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Governance Outreach Initiative

Report on High-Level Seminar

Partnerships in Governance: Common Responses to the Challenges of Globalisation

High-Level Seminar, 9-10 May 2000
OECD, Château de la Muette, Paris

This note reports on the high-level seminar held 9-10 May 2000.

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Partnerships in Governance:
Common Responses to the Challenges of Globalisation

High-Level Seminar

9-10 May 2000
OECD Headquarters, Paris

1. This note reports on the above high-level seminar.

Background

2. At their meeting in May 1999, OECD Ministers requested the OECD to elaborate a proposal for a "good governance" initiative to better share the results of the Organisation's existing work in this field with interested non-member countries, where appropriate in co-operation with other international organisations. Ministers also requested a progress report on this initiative for their next meeting, which will take place on 26 and 27 June 2000. In making this request, Ministers welcomed OECD efforts to encourage more effective, efficient and transparent governance structures in Member and non-member countries, inter alia through its work on public sector management, anti-bribery, regulatory reform, corporate governance, ethical principles in public life, local and regional administrations, and ongoing work on governance indicators.

3. This high level seminar was a flagship activity of the Governance Outreach Initiative [see document SG/GO(2000)3], which is part of the OECD's integrated programme of co-operative activities with non-OECD countries, co-ordinated by the OECD's Centre for Co-operation with Non-Members.

Objectives, Content and Participation

4. The high-level seminar provided an opportunity for OECD and a range of non-OECD countries to exchange views on some common challenges on the governance agenda (in particular, corporate governance, enhancing ethical behaviour in business and government, and regulatory reform), and on how to carry forward the governance outreach initiative (Attachment A provides the final seminar programme). The seminar commenced with a message from US Vice-President Al Gore which commended the importance of the issues to be discussed (Attachment B). Attachment C provides a summary of the seminar discussions.

5. Overall there were 84 participants (Attachment D provides the list of participants). Twenty OECD Member countries attended. On the non-OECD side, the following 16 countries participated: Argentina, Brazil, Bulgaria, Egypt, Ethiopia, India, Indonesia, Morocco, Peru, the Philippines, Romania, Russia, Singapore, Slovakia, South Africa and Ukraine. The following international organisations also participated -- World Bank, UNDP, IMF, African Development Bank and the Global Coalition for Africa.

6. A good number of participants were very high level, with a broad interest in and responsibility for governance issues in overall economic policy, including: the Minister for Justice of Ethiopia; an Under-secretary from the Anti-corruption Office in Argentina; the First Vice-Mayor of Seoul; civil service heads from the Philippines and Poland; the Cabinet Secretary of Ukraine; the Director of the Singapore Institute for Public Administration and Management; the Administrator of the Office of Information and Regulatory Affairs, Office of Management and Budget, Executive Office of the President of the United States; Director of the US Office of Government Ethics; and a high-level manager of a major Japanese corporation.

Assessment and Follow-up

7. This seminar was a special event in the OECD's governance outreach activities. Whereas the OECD has a wide range of governance outreach on specific governance issues, usually with specialised policy constituencies, this was the first occasion in which several governance issues were tackled together.

8. The seminar highlighted the value of a horizontal approach to governance, as many linkages were identified between the different issues. For example, regulatory reform can be very helpful in combating bribery and corruption, and good corporate governance is essential for promoting ethical behaviour in the business sector. The horizontal approach to governance issues benefited from having a good number of participants of high level, who have a broad interest in and responsibility concerning governance issues in overall economic policy.

9. A large number of participants expressed their great satisfaction with the seminar, and argued that the seminar should be followed up and converted into a process of policy dialogue on governance issues. The seminar has shown that a wide range of non-OECD countries are actively tackling governance issues in their own country and are very keen to discuss this and share experiences. There was a sentiment that, even if country situations are vastly different, we are "all in the same boat" trying to improve governance. There was also a widely-shared view that participants benefited from the discussion of governance issues, even in countries with histories and cultures vastly different from their own.

10. To facilitate consideration of possible follow-up, the Secretariat distributed a small questionnaire. In response, public sector management reform, fighting bribery and corruption, regulatory reform and local and regional governance were all rated quite high as governance challenges by non-OECD participants, higher than corporate governance and promoting ethical principles in public life and business. Participants from OECD countries gave similar responses. Needless to say, the nature of these responses, notably the lower ranking of corporate governance, reflects the background of the seminar participants.

11. In terms of follow-up to the High Level Seminar, there were expressions of interest in further 'global seminars' like the High Level Seminar, in regional seminars and the forming of 'governance networks', with many noting that a combination of these approaches may be the most effective follow-up. While some participants expressed an interest in more focussed discussions in the future, a large number appreciate the opportunity to discuss several governance issues together. It was suggested that the participation of civil society in such seminars is important, and that one critical issue is public/private partnerships to strengthen governance systems. There was one suggestion of "mentoring" to promote governance – the EU has such a system for its prospective members, whereby they are twinned into a partnership with an existing member with a view to promoting policy reform and strengthening technical capacity.

ATTACHMENT A

Partnerships in Governance:
Common Responses to the Challenges of Globalisation

High-Level Seminar

9-10 May 2000
OECD Headquarters, Paris

Seminar Programme

Tuesday, 9 May

Welcoming remarks -- Ms Sally Shelton-Colby, Deputy Secretary-General, OECD

Session 1

Governance Challenges at the Beginning of the 21st Century

Chair: Mr Adam Wolf, Chair, OECD Public Management Committee

Lead Speakers:

Mr Jan Pastwa, Head Of Civil Service, Poland

Mr Manuel Garrido, Undersecretary, Anticorruption Office, Ministry of Justice and Human Rights, Argentina.

