



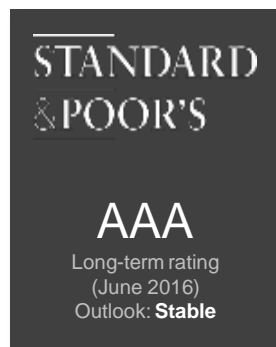
IFC

Corporate Governance Development Framework

IFC Overview

Who We Are

- A member of the **World Bank Group**
- Owned by **184** member countries
- **Six decades of experience** providing loans, equity, and advisory services to **private sector** companies in **emerging markets**
- **Global presence** in more than **100 countries** and working with over 2,000 private sector clients
- Consistently **rated AAA/Aaa**



Five Institutions, One Group

The World Bank Group has adopted two ambitious goals:

- **Ending extreme poverty:** the percentage of people living with less than \$1.90 a day to fall to no more than 3% globally by 2030
- **Promoting shared prosperity:** foster income growth of the bottom 40% of population in developing countries



Provides loans, equity, and advisory services to private sector in developing countries



Provides loans to middle-income and credit-worthy low-income country governments



Interest-free loans and grants to governments of poorest countries



Guarantees of foreign direct investment's non-commercial risks



Conciliation and arbitration of investment disputes

Issues Bonds under: IFC

Issues Bonds under: World Bank



Sustainability: Key to IFC's Mission

All projects financed must adhere to IFC's stringent **environmental and social requirements** focusing on transparency and accountability. Specific performance standards cover:



Assessment and management of environmental and social risks and impacts



Labor and working conditions



Resource efficiency and pollution prevention



Community, health, safety and security



Land acquisition and involuntary resettlement



Biodiversity conservation and sustainable management of living natural resources



Cultural heritage



Indigenous peoples

IFC's Development Impact

Development Impact indicators are measured on an annual basis.

In 2015, IFC's 2,000 private sector clients provided:

- **2.4 million jobs**
- power, water, and gas distribution to more than **123 million customers**
- more than **\$400 billion in loans** to micro, small, and medium enterprises
- medical **treatment to 32 million patients**
- **education to 4.6 million students**



CG Mainstreaming Policy

Investment CG

- CG issues shall be considered in a structured manner in each investment transaction.
- All **Tier III** transactions shall conduct CG Assessment (exemption can be granted by the lead director).
- All other transactions are subject to CG Review.

CG Review

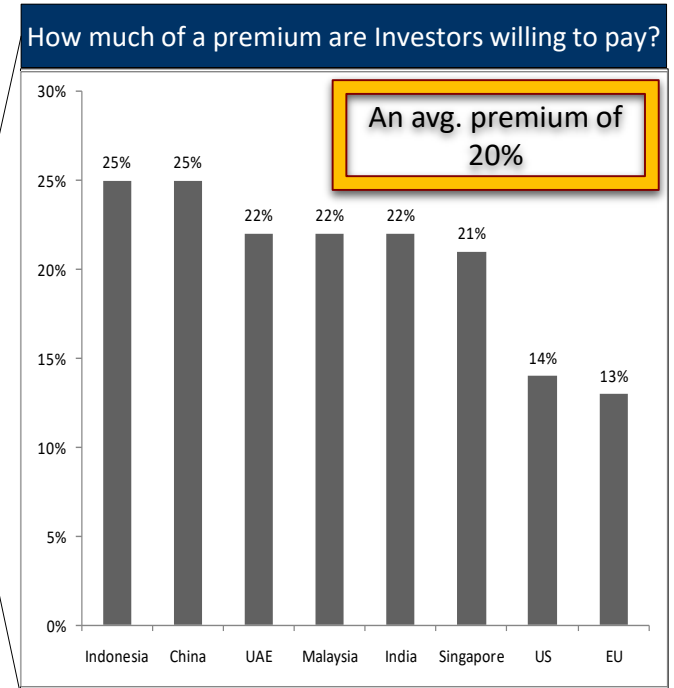
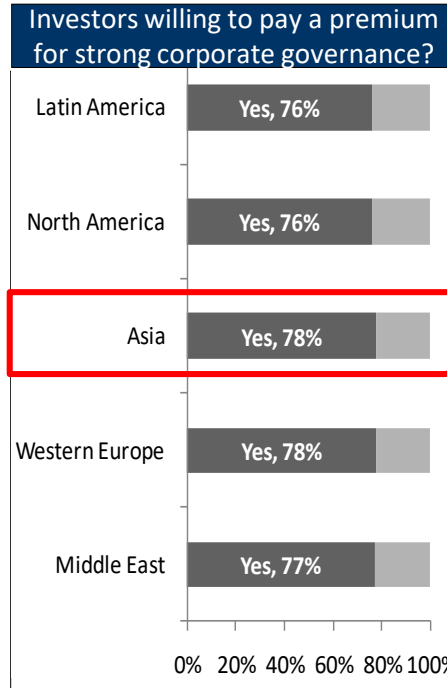
CG Assessment

