

23. The OECD approach to good governance has been to suggest programs for donor support among its members in the areas of public sector management, the rule of law, controlling corruption and military expenditure which it has identified as important dimensions of governance. These are a part of a broader and more complex agenda which includes participatory development, human rights and democratisation. This agenda was endorsed by the Development Assistance Committee of the OECD in December 1993¹³.
24. Whatever aspects of governance are covered by the loan and technical assistance operations of development assistance agencies, **policy dialogue** with borrowing countries is important for discussing issues that are sensitive in nature, some of which are economic. The nature of the dialogue has changed over the years responding to changes in the political and economic framework. It is conducted at different levels one of which is through the donor coordinating mechanism of Consultative Groups, usually chaired by the World Bank, which provides a forum for open discussion of issues that are of concern to the donor community.

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25. The paper has dealt so far essentially with the governance structure of the public sector. It is equally important that the governance structure of the private sector be discussed as the role of private foreign capital in financing investment has increased in the past ten years as developing countries liberalised their economies. The search for higher returns and opportunities for risk diversification led to greater interest in developing countries among speculators and long-term investors. This interest gathered momentum due to financial deregulation in both developed and developing countries. Major advances in technology and the availability of diverse financial instruments for investment led to the globalization of financial markets.
26. The economic case for globalization is that it enables countries with high savings rates and low returns on investment to lend to countries with lower savings rates and higher returns on investment though some developing Asian countries have high savings rates. While this is the basic premise for the flow of investment finance between countries, the development of a governance structure necessary to enable market systems to function needs to keep pace with

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DAC Orientations on Participatory Development and Good Governance, 1993, OECD.