His Excellency, Mr Ato Weredewold Woldie, Minister of Justice, Ethiopia

Session 2

Governments and markets -- establishing the institutional and policy framework for reaping the full benefits of globalisation -- (a) Corporate governance

Chair: Mr Adam Wolf, Chair, OECD Public Management Committee

Lead Speakers:

His Excellency, Mr. Marcos de Azambuja, Ambassador, Embassy of Brazil, Paris

Mr William Witherell, Director, Financial, Fiscal and Enterprise Affairs, OECD

Mr Jorge Braga de Macedo, President, OECD Development Centre

Session 3

<u>Enhancing Ethical Behaviour in Business and Government</u>

Chair: The Honourable Stephen D. Potts, Director, United States Office of Government Ethics

Lead Speakers:

Mr KANG Hong-bin, First Vice Mayor of Seoul, Korea

Ms Corazon Alma de Leon, Chairman, Civil Service Commission, Philippines

Mr. Boyko TODOROV, Programme Director, Project Secretariat for Coalition 2000, Anti-Corruption Action Plan for Bulgaria, Center for the Study of Democracy

Wednesday, 10 May

Session 4

<u>Governments and markets -- establishing the institutional and policy framework for reaping the full benefits of globalisation -- (b) Regulatory Reform</u>

Chair: Ms Sally Shelton-Colby, Deputy Secretary-General, OECD

Lead Speakers:

Ms Yoriko Kawaguchi, Managing Director, Suntory Ltd, Japan

Mr John Spotila, Administrator in the Office of Information and Regulatory Affairs, Office of Management and Budget, United States

Mr Fernando Salas Vargas, Ministry of Trade and Industrial Development, Mexico

Dr. Jong Seok KIM, Professor of Economics, Hong Ik University, Korea

Mr Armando Caceres, Chief Economist, Indecopi, Peru; Chief, APEC's Regulatory Reform Programme

Rapporteur Mr Scott Jacobs, Head, OECD Regulatory Reform Programme

Session 5

<u>Conclusions -- how to carry forward Governance Outreach Initiative.</u>

Chair: Ms Sally Shelton-Colby, Deputy Secretary-General, OECD

Lead Speakers:

Mr Donald J. Johnston, Secretary-General, OECD

M. Ahmedou Ould-Abdallah, Executive Secretary of the Global Coalition for Africa

Mr. Michael Hofmann, Director-General, Federal Ministry for Economic Co-operation and Development (BMZ), Germany

Mr.Victor Lisitsky, Cabinet Secretary, Ukraine

ATTACHMENT B

Letter from US Vice-President

May 9, 2000

Dear Delegates:

Your participation in today's OECD seminar on Partnerships in Governance is another demonstration of growing international recognition that good governance is essential to strengthen pluralistic democracy and promote sustainable economic development.

The OECD has traditionally been important in encouraging development of effective, efficient, and transparent institutions of government in member countries. Its Principles of Corporate Governance - and work in regulatory reform, ethics in public service, honesty in aid procurement and participatory development - have materially advanced all of these fields. Its Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is also the key element in cooperative international efforts against this damaging impediment to free and honest competition in the global marketplace.

In January and February 1999, I hosted Global Forums on Re-Inventing Government and Fighting Corruption. The closely related discussions that took place at these events reinforced my conviction that it is vital to sustain and strengthen dialogue with all countries that demonstrate the will and determination to combat corruption among public officials and promote public integrity, transparency, and accountability. Sharing experiences in a coherent way contributes to strengthening governance capacities and institutions throughout the world, and is the basis for perpetuating a global community of stable and growing free economies in strong democracies based firmly upon the rule of law.

This OECD seminar continues the organization's development of cross-national comparative analysis and dissemination of knowledge through interactive policy dialogue. I trust your participation in this conference will further our goal of strengthening democratic governmental institutions. Again, thank you for your efforts, and please accept my very best wishes for success in your important work.

Sincerely,

Al Gore

ATTACHMENT C

Partnerships in Governance:
Common Responses to the Challenges of Globalisation

High-Level Seminar

9-10 May 2000
OECD Headquarters, Paris

Summary of Discussions

(i) Governance Challenges at the Beginning of the 21st Century

1. ***“Governance"*** has become somewhat of a "buzz-word" in policy discussions in recent years. This follows a number of factors -- first, the financial crises that have struck a number of countries in recent years; second, the experience of many transition economies in their historic shift from central planning to the market-based economy; and third, the challenges that many of the least developed countries face in launching a process of sustainable development.

2. But it is not just non-OECD countries which are facing governance challenges. An important part of the OECD’s work with its own Member countries is helping them to tackle challenges like public sector management, corporate governance, fighting bribery and corruption, ethical principles in public life, regulatory reform, and local and metropolitan governance.

3. More generally, globalisation and rapid technological progress are changing the relationships among states, markets and civil society, and challenging governance capacities. Governments are faced with a world in which concepts of citizenship, sovereignty, responsibility and the meaning of territory are all being challenged. Further, questions are being raised as to whether government is out of touch with citizens’ needs and whether public trust in government is diminishing.

4. But governance is more than a buzz-word. It is increasingly appreciated that policies implemented in a context of effective systems of governance are more likely to be successful and sustainable. In the words of UN Secretary-General Kofi Annan, "The State, it is increasingly understood, is not a creator of wealth, but a facilitator and catalyst of development. An essential function of the state is to provide an enabling environment: in which investment can take place, wealth can be created, and individuals can prosper and grow."