	CG Review	CG Assessment
Objective	Risk Mitigation	Value addition and risk mitigation: (in-depth approach)
Lead Actor	IO (supported by CG Unit)	Corporate Governance Officer
CG Unit Site Visit	Not required	Required (nearly always)
Output	Decision book section/covenants	Full CG Assessment report/Decision book section/covenants

Why is Corporate Governance Important?

Numerous studies have confirmed the importance of good Corporate Governance on firm performance and access to finance. This is important for own IFC investments – but also to help catalyze investment across the markets we are striving to develop.

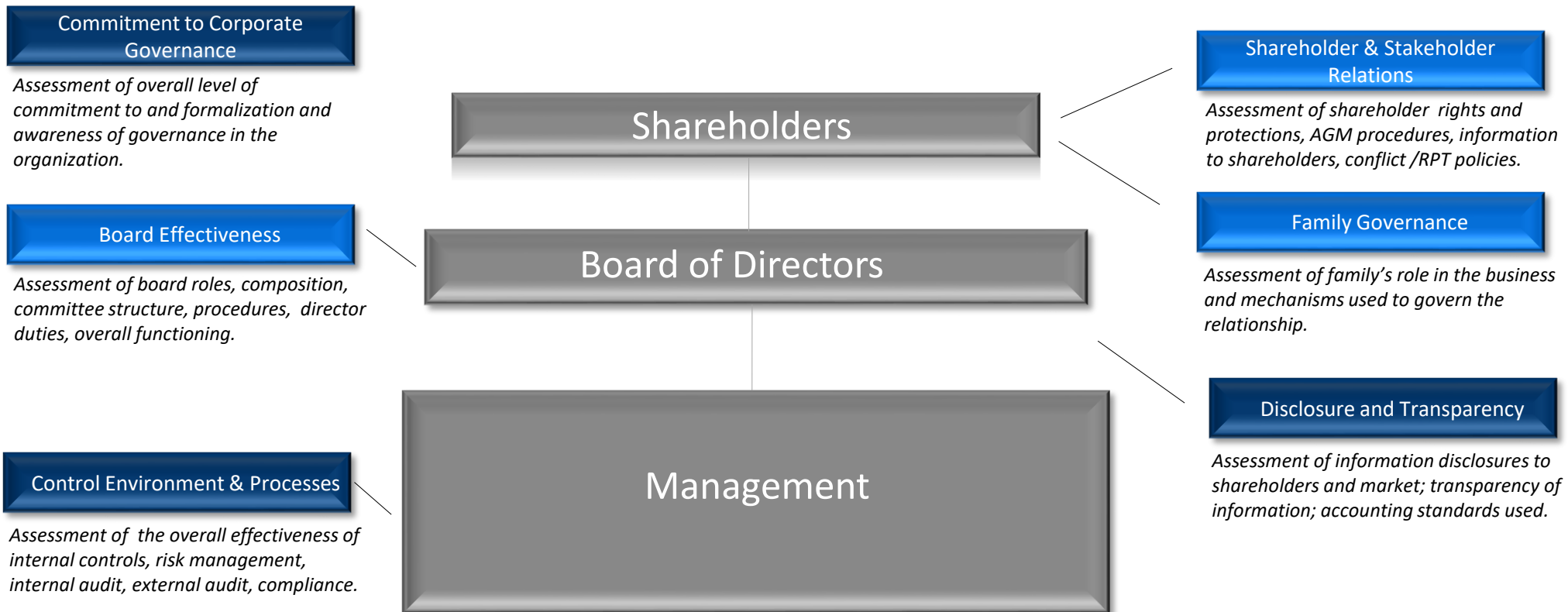
- ✓ **Improved Operational Performance**
Emerging market companies with good governance rated 8 percentage pts higher vs. peers in EVA (Credit Lyonnais, 2001)
- ✓ **Improved Risk Management**
Companies with superior governance had much lower risk profiles (Brown, 2004)
- ✓ **Higher Firm Valuation & Share Performance**
Investors willing to pay premium up to 40% for well-governed companies (McKinsey, 2001)
- ✓ **Better Access to Capital**
Strong correlation between good governance and lower capital costs (Dyck & Zingales, 2004)
- ✓ **Improved Sustainability**
Helps address family governance issues for Family-Owned Enterprises and ease succession to future generations.



