



**Why Improved Corporate Governance is of Vital  
Importance to Caribbean Organizations**

***“Corporate Governance and Institution Building in the  
Eastern Caribbean Currency Union”***

**By**

**The Hon Sir K Dwight Venner**

**Prepared for:**

**The Gala Dinner for the Conference on Corporate Governance**

**30 June 2014**

**Coco Palm Resort**

**Saint Lucia**

# **WHY IMPROVED CORPORATE GOVERNANCE IS OF VITAL IMPORTANCE TO CARIBBEAN ORGANIZATIONS**

## ***“CORPORATE GOVERNANCE AND INSTITUTION BUILDING IN THE EASTERN CARIBBEAN CURRENCY UNION”***

It is my distinct pleasure to address you at this evening’s Gala Dinner on Corporate Governance and Institution Building in the Eastern Caribbean Currency Union. Let me also commend the Caribbean Corporate Governance Training Institute for convening a conference on this most important issue, at this opportune time.

The countries of the Caribbean and those of the Eastern Caribbean Currency Union, in particular, are faced with tremendous challenges arising from the global economic crisis as well as the domestic and regional issues which confront them.

We face some fundamental structural issues such as the small size, openness and vulnerabilities of our economies; the connection of the business cycles of our main trading partners with the performance of our economies; and the seasonal nature of our main economic sectors, tourism and agriculture. We are also seriously affected by the incomplete status of the integration arrangements in the region which denies us the benefits of economies of scale and scope; the ability to spread our risks across a wider economic and physical area, as well as the capacity to bargain effectively with third countries and large private sector entities.

Our countries are not, however, without some fundamental advantages which can and have provided us with a basis for sustainable growth and development.

We have vibrant liberal democracies which are equal to and even exceed the standards of many countries which are more economically advanced than ours. We have free and fair electoral systems in which governments have been changed regularly and the losers have neither been shot nor exiled. There is a healthy respect for the law, and the English common law, which is the system we use, is thought by many scholars to be more conducive to development than civil law.

We have a great respect for the rights of our citizens and such rights as freedom of religion, association, assembly and speech are enshrined in our laws and vigorously defended by our communities.

The history of this region has been deeply touched by the resistance to oppression which has led to these rights and freedoms which have provided a healthy environment for socioeconomic advancement. The issue however, has been the mix and variety of institutions in the economic, social and political spheres that would help us to achieve and sustain acceptable levels of economic growth. This is where governance, as a broad issue, becomes a vital ingredient in the process. Unless an overall acceptance of governance is in place, corporate governance, as a subset, will have great difficulty in being accepted, much less practiced in any country.

This brings us to two critical elements in this presentation, firstly, the respective roles of the state and the private sector; and secondly, the role of institutions as necessary ingredients for facilitating and ensuring the continuity of governance practices which are vital for socioeconomic advancement.

The role of the state goes back to the Treaty of Westphalia in 1648 which was considered to be the beginning of the international system of laws. The Treaty also initiated a new system of political order based on the concept of sovereignty which included territorial integrity, non-intervention, and the recognition of political self-determination. The role of the state according to Adam Smith, the first modern economist, was the preservation of law and order. However, this role has been expanded significantly because of ideology and, in many cases, practical circumstances reflecting the most pressing needs of electorates who make demands on their elected representatives.

Government is in the business of rulemaking and this, in the commercial area which is germane to our present topic of corporate governance, is of vital importance to economic and financial outcomes. One example is the matter of weights and measures, which was under the police in colonial times. The regulation of commerce is also critical, as are laws related to monopolies or antitrust. In a similar vein, the laws affecting foreclosure and bankruptcy are of vital importance

to modern societies. There is also the need to protect the consumer, and to ensure that property rights are duly observed.

The state therefore has to set rules for itself, but, in addition, given its overarching role in the society, it must not only provide the environment for economic growth to occur, but must also seek to protect the public in their various roles, such as consumers, depositors and shareholders.

The private sector as the producers of goods and services for consumers, as well as producers of intermediate and capital goods for the economy must be guided by rules which ensure fair practices that lead to positive outcomes for the society and themselves. There are many issues which create a diversion between private and social interests, for example, the pollution of the atmosphere or water supplies. There is also the possibility that financial malpractices will lead to crises which will affect the whole society and the international community.

I make these statements to draw us back to the environment in which we live, as many of us do not know, or are not linking the current laws we live under with the continuing evolution of rules and regulations which attempt to hold the balance between private and public interests as our societies become more complex.

With respect to institutions, these can be defined in two ways. Some commentators define them as agencies such as banks or government departments, in short, organizations which have clear structures and functions. Others refer to institutions as ways of doing things. These can be informal such as certain ethical practices arising from the culture of the society. Some of these are eventually formalized and become the laws of the land, thus ensuring continuity.

The fields of public administration, law, and accountancy have been closely associated with governance over time and their professional development has had an impact on governance in both the public and private sectors. Public administration has not been as clearly defined and regulated as law and accounting, but has been a defined field at universities such as the Kennedy School of Government at Harvard and the Ecole Nationale d'administration in France. One could identify the practitioners of public administration as the guardians, so to speak, of the

public interest element of governance. Accounting and law could be seen as the professional bodies which, in the case of the former, publicly certify that transactions follow the rules that are set and, in the case of the latter, are adjudicators when there are disputes.

The modern era has seen the increasing replacement of customs by laws and regulations. The increase in the competitive environment and the pressure on enterprises to garner short term gains for shareholders and bonuses for management, have increased the incentive for risk taking and the willingness to cut corners.