5. In the case of ***Poland***, a major challenge in its process of transition from a central planning to a market system has been the establishment of a civil service which is politically neutral, impartial and professional. It has been necessary to change the style of work and management from the socialist era and properly prepare the Polish administration for integration into European political structures and to keep pace with the challenges of globalisation. While globalisation brings many great benefits, there are some negative aspects which governments must tackle, such as circulation of illicit material on the Internet, smuggling of people and goods, and money laundering.

6. The freshly implemented reforms are aimed at establishing a new model of public management to replace the old bureaucratic model. The new model assumes the introduction of a new management style and diversified, flexible organisational structures, in contrast to the bureaucratic model administered via hierarchical structures. The public management model focuses on needs, not procedures. It aims to inspire

change based on a long-term approach, rather than fixing the existing order. It is also marked by the principles of interactive governance and co-operation.

7. The Polish government has also been implementing the principle of subsidiarity through local government reforms, which make the state administration closer to the citizen and more efficient. This has been done by way of passing a considerable share of power and financial resources from the central level down into the hands of local government authorities elected democratically and furnished with all the authorisations necessary to manage public money.

8. Some years ago, ***Argentina*** started a process of strengthening its systems of governance in the areas of regulatory reform, modernising public sector management, privatisation, decentralisation, fighting bribery and corruption, improving ethical principles in public life, independence of the judiciary, reinforcing the role of civil society and so on. The new administration that took office in December 1999 is committed to deepen this trend. The Anticorruption Office of the Ministry of Justice and Human Rights of Argentina is a recently established agency that is trying to provide a dual strategy of investigation and prevention of corruption.

9. In Argentina, the fight against corruption constitutes one of the pillars to consolidate democracy, improve institutional quality and promote efficient economic development. Corruption impedes economic development, reduces foreign direct investment, and undermines the rule of law and institutional quality.

10. Argentina has learned some important lessons in its fight against corruption. First, punishment of offenders, without addressing the causes of the problem, is an inadequate response, sometimes linked to partisan interests rather than to public policy. Second, beyond certain levels of corruption, it becomes a political, not just a moral or legal, issue, and primary responsibility should be placed on the executive branch, not the judiciary. Third, in the global economy, corruption is a transnational problem, and international co-operation and support is critical for improving local capacity to implement sustainable solutions. Fourth, there is a fundamental role for civil society, which can promote and keep alive the demand for change, including lobbying for improved legislation, facilitating civic participation as an effective monitoring technique, and supporting access to information as a strategy for enhancing transparency in the public sector.

11. In ***Ethiopia***, the Constitution of 1994 has anchored the human and democratic rights of the people. The Constitution also establishes a federal system, and a separation of powers among the parliament, the executive and the judiciary. The government also knew that many reforms were needed, particularly in the civil service, in the judiciary, and in capacity-building. Efforts are also underway to develop a more open civil service with dialogue with civil society. A major aspect of civil service reform is fighting corruption and promoting ethical behaviour through codes of conduct. The government is also in the final stage of developing a central government co-ordinating body for the fight against corruption, answerable to the Prime Minister. To establish effective systems of governance, legal infrastructure is necessary.

12. In ***Ukraine***, the arrival of a new government in December 1999 has created a unique opportunity for implementing much needed reforms, and a significant number have been passed. Ukrainian society is undertaking a painful transition from the legacy of authoritarianism to the practices of a liberal democracy. Lack of policy capacity on the part of government institutions has been one of the main causes of the slow pace of reform in Ukraine. More concerted efforts are required in training policy analysts and increasing the role of policy units within government ministries, both nationally and regionally.

13. Unfortunately, Ukraine is not starting its state-building from scratch. It has inherited a powerful well-developed system of totalitarian public administration. To develop a new system of policy-making

will require significant administrative reforms. The Ukrainian government is aware of the fact that improving the quality of governance and eliminating corruption is critical to the nation's credibility and capacity to implement policies that promote economic growth and alleviate poverty. Better co-ordination of efforts and increased support for programmes that build integrity at both the national and regional levels of government is critical. While the ability to build integrity must come from within government, civil society is playing an increasing role by monitoring corruption and raising awareness among citizens.

14. Ukraine is now faced with a new historic opportunity created by the process of globalisation, and through new regional and international co-operation, Ukraine is now on the road towards democracy, prosperity and its future role as an important stability factor in Europe.

15. In the ***general discussion***, it was emphasised that countries have diverse needs for effective systems of governance. But an efficient civil service is key to a strong economy, and we need to develop "e-government", particularly since the civil service is the front line of government as seen by citizens. Education can also play an important role in promoting good governance. But establishing effective systems of governance is a process that has to be sustained.

16. More generally, global capital markets and civil society are two factors pushing for improved governance. But political leadership is also necessary to promote a social consensus on policy reform, particularly when these two factors are pushing in different directions, such as witnessed at Seattle.

(ii) Governments and markets -- establishing the institutional and policy framework for reaping the full benefits of globalisation -- (a) Corporate governance

17. The recent financial crises in Asia, Russia and elsewhere have demonstrated how poor governance can harm national economic performance and ultimately global financial stability. Though circumstances differ, what crisis countries all had in common was distorted governance structures that led to inefficient economic decision-making. In Asian countries, interest groups linked to large financial institutions or to the state ran vast conglomerates under conditions that prevented effective external scrutiny. In the transition context, corporate governance must respond to the needs of the different stages of reform. While privatisation succeeded in transferring ownership of enterprises from public to private hands, ambiguous property rights and an inadequate regulatory and institutional framework resulted in unchecked control by corporate insiders and opaque ownership and control structures. However, the challenge to improving governance is not limited to emerging market and transition economies. All countries stand to gain from improving the governance of their enterprises.

18. The ***OECD*** takes a broad view of corporate governance and defines it as the full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Governments play a central role in shaping the legal, institutional and regulatory framework within which individual governance systems are developed.