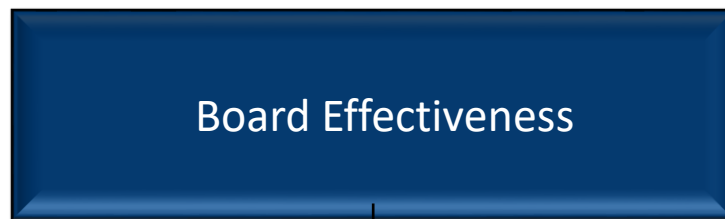
Reference: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002; validated through interviews, 2005

What does a CG Assessment consist of?

Through interviews, document reviews, and other analysis, we assess a company's current governance framework, define recommendations for improvement, and develop a detailed plan for implementation. We follow the IFC Corporate Governance Methodology, which generally examines the following.



Board Effectiveness



Board Structure & Composition

- ✓ Proper **committees are in place (e.g., audit, remuneration, nomination)**
- ✓ **Board size is optimal**
- ✓ **Boards to include appropriate mix of executive, non-executive and independent directors**
- ✓ **Board possesses the optimal mix skills**

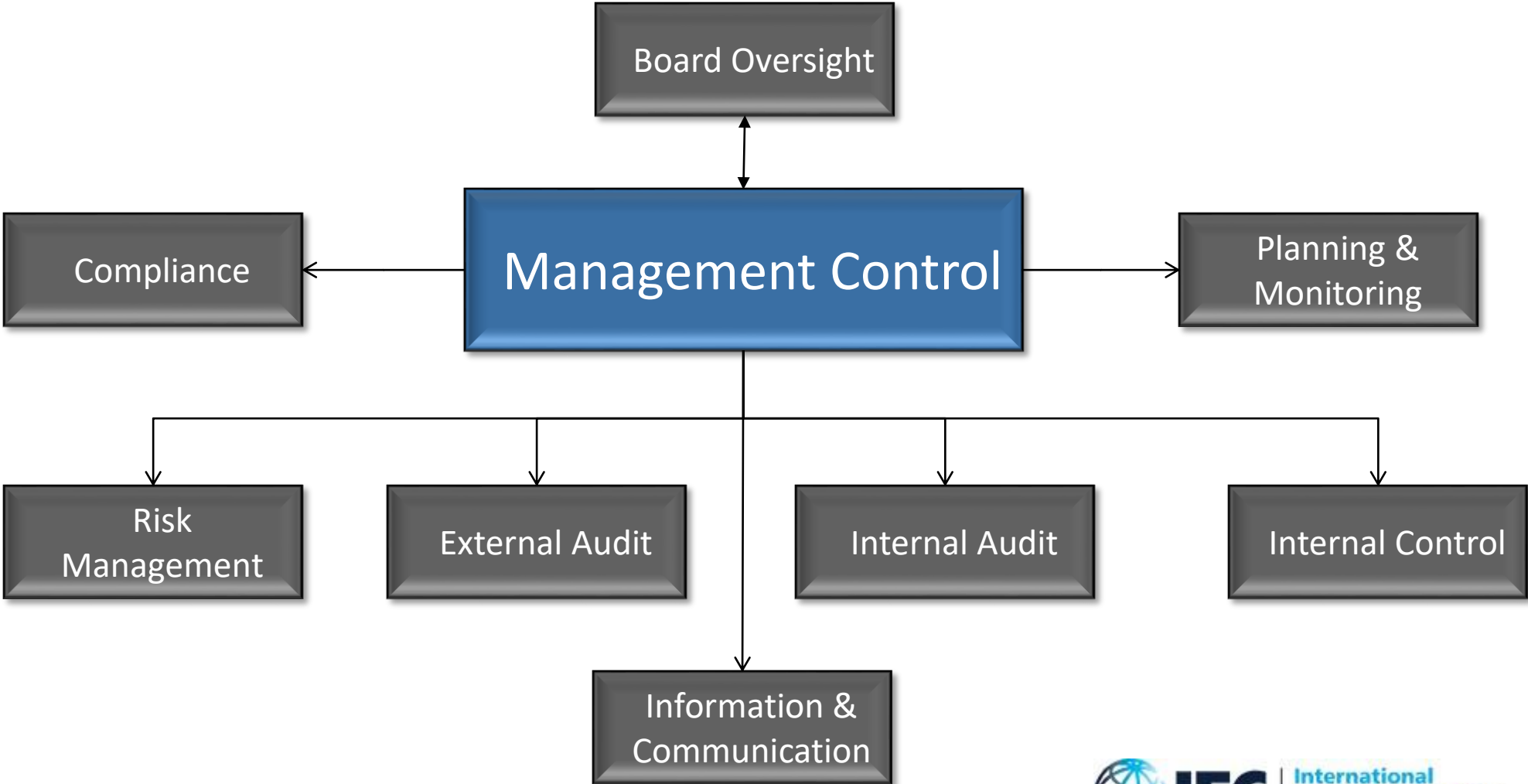
Board Roles & Director Duties

- ✓ **Board's role is clearly defined vis-à-vis management**
- ✓ **Board understands its oversight duties (esp. Risk & Control) and has appropriate processes in place**
- ✓ **Directors understand duties and responsibilities to the company and shareholders**

Board Functions & Behaviors

- ✓ **Board discussions are candid with full vetting of issues.**
- ✓ **Board challenges management effectively on issues.**
- ✓ **Board working procedures are effective (e.g., meeting proceedings, frequency, formality)**
- ✓ **Board conducts routine self-evaluations of performance**
- ✓ **Board offers routine training to directors**

Key Management Control Functions



Intersection of CG - E&S Board's Role

- Providing a commitment and leadership for E&S risk management throughout the organization.
- Ensuring the board is equipped to handle E&S issues. This should include ensuring that the board has the necessary in-depth knowledge of environmental and social risks related to the company's activities
- Setting the strategic direction for the entity, including ensuring that the strategy reflects the company's environmental and social values.
- Ensuring a coherent approach to environmental and social risk management within the company.
- Making a commitment to establishing corporate codes of conduct and policy guidelines in relevant areas.
- Guiding management in communications of the company's sustainability stance, internally and externally.
- Overseeing the integrity of information communicated to shareholders and stakeholders regarding sustainability.