What has given especial prominence to the issue of corporate governance were the revelations in the beginning of this century involving Enron and Worldcom and the fallout from the global crisis with corporate malfeasance in major financial institutions. Jacques de Larosiere, Chairman of the high level group on financial supervision and a former Managing Director of the IMF, in his 2009 report cited corporate governance as "one of the most important failures of the present crisis".

These failures in corporate governance have resulted in major efforts at both the national and international levels to put in place new rules, regulations and codes of ethics to treat with what could be a fundamental threat to our economic and financial systems. The G20 group of countries, the IMF, the World Bank, the OECD and the Bank for International Settlements have all come together to address the issue of corporate governance.

In 2003 the Eastern Caribbean Central Bank, in collaboration with the Eastern Caribbean Securities Exchange (ECSE), collaborated with other regional and international institutions, particularly the World Bank in promoting the Caribbean Corporate Governance Forum. This forum brought together participants from both the public and private sectors to explore ways of enhancing governance within the region. Several meetings were held which focused on the sensitization of the major institutions in the region to the need for reforms to keep in line with international standards. One of the outcomes of these meetings was the development of a set of Corporate Governance Principles for the region, consistent with those of the OECD.

National consultations on these principles were conducted within the OECS member countries in 2005. The consultations involved stakeholders from both the public and private sectors, including enterprises in the financial and corporate sectors, statutory corporations, as well as professional bodies (legal and accounting). The principles were approved for adoption within the ECCU by the ECCB Monetary Council.

The ECCB has continued its collaboration with the ECSE and the Institute of Chartered Accountants in the promotion of corporate governance standards and codes. The central bank in pushing for the acceptance of corporate governance principles at the highest levels was and is extremely cognizant of the importance of improved corporate governance to all Caribbean organizations, whether they are in the public or private sectors. Formal rules about behaviours and procedures in the economic and financial spheres are critical for the development of a modern market oriented economy. In the first place there must be an understanding, not only of the need for having such rules, but for their enforcement in a fair and transparent manner.

One of the fundamental underpinnings of a modern economy and its development is the recognition of property rights and their protection. The sanctity of contracts is the basis on which economic and financial transactions can take place in a seamless manner. These elements involve the role of the state in setting the parameters for the exercise of good corporate governance.

The exercise of such governance practices at the corporate level is the challenge that most countries face. The corporate structure in the Caribbean is characterized by a large informal sector, a preponderance of family firms in the formal sector, a few publicly listed firms and foreign firms, some of which are multinational corporations. Our business registries are not particularly up to par and compliance with general company laws could not be described as being at the highest levels desirable. Disclosure in such an environment is decidedly below the required standard, with a distinctive difference between financial and non-financial firms. The reason for this gap is the higher standard of regulation in the financial sector and the absence or lack of acknowledgement of such a function in the real sector.

In an environment characterized by such a structure, shareholders rights are probably less at risk, given the predominance of family owned firms and the relative paucity of listed firms. The interests of other stakeholders to which firms have legal, contractual, social and market driven obligations may be of more relevance to our circumstances at this time. This category would include employees, creditors, suppliers, local communities and policy makers.

The role and responsibilities of Boards of Directors are critical as we enter the stage of increasingly complex economies and a policy environment in which the effects of the global recession has affected the private sector to an extraordinary extent. The skill set required for a person to be an effective board member needs to be understood by all candidates for these positions. The fiduciary responsibilities are considerable and frankly, not fully comprehended by many, even in the more heavily regulated financial sector. The audit committees for example, in the opinion of many, have not been characterized by stellar performances.

It is clear that there is an urgent need for a massive educational effort to move to a higher level of corporate governance performance if we are to progress satisfactorily in this new environment. This will depend very much on development and change in the structure of the regional private sector. The structure is now predominantly informal and skewed towards the non tradeables sector. Given the small and open nature of our economies there is an urgent need for a dynamic, innovative and export oriented private sector. This sector, in order to gain access to the kind of finance that would allow them to take the risk of going into export activities, must rely on funds external to themselves and bank financing.

This new approach would require firm structures, transparency and accountability standards that would be enhanced by good corporate governance. This new approach is urgent and necessary if we are to move from the secular decline in productivity and growth which has been our recent experience.

Some serious and constructive approaches have been taken in the region in the sphere of corporate governance; however, we need to build on these to ensure that there is an institutional basis for the continuation of such efforts.

Among the initiatives is a collaboration, since 2007, with the Institute of Chartered Secretaries and Administrators/ Chartered Secretaries Canada (ICSA/CSC) to train company directors and those aspiring to become directors through the Directors' Education and Accreditation Programme (DEAP) workshops. Some 352 persons have been trained under this Programme which the Eastern Caribbean Securities Exchange (ECSC) complements by conducting Continuing Professional Development seminars.

The ECSE and the ECCB have also collaborated with the IFC to hold seminars on risk management which is a key aspect of governance. In addition, the ECCB has drafted revised Guidelines on Corporate Governance which have recently been circulated to the banking industry for comment.

A new organisation, the OECS Business Council, has recently been launched which we expect will take on this issue as soon as it has completed its own structural and administrative arrangements.

In conclusion let me say that I welcome all of the efforts that are being taken to enhance the level of corporate governance in the region. The challenges we face are entirely within our competence to overcome. The creation and enhancement of appropriate institutions and adherence to rules and regulations, coupled with the application of ethical standards, can ensure that we create a modern and progressive business environment which is conducive to our development.