19. In May 1999, OECD Ministers adopted the OECD Principles of Corporate Governance, the first inter-governmental initiative to identify the core elements of a strong corporate governance framework. The OECD Principles cover five main areas: the rights of shareholders and their protection; the equitable treatment of all categories of shareholders; the role of employees and other stakeholders; timely disclosure and transparency of corporate structures and operations; and the responsibilities of the board towards the company and shareholders. It is possible to summarise the Principles in terms of four underlying values -- equitable treatment, responsibility, transparency and accountability.

20. OECD Ministers encouraged the implementation and use of the Principles within the OECD countries and called upon the OECD, in co-operation with the World Bank and other international organisations, to promote the use of the Principles in non-member countries. In March of this year the Financial Stability Forum further enhanced the standing of the OECD Principles by including them as one of its twelve core international standards, a step which was subsequently endorsed by the G7 Finance Ministers and Central Bank Governors and by the International Monetary and Financial Committee (IMFC).

21. One speaker highlighted the point that globalisation has helped to focus attention on ***corporate governance in Latin America***. As Latin America seeks to attract foreign direct investment in an increasingly competitive global environment, it is only natural that corporate governance should emerge as an essential policy tool for enhancing investor confidence. Capital will go where it knows it is treated fairly and equitably. Companies all over Latin America have learned that corporate governance becomes a vital issue when they begin to go public, to merge with local and foreign companies, to tap international financial markets, and to operate in a truly competitive domestic and international business environment. This has only been reinforced by the recent cycle of privatisation in Latin America, which has spawned several large and powerful publicly-traded companies which need both domestic and foreign equity capital, and for whom corporate governance is a vitally important issue.

22. It was suggested that the time may be ripe for Latin America to send a clear signal of its commitment to basic principles of corporate governance. This could be through a voluntary, non-binding regional instrument, consistent with and patterned on the relevant OECD and ICC principles of corporate governance. Thus, the MERCOSUL countries could lead the way in developing a comprehensive set of common principles of corporate governance applicable to the four member states plus Bolivia and Chile. The Brazilian Institute of Corporate Governance, founded in 1995 as an independent, privately-funded institute by a group of prominent Sao Paolo business people, disseminates information on corporate governance in Brazil and elsewhere in Latin America. The crowning achievement of its work has been the drafting of a code of best practices in the field of corporate governance.

23. The ***OECD Development Centre***'s research on corporate governance focuses on the relationship between corporations and domestic and international finance markets (equity and debt), and corporate boards and accountability, and deals with Argentina, Brazil, Chile, China, India, Malaysia and South Africa. The Centre is paying particular attention to the forces that resist moves to improve corporate governance, including vested interest groups, and to forces that work for such improvements or can be mobilised to do so.

24. But corporate governance is not all. Reaping the full benefits of globalisation, for all countries and for all segments of the population, including the poor, requires good political governance as an overarching framework for both corporate governance and regulatory reform. Accountability and checks and balances are needed for all members of society to share in the benefits of globalisation through the combination of political freedom and financial freedom (the availability of a stable and convertible currency).

25. As markets can be myopic, so can democratic governments. So regulators must be protected as much from the pressure of politics and politicians as from the threat of capture by powerful corporations and other market actors. Corporations are often more sensitive than voters to the need for long-term vision and foresight, not least because of the very nature of the production process. In contrast, financial market herdism, which pushes non-financial corporations towards 'short-termism' in some systems (more than others), affects the corporate governance of financial institutions. That is why strong financial systems are key. In conclusion, corporate governance working together with regulatory reform and in a context of

good political governance can be a powerful force for sustainable development – an inclusive process that makes it possible for all segments of the population to benefit from globalisation.

26. The ***general discussion*** underlined the importance of sound corporate governance, particularly in financial institutions and institutional investors, in the institutional and policy framework for reaping the full benefits of globalisation. It was, however, stressed that sound corporate governance must be complemented by many other elements, such as corporate citizenship (which the OECD Guidelines for Multinational Enterprises seek to promote), bankruptcy laws, prudential supervision of financial enterprises, copyright laws, consumer protection, etc. Further, the legislative policy framework must be supported by a well-functioning judicial system.

(iii) Enhancing Ethical Behaviour in Business and Government

27. Effective governance requires ethical behaviour in public life and business, and vigorous action to fight corruption and organised crime. Some of the OECD's major achievements in this area include the 1997 Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the 1998 Recommendation which includes the principles for managing ethics in the public service.

28. The ***United States*** Office of Government Ethics (OGE) has been charged with a very specific mission, namely the establishment of policies that will help to prevent conflicts of interest and other misconduct on the part of officials and employees of the executive branch. An organised and comprehensive approach to prevention through a structured ethics programme (as distinct from enforcement and oversight) has a relatively recent history, beginning with the establishment of the OGE in 1978.

29. The benefit of having an office with such a specialised mission is that it enables it to focus on a pro-active, forward-looking, systemic approach to government integrity. While OGE certainly works with and provides technical assistance to investigators and prosecutors and participates in bodies such as the President's Council on Integrity and Efficiency, which co-ordinate ethics activities, it does not have enforcement responsibilities for individual cases of misconduct. Having a centralised policy-making agency helps to ensure consistency, uniformity and fairness in setting standards for employees throughout the executive branch. While OGE has the lead role in providing centralised direction of ethics policy, the actual management of the executive branch ethics programme is carried out by each individual agency.