Intersection of CG - E&S

Sample Areas to Probe

E&S Risk Governance/Assessment Process

Does the client have a process to assess the environmental and social impacts and risks of the project to the environment and people?

Management Program

Does the client have a program(s) of mitigation and performance measures that addresses identified impacts and risks?

Organization

Are responsibilities and authorities for implementation of the management program defined and communicated appropriately through the client's organization?

Training

Has the client identified the training needs for those persons with responsibility for implementing the management program?

Monitoring

Has the client established procedures to monitor and measure on a regular basis the key characteristics and performance of the management program, including the use of external experts where appropriate?

Reporting

Is appropriate environmental and social performance information periodically reported internally to senior management?

Sample CGA Report for Investment Transaction

CG Area	Risk	Recommendations /Comments
Board Effectiveness	Medium	<p>Comment: The board, while comprised of accomplished individuals, is not as active as it needs to be on strategic matters and would benefit from revised composition over time. However, the board does possess five independent members who are concerned about their own reputations and therefore the ultimate performance and reputation of the company. Plus, the Audit Committee is completely independent and possesses an accounting expert. The CEO/Controlling SH appears committed to revitalize the board over time.</p> <p>Covenant/Critical Recommendations: Include provision that the company will define and implement a medium to long-term CG improvement plan, incorporating, at a minimum, the high priority items identified in this report.</p> <p>Other Recommendations:</p> <ol style="list-style-type: none"> 1. Revise the board composition to improve age diversity and strengthen particular skill areas (insurance, risk, finance) [High] 2. Increase board involvement in strategic matters of the company (e.g., setting strategy, approving new products and markets, governing investments, governing risk). [High] 3. Define formal development plans for senior executives and define succession plans for each key position. [High] 4. Remove the Corporate Secretary from the Board and assign her wider responsibilities to cover all board and committee activities. [Med] 5. Provide training to the board and senior executives on corporate governance to emphasize the board's stewardship role and division of authority with management. [Med]
Shareholder Practices	Medium	<p>Comment: While there is significant ownership by one extended family, the family does not appear to exert undue influence except via the CEO. Further, the CEO seems to demonstrate commitment to good governance thus far with an adequate level of transparency and the company is publicly traded which increases regulator oversight and stipulates many CG requirements.</p> <p>Covenant/Critical Recommendations:</p> <ol style="list-style-type: none"> 1. Include standard minority protections including director nomination right, and pre-emptive/tag-along /consent rights. <p>Other Recommendations:</p> <ol style="list-style-type: none"> 1. Encourage the family to adopt an Employment Policy and other Family Governance mechanisms over the long-term. [Med]

