFIAP Outstanding Development Project Award under the Corporate Governance Category.

"Governance" is a quarterly publication of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). It highlights ideas, best practices and trends in good corporate governance. Copyright, 2015, ADFIAP. Article contributions can be sent to robert@adfiap.org