30. One of the ways in which OGE carries out its preventive mission is by setting standards of conduct for executive branch employees. The OGE developed a new code of conduct that replaced an existing code that had not been significantly changed for over 25 years. This new code incorporated broad input from all stakeholders in the process, has achieved wide acceptance and has worked effectively for over seven years now. The OGE also has an established programme for ethics education and training, which ensures that employees understand their ethical obligations. Another approach of the OGE to fostering ethical conduct is encouraging the leadership in government agencies to be active and outspoken in their support of their ethics programme. In order for ethics training to be effective, there must be a very clear mandate from the very top of the organisation.

31. The ***Seoul City Government*** has made significant progress in its anti-corruption campaign since taking office two years ago. The metropolitan government, which until recently had been labelled 'Pandemonium', the unholy gathering house of bureaucratic corruption and irregularities, is now looked at as a model case of ethical reform in Korea. Korea's authoritarian state achieved the 'Miracle of the Han River' by planning and managing 30 years of 'condensed' development. But state control of the market led to collusion between political power and the economic elite. And past governments, lacking political

legitmacy and popular support, relied on illicit funds and docile bureaucrats to stay in power. Rampant political and bureaucratic corruption was the inevitable result.

32. Mr Koh Kun won a landslide mayoral election in the summer of 1998, when the country was in a deep financial crisis. From his first day, Mayor Koh began to restructure the city government. The city administration has been streamlined and corruption tackled from a systemic perspective, notably by dramatic deregulation. Excessive regulations gave rise to substantial corruption. Large personnel movements have been undertaken to minimise potential collusion. An Internet online system has been developed that makes completely open and transparent those administrative practices vulnerable to corruption. This system, called OPEN, or the Online Procedures Enhancement for Civil Applications, enables citizens to monitor through the Internet the entire process of handling civil applications.

33. Several factors have contributed to the success of the Seoul city government's efforts: strong and able leadership, widespread pressure for reform from citizen groups, and information technology, notably the Internet, which enables instant, two-way communication between the government and the citizen. But the catalytic momentum for change came from the financial crisis, which provided the impetus to strengthen the foundations of democracy and market economy.

34. The ***Philippines*** has a wide variety of laws to promote ethical behaviour in the public service.

The value of all these laws and codes is that they serve as guideposts to ethical behaviour, so that government employees will have a clear and distinct idea of which is the correct path. But whether they choose to take the correct path depends on many factors. Ethics training programmes cannot, by themselves, be expected to automatically inculcate ethical behaviour. Leadership and example are very important – notably 'clean' bosses, who do not countenance misbehaviour by subordinates.

35. Since the restoration of democracy in the Philippines in 1986, institutions and mechanisms outside of government have taken an active interest in enhancing ethical behaviour in the public service as well as the corporate world. The influence of mass media in Philippine governmental affairs – from high-level policy-making to individual complaints against personnel – is particularly pronounced. The past five years have seen the sudden proliferation of NGOs in the Philippines, which, together with the media, exert considerable influence on government in shaping policy as well as the actual conduct of operations. The Catholic Church also exerts great influence on practically all facets of Philippine national life. The Civil Service Commission has a programme entitled "the citizen now, not later", which provides citizens the encouragement and means to report bad as well as good service and behaviour by government employees. The latest institutional mechanism to enhance ethical behaviour in the public sector is government employee unions. With their vigilance and assertiveness, an increasing number of government managers have recognised and accepted the notion that government employee unions are accountability centres which have to be taken into consideration.

36. Sustained but non-adversarial and non-obtrusive monitoring by organised groups outside government is slowly proving its worth in enhancing ethical behaviour in the Philippine public sector and even in the corporate sector. Still, a much greater challenge lies ahead. At the moment, adherence to ethical behaviour is being imposed through a system focused mainly on the punitive aspect – catching those who do not conform to the set norms and standards. While hardly an ideal situation, this is a phase through which all countries, particularly developing countries, have to pass. The ideal scenario would be for proper ethical behaviour to be internalised such that the punitive mechanisms and institutions discussed earlier would be rendered almost superfluous.

37. The transition from central planning to a market economy system and integration into the global economy have brought the issues of corruption in public administration in transition economies like ***Bulgaria*** to the forefront of their policy agenda. A volatile political and legal environment, the dwindling

capacity of central and local government, and the legacy of secrecy and excessive administrative discretion have all played a role in the rise of corruption. More specifically, a major underlying cause of corruption has been the large transfer of state assets to the private sector, without sufficient institution-building, thus giving rise to a new class of oligarchs. A succession of regional conflicts in the past nearly ten years has also contributed to increased corruption pressures.

38. The creation of *Coalition 2000* is a successful experiment in public-private partnerships for combating corruption in Bulgaria. It is made up of individuals who have political clout, integrity and the courage to bring their organisations with them. It has three pillars: a national anti-corruption plan for Bulgaria, which was endorsed in an open policy forum, and is followed by annual policy fora; monitoring and peer group pressure through regular reports; and improving awareness by social marketing. Coalition 2000 is now co-operating with the World Bank, the Council of Europe, European Commission, OECD and SIGMA.

39. The experience of *Coalition 2000* suggests that a combination of public-private cooperation in setting an anti-corruption agenda for society and a system for monitoring the level of corruption of public administration are prerequisites both for designing the long term assistance strategy and for evaluating its impact. The experience of the Coalition has also highlighted the key role to be played by civil society organizations in promoting efficient and transparent public services. Concerned NGOs need to find a common platform with the institutions of the state to work to prevent it. Reducing corruption requires not only the relevant institution-building measures but also creating the social preconditions for establishing the rule of law. This task has become all the more pressing in the aftermath of the conflict in Kosovo whereby these issues have been effectively regionalised. Therefore, in the political environment of Southeast Europe where common formal institutions are yet to emerge, the innovative approach of *Coalition 2000,* consisting not in joining the stakeholders in a formal organisations but rather implementing it is as an open and transparent process, is particularly relevant. Not only do corruption pressures have certain cross-country roots in South Eastern Europe (e.g. effects of the international activities of organised crime) but anti-corruption efforts, especially those aimed at promoting democratic values, could be implemented more efficiently in multilateral co-operation.