Sample CG Advisory Report

ABC Company Summary of Recommendations

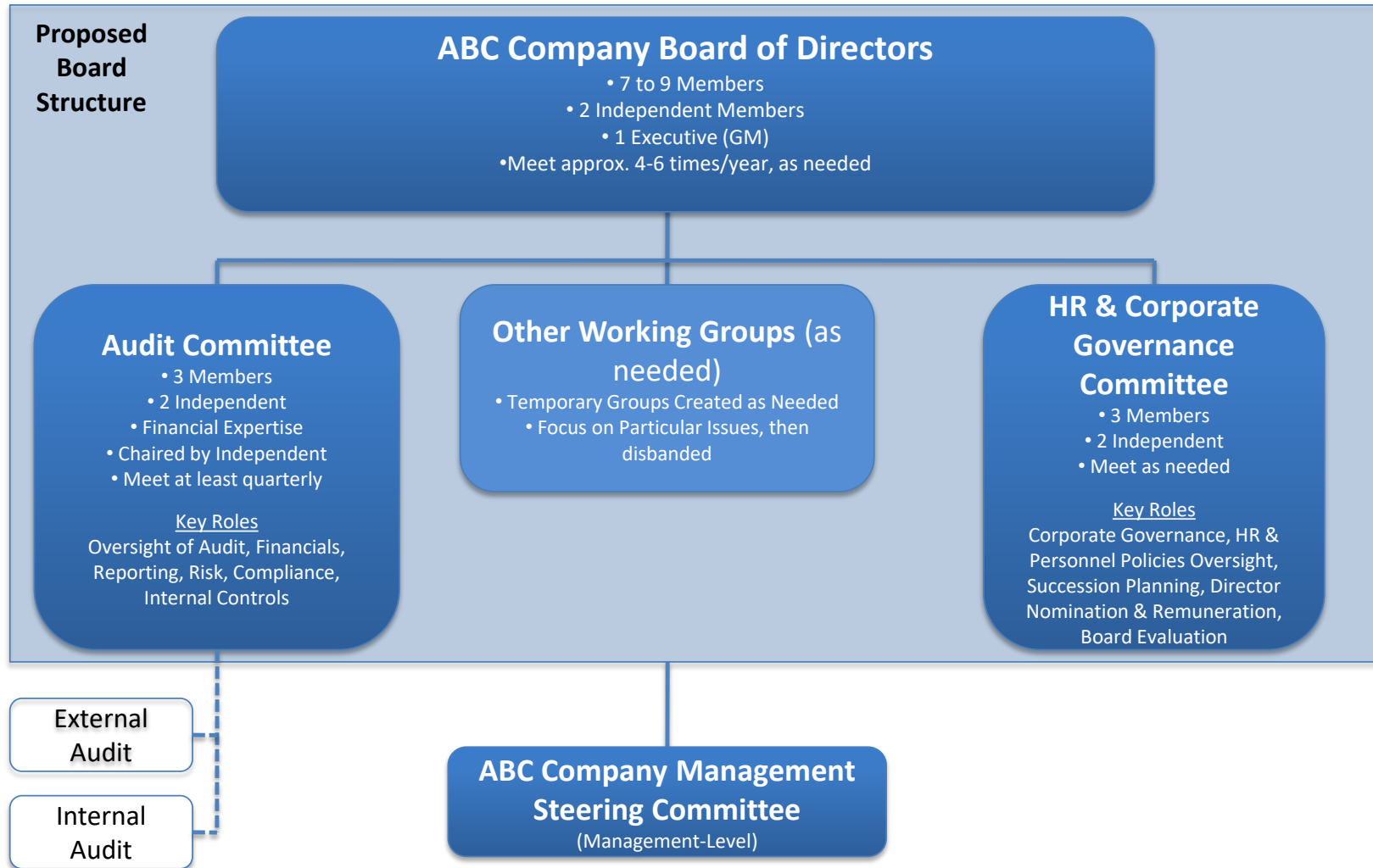
B. Board Effectiveness		Priority
B1	Clarify Board Roles & Responsibilities	High
B2	Define Director Terms of Reference	High
B3	Change the Board Composition	High
B4	Create an Audit Committee of the Board.	High
B5	Create a HR & Corporate Governance Committee of the Board	High
B6	Create Other Board Working Groups (as needed).	Med
B7	Improve Board Working Procedures	High
B8	Designate a Corporate Secretary	High
B9	Develop Senior Management Succession Plans	Med
B10	Develop a Board Evaluation Process	Med/Low
B11	Provide Board Training	Med/Low

C. Management Control		Priority
C1	Refine Management Steering Committee	High
C2	Clarify Authorities	High
C3	Establish Internal Audit	High
C4	Create Group IA Shared Services	Med
C5	Establish Group Shared Services	Med/Low
C6	Formalize Strategic Planning & Performance Monitoring Process	Med/Low
C7	Formalize Risk Management	Med/Low
C8	Strengthen In-House Finance and Management Control Expertise	Med/Low
C9	Develop Purchasing-Accounting Interface	Med
C10	Strengthen Human Resources Management	High