40. The ***general discussion*** highlighted the important role of the media as a watchdog in combating bribery and corruption and the need for a free media and free access to information. The media can also be very effective in advertising ‘success stories’ and demonstrating that success in the fight against corruption is possible. But low levels of literacy in many developing countries limit the effectiveness of the media. Moreover, ‘trial by the media’ and investigative journalism can have many drawbacks, such as disregard for the presumption of innocence, and is in no way a substitute for having the right institutions to combat corruption.

41. There was also discussion about the extent to which corruption is a symptom of other problems. It is clear that reform of the civil service through ‘right-sizing’, paying well and improving internal systems can play an important role in reducing corruption. Regulatory reform can also reduce the scope for abuse of regulatory authority. And education can also play a major role in promoting ethical behaviour. But there is still a need for a frontal assault on corruption and strong leadership at the top. Some of the other issues raised include: who watches the watch-dog? ; the role of whistleblowers; and the potential value of governance indicators.

(iv) Governments and markets -- establishing the institutional and policy framework for reaping the full benefits of globalisation -- (b) Regulatory Reform

42. The policy debate about regulatory reform entails an examination of the role and shape of the state, the citizen and the market in modern society. Regulatory reform is essential to enable the transition from state-led to market-led growth, through revitalising market functioning by economic liberalisation and market opening, including withdrawal of the state from ownership and from intervention in market entry, market exit and pricing. These kinds of reforms have produced enormous gains in efficiency, consumer welfare and innovation in many countries and should be pursued.

43. But the OECD view of regulatory reform is much broader and is based on ideas of "regulatory quality", which was at the core of the 1997 Ministerial Report on Regulatory Reform. Regulations will continue to be an essential tool of governments in carrying out vital public policies, such as safety and health, environment protection and consumer protection. Other kinds of regulation are needed to protect market competition itself. The concept of "regulatory quality" requires a proactive role of good government in establishing effective regulatory regimes, institutions and efficient social regulations and subsumes the more limited concept of "deregulation". Both competitive markets and effective markets are necessary.

44. This balanced approach to regulatory quality is important because the sustainability and coherence of reform depend on its acceptance by citizens. Concrete and credible steps are needed to demonstrate to citizens that important public interests such as safety and equity will be safeguarded within dynamic and global markets. A balanced programme of regulatory reform is an essential part of the broader governance agenda.

45. The ***United States*** considers regulatory quality to be of great importance. It believes that government has a legitimate role in protecting the public good, future generations and the less powerful. In this regard, regulations play a major role for policies for the environment, natural resources, worker safety, food safety, health, transportation, consumer protection, equal opportunity and so on. The costs and benefits must be evaluated so that these objectives can be balanced with economic growth. Regulatory quality can help build public support for other regulations in the future.

46. Regulatory quality is based on a number of fundamentals, such as the rule of law and effective judicial system, ethics in government, transparency in the regulatory development process, public good rather than special interests, and informed comment. The approach to improving quality is based on a centralised review of regulations, notice to the public of regulations and the opportunity to comment, use of plain language, identification of policy alternatives, cost-benefit analysis and compliance assistance (not just enforcement). Achieving regulatory quality is thus based on a private/public partnership.

47. The US Office of Information and Regulatory Affairs plays a central review and honest broker role in developing regulatory quality. It reviews regulatory proposals and reports on the costs and benefits of regulations. It does, however, face a number of challenges in its work: it is difficult to evaluate the aggregate level of regulations, given the wide variety of regulations; there is a continuing need for streamlining of regulations; and there is a need to be sensitive to the disproportionate effect of regulations on small and medium size enterprises and foreign suppliers. In the global economy, the key challenge is to strike the right balance between protecting environmental, social and other interests and not creating barriers to trade.

48. In ***Mexico***, regulatory reform began in 1989 as a natural complement to the process of trade liberalisation, which began in 1986. But the financial crisis of 1994-1995 gave added impetus to the reform process and highlighted the general need to improve governance and the way that government

interacts with society. In the period 1989-1999, most state-owned enterprises were sold, and complete deregulation of entry, exit and pricing was achieved in virtually all tradable goods and service sectors. At the same time, important framework laws were enacted and/or reformed, notably in the area of standards, competition, foreign investment, civil and mercantile judicial procedures, bankruptcy, collateral requirements and administrative procedures relating to regulatory improvement, e-commerce and public registry. As to institutional aspects, reform has culminated in the creation of an independent Federal Regulatory Improvement Commission (FRIC) this year, which comprises representatives from all relevant regulatory authorities.

49. The goal of Mexico's regulatory improvement programme has been to establish clear and simple rules for the functioning of the economy, in particular by ensuring that health, safety and the environment are protected at the least cost for society. The objective is not to eliminate all regulation, but rather to improve it and to fill regulatory voids created by inadequate or non-existent regulations and by constant social and technological change. The FRIC's legal mandate is to ensure the transparency of the regulatory process and that new regulations create the greatest net benefit for society. All regulatory proposals must now be sent with a regulatory impact assessment to the FRIC before their expedition or submission to the President.

50. Regulatory improvement is a central aspect of governance. It strengthens democratic values (disclosure of information and participation) and promotes a government culture of transparency and rule of law (reduced complexity and administrative discretion). It promotes economic development, business competitiveness and consumer welfare (better, simpler rules and regulations), and improves government efficiency in the services it provides (disciplines, ethical conduct).