D. Transparency & Shareholder Practices		Priority
D1	Develop a Code of Corporate Governance	Med
D2	Develop a Code of Conduct	Med
D3	Develop Key Conflict Policies	Med
D4	Upgrade Public Disclosures on Website	Med
D5	Develop an Annual Report	Med
D6	Prepare for more Formal AGMs	Med/Low

E. Family Governance		Priority
E1	Develop Family Employment Policy	Med
E2	Develop Family Shareholding Policy	Med/Low
E3	Develop Family Constitution	Med/Low
E4	Setup a Family Governance Council	Med/Low

Sample CG Advisory Report





Thank You!

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Corporate Governance Development Framework Initiative

CG Development Framework

What does it consist of?

1. Integrate CG analysis in investment operations

- Adopt CG procedures and tools in line with the Framework's methodology;
- Where considered appropriate, conduct CG assessments of investee companies and develop CG action plans;
- Monitor progress of the implementation of CG action plans.

2. Ensure internal responsibility

- Identify and assign an internal function that is responsible for the implementation of the Framework.

3. Provide or procure training

- Ensure capacity building and knowledge transfer to staff for the implementation and further development of the Framework.

4. Collaborate with other signatories

- Share experience and resources in training and implementation.

5. Report on implementation

Signing Event, September 23, 2011

World Bank/IMF Meetings, Washington, DC



CG Development Framework

30+ Signatories (and counting)



AFRICAN DEVELOPMENT BANK GROUP



African Export-Import Bank
The Trade Finance Bank for Africa



Asian Development Bank
FIGHTING POVERTY IN ASIA AND THE PACIFIC



O BANCO DO DESENVOLVIMENTO DE TODOS OS BRASILEIROS



DEVELOPMENT BANK OF LATIN AMERICA



European Bank
for Reconstruction and Development



European Investment Bank



Entrepreneurial Development Bank



Industrial Development Corporation



Inter-American Investment Corporation
Member of the IDB Group



Success Story: Banca Comerciala Romana (BCR)

BCR in 2003

Largest commercial bank in Romania

US\$1 billion book value

State-owned (70%), minority (30%) State Investment Funds

2 failed privatization attempts in 2002

Management and board indistinguishable:

- Board composed of senior managers and SIF representatives
- Met more than 25 times annually

- IFC Investment: 12.5% + one share for
- US\$111 million, .88x book value IFC and
- EBRD developed Institution CG
- Improvement Plan
 - Amendments to corporate documents
 - Redrafted Charter
 - Introduced two-tiered board structure
 - Management of the supervisory board
 - Audit & Compliance Committee
 - Compensation Committee
- IFC and EBRD-nominated Directors
- Active engagement at AGM
- 7 bids submitted

- Erste wins bidding: €3.75 billion for 61.88%
- IFC's 12.5% stake worth \$950 million



Sample Client

A leading commercial bank



Client background

- A leading commercial bank in Mongolia
- Plans to undertake an IPO in 2-3 years
- IFC equity investment (9% shareholding)

Services we provided

- CG Assessment and Improvement Plan (including recommendations linked to IPO listing rules in different jurisdictions)
- CG Training

Actions Taken

CG Improvement Plan implemented during 2009-2011:
Introduced an independent director
Separated annual shareholder meetings from the board meetings
Improved board meeting practices (First board strategy session held in 2011)
Risk Management Committee commenced to function
External auditor rotation
Adopted a Whistle Blower Policy
Established a compliance function
New Chief Risk Officer hired

Impact

Received US \$50 m loan attributable to improved CG (including a US \$20m IFC Subordinated Loan committed in June 2011)
Preparing for IPO

More Information – Web Sites

www.cgdevelopmentframework.org

www.ifc.org/cgdevelopmentframework