51. Some of the obstacles and keys to effective regulatory reform are the following. Line ministries are often reticent to relinquish power. While effective business participation is necessary, business may push for competition-restricting regulations. It may prove difficult to promote public participation (emphasis must first be on transparency) in light of insufficiently developed consumer organisations. The independence of regulatory reform bodies is of great importance. Moreover, the design of sectoral regulatory agencies and of a powerful antitrust authority are keys to success and should be undertaken before privatisation.

52. ***APEC***, established in 1989, has become an important vehicle in the Asia-Pacific for promoting open trade, investment and economic co-operation in the Asia-Pacific region. In 1995, the three pillars of APEC activities were adopted: trade and investment liberalisation, business facilitation and technical co-operation.

53. Since November 1994, APEC's Committee on Trade and Investment (CTI) has been working on competition issues, in particular how competition laws and policies affect trade and investment flows in the APEC region. Under the CTI, APEC's Competition Policy and Deregulation Group works to promote the transparency of their respective regulatory regimes. It also strives to eliminate trade and investment distortions arising from domestic regulations, which not only impede free and open trade and investment, but also are more trade and/or investment restricting than necessary to fulfill a legitimate objective.

54. In 1996, the Osaka Action Agenda work programmes for competition policy and deregulation were combined in view of the linkages between the two issues. And the competition policy/deregulation work area was a key component of the work on the strengthening markets theme promoted by the 1999 APEC Chair. This culminated in APEC leaders endorsing, at their 1999 Auckland meeting, APEC principles to enhance competition and regulatory reform, namely, non-discrimination, comprehensiveness, transparency and accountability. The APEC economies have agreed on ten measures to implement these principles. APEC's Competition Policy and Deregulation Group will continue to improve the

understanding of the benefits of competition and regulatory reform, and lead the process of implementation of the principles.

55. In ***Japan***, regulatory reform has been based on the following principles: regulations in the economic arena should be deregulated, and regulations on social safety nets, the environment and consumer protection should be minimised to avoid over-intervention of the government; where regulation is necessary, it should allow for maximum private initiative and efficiency; regulations should be stated as explicitly and simply as possible; regulations should be as internationally compatible as possible; and the process of making regulations should be made transparent.

56. But in reality, regulatory reform is very difficult in Japan. When the economy is good, people do not feel the necessity. When it is not good, people cannot take the burden. On particular issues, losers oppose fiercely, while winners are reticent. The bureaucracy includes some who are vehement supporters of regulatory reform, but also some who oppose, and some who understand but are not powerful enough to persuade the losers. Politicians are supportive in general, but tend to change their attitude when it comes to specific issues.

57. There are several factors that are essential to successful implementation of regulatory reform: strong political leadership; support of the people, for which education is important; an issue-oriented, rather than ministry-oriented, approach; and sharing of experiences and best practices so that international "common sense" will be shared by the stakeholders and serve to supplement weak domestic voices for reform.

58. The economic crisis of 1997 in ***Korea*** resulted from a combination of poor governance in the political system, financial institutions, and corporate management structure. There were four major components to economic reform in Korea to revive its economy: i.e. labor reform, *Chaebol* reform, financial reform, and public sector reform. Many of the reform measures included changes in regulatory methods and policy tools, all regulatory reform in a broad sense. Regulatory reform has been an official government policy in Korea for almost 20 years now. But until the recent financial crisis, regulatory reform in Korea has focused more on "soft reform", cutting red tape and reducing regulatory control over business activities. "Hard reform" which promotes competition and market principles was resisted by companies.

59. In 1998, the new government of President D. J. Kim initiated an entirely different approach to reform by implementing very bold and sweeping reform measures. Since the new government was inaugurated in the middle of the economic crisis, the need for regulatory reform, as well as reform in other areas of government policy, was all the more urgent and therefore was widely accepted. In a very real sense, regulatory reform was forced upon Korea by the economic crisis of 1997. The need for foreign direct investment, promotion of exports, and relieving domestic business of regulatory burdens all required radical reform of existing Korean regulations.

60. The Korean President set a quantitative target of abolishing at least 50% of existing regulations by the end of 1998. Thus, half of the existing regulations were simply eliminated, and about one-quarter of the remaining regulations were improved upon through this process. Introduction of new regulations and amendment of existing regulations must go through a review process by the Regulatory Reform Commission, which requires Regulatory Impact Analysis (RIA) for each new and amended regulation. As a result, the introduction and revision of regulations are no longer the exclusive rights of the regulating agencies. However, RIA is still at a primitive stage in Korea. RIA requires accumulated experience and know-how, at this stage still in short supply on the Korean government.

61. The regulatory reform in 1998 was a very radical one, and therefore some errors and side effects

were inevitable. In particular, some important social regulations were abolished without introducing any necessary complementary measures, thus antagonizing and raising concerns among some public interest groups. Although the method was authoritarian and perhaps even crude in nature, it did make the stagnant bureaucracy move and managed to substantially reduce the number of regulations in Korea. However, the degree of regulatory intervention is still considered to be quite high in Korea. In addition, at the regulatory window where people come into contact with the bureaucracy, changes in behavior and attitude have been very slow to come. It will take some time before the Korean people feel the full impact of the regulatory reform of 1998.

62. The ***general discussion*** highlighted the complexity of regulatory reform and the very political rather than technical nature of regulatory reform. It is a question not only of creating the political capacity to effect change, but also the ability of society to adjust, because regulatory reform changes the distribution of resources and power in society, thus driving the dynamics of change. The discussion also brought to light three misconceptions: governments are withering away in the face of markets; we live in an age of deregulation; and regulatory reform is driven by globalisation.

63. Governments are not in fact withering away. OECD governments in the year 2000 are around the same size or larger than they were in 1980. What is at issue is the new relationship among the state, markets and citizens. In this context, there has never been an age of greater regulatory growth than the last 20 years. In the UK, the fastest period of regulatory growth was the 1980s, as dramatic privatisation required new regulations. In country after country, regulations for environment, consumer protection, safety and health have grown faster than ever before. The regulatory state is much larger in 2000 than in 1980, which is why regulatory reform has become such a priority issue. But one should not over-emphasise the relationship between regulatory reform and globalisation. The reasons for and benefits of regulatory reform are primarily domestic in nature – to address unemployment, insufficient investment, SMEs difficulties in starting up, and consumer demands for cheaper services.

64. Regulatory reform reflects many values – the rule of law and fairness to the people; democracy, transparency and accountability; social needs, rather than special needs; the fight against corruption; trust in government and public sector legitimacy; and managing change. As Korea shows, there can often be greater risks in being cautious than in being pro-active about change. The experience of the most successful cases of regulatory reform shows that it can be one of the most successful tools for poverty reduction.

65. Regulatory reform requires new institutions and capacities to effect the move from state-led to market-led growth. A regulatory quality advocate at the centre of government is necessary, because the incentives are not always right for sectoral regulatory authorities. Failed reforms are often due to taking a too-narrow approach. Also, it is necessary to have anti-trust authorities, well-functioning judicial systems and parliaments that have effective dialogue with civil society. But in dialogue with civil society, it is necessary to consult widely, not only with powerful interests, in order to avoid the "capture" problem. Regulatory impact analysis and risk assessment are key, though imprecise elements, because they change the quality and nature of the debate.

66. Nevertheless, the perfect can be the enemy of the good, and in regulatory reform there is much learning by doing. The key is to get started. While there is no single model, there is a convergence in regulatory principles, as demonstrated by APEC's new principles which are very similar to the OECD's principles. While there is a convergence in principles, there is a growing diversity in country situations, as some make rapid progress and others stagnate in this period of transition. This demonstrates the need for more co-operation, co-ordination and common principles. Moreover, it highlights the importance of this meeting, which shows that both OECD and non-OECD countries can learn from each other.

Conclusions -- how to carry forward Governance Outreach Initiative.

67. This seminar was a special event in the OECD's governance outreach activities. Whereas the OECD has a wide range of governance outreach on specific governance issues, usually with specialised policy constituencies, this was the first occasion in which several governance issues were tackled together, with high-level participants with a broad interest in and responsibility for governance issues in overall economic policy.

68. A large number of participants expressed their great satisfaction with the seminar and argued that the seminar should be followed up and converted into a process of policy dialogue on governance issues. In particular, the seminar has shown that a wide range of non-OECD countries are actively tackling governance issues as well and are very keen to discuss this and share experiences. There was a sentiment that, even if country situations are vastly different, we are "all in the same boat", trying to improve governance. There was also a widely-shared view that participants benefited from the discussion of governance issues, even in countries with histories and cultures vastly different from their own.

69. There is no universal model for good governance, but common needs among OECD and non-OECD countries can be served through mutual information exchange and identification of good practices that must be tailored to work in national circumstances. All countries can learn from each other. OECD countries provide as many examples of bad practices to be avoided as best practices. OECD's work and experience in the field of governance can at best be described as 'work-in-progress'. Many of the least developed countries have the advantage of establishing formal systems of governance from scratch and learning lessons from others rather than dismantling inefficient systems.

70. But it was highlighted that governance systems everywhere are being challenged by globalisation and technological change. Many least developed countries, notably in Africa, have dual systems (both the modern inherited from the colonial era, and the traditional). And if governments do not quickly adapt governance systems, young talented people will leave the country. Thanks to global communications they are well informed of opportunities elsewhere.

71. All countries and international organisations should strive to work together, based on a joint quest for better governance, the shared view that institutions matter, and the spirit of partnership reflected in this seminar's role in building relationships. The essence of good governance is policies which are both market-friendly and people-friendly.

72. To facilitate consideration of possible follow-up, the Secretariat distributed a small questionnaire which asked the following questions:

(i) What are the most important governance challenges facing your country and why ? (These may come, though not necessarily, from the following issues -- public sector management reform, fighting bribery and corruption, promoting ethical principles in public life and business, regulatory reform, corporate governance, or local and regional governance.)

73. All the above-mentioned issues were mentioned in responses from non-OECD countries. Public sector management reform, fighting bribery and corruption, regulatory reform and local and regional governance were all rated quite high as governance challenges, higher than corporate governance and promoting ethical principles in public life and business. Participants from OECD countries gave similar responses.

(ii) What would be the best way of following up the High Level Seminar, with a view to enhancing the way that the OECD can share its work on governance issues with non-OECD countries ? Regional seminars ? More "global seminars" like this High Level Seminar ? Forming "governance networks" ? A combination of these options ?

74. In terms of follow-up to the High Level Seminar, there were expressions of interest in further 'global seminars' like the High Level Seminar, in regional seminars and the forming of 'governance networks', with many noting that a combination of these approaches may be the most effective follow-up. While some participants expressed an interest in more focussed discussions in the future, a large number appreciate the opportunity to discuss several governance issues together.

(iii) Do you have any other comments to make ?

75. It was suggested that the participation of civil society in such seminars is important, and that one critical issue is public/private partnerships to strengthen governance systems. There was one suggestion of "mentoring" to promote governance – the EU has such a system for its prospective members, whereby they are twinned into a partnership with an existing member with a view to promoting policy reform and strengthening technical capacity.

ATTACHMENT D

Partnerships in Governance:
Common Responses to the Challenges of Globalisation

High-Level Seminar

9-10 May 2000
OECD Headquarters, Paris

List of Participants

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