



IFC's Role in Improving Corporate Governance in East Asia and the Pacific

Good corporate governance is essential for modern, well-managed corporations. Many enterprises in East Asia have reached a stage in their corporate life where improving transparency, professionalizing board practices, and reinforcing shareholder rights have become crucial to their future growth and competitiveness.

The International Finance Corporation (IFC) integrates corporate governance considerations into its investments and its advisory role in the region. One of IFC's key goals is to help clients improve their corporate governance to achieve better operational results and a lower cost of capital, and to further enhance their reputations at home and abroad. Working with client companies to adopt good practices also helps IFC manage its own portfolio risks.

IFC has helped improve corporate governance in more than 80 countries worldwide, including Cambodia, China, Indonesia, the Philippines and Vietnam in this region. This broad experience positions IFC as a leading global authority on governance issues for the private sector in emerging markets.

Operational Work with Clients

IFC's Corporate Governance Methodology helps IFC's investment staff assess the quality of corporate governance of potential clients and identify ways to improve these companies' governance policies and practices. The Methodology (available at www.ifc.org/corporategovernance) has been used to analyze companies from different industries and countries. It employs assessment tools tailored to the specific governance priorities of publicly-listed companies, founder and family-owned firms, financial institutions, newly privatized enterprises and state-owned enterprises. The Methodology focuses on making the business case for corporate governance; it is fully integrated with IFC's operating procedures and is applied in all the Corporation's investments. Members of IFC's Corporate Governance Department participate in appraisal of client companies whenever corporate governance issues are identified as a particularly important risk or opportunity.

Following the assessment of a company's governance, IFC will often negotiate a Corporate Governance Program with the company, consisting of specific measures to improve its corporate governance. In those cases where IFC has a significant minority equity position, IFC can also nominate a director to the board of the company, which allows IFC to work for improved governance from within the company.

Engagement with Clients on Corporate Governance Issues

IFC has worked directly with the clients indicated below to improve their governance regimes, in most cases agreeing with the client a Corporate Governance Program and nominating a director to the company's board. IFC assists its corporate governance clients to communicate the quality of their governance within their home market, across the region, and around the globe.

Corporate governance involves the ways modern corporations are directed and controlled. Practices can vary between companies and countries. For globally mobile investors, the corporate governance of firms has become an increasingly important factor when choosing where to invest. Good governance has thus become a central concern for companies and governments that seek to attract capital and to develop sound capital markets.

Company Name	Country	Year
Zhejiang Glass	China	2006
Asia Commercial Bank	Vietnam	2006
Xian City Commercial Bank	China	2006
Sacombank	Vietnam	2006
Bank of Beijing	China	2005
Nanjing City Commercial Bank	China	2005
Changyu Wine	China	2005
Bank NISP	Indonesia	2005
Minsheng Shipping	China	2005
Canadia Bank	Cambodia	2004
Industrial Bank	China	2004
Banco de Oro	Philippines	2004
Bank of Shanghai	China	2003
Korea Corporate Governance Fund	Korea	2002

Policy Dialogue

Building upon IFC's direct interaction with individual companies on governance issues, IFC is well-placed to provide practical and credible input to the policy-making process.

The OECD Asia Corporate Governance Roundtable serves as the main channel for IFC's input to policy dialogue in the region. The OECD Roundtable brings together business leaders, investors, government officials, professionals, and corporate governance advocates to develop a reform agenda for the public and private sectors. The conclusions and recommendations of the Roundtable serve as a practical reform agenda for public and private sector stakeholders across the region. The Roundtable process includes both an annual regional meeting, held in a different country each year, and more targeted events on specific topics, such as the governance of banks or SOEs or governance in a particular country in the region. IFC has led the work of the Roundtable in Vietnam and serves as an advisor to the Roundtable's Bank Governance Task Force.

IFC is also an active member of the Asian Corporate Governance Association (ACGA). The ACGA is an independent membership organization, composed of investors, companies and other groups dedicated to research, advocacy and education on governance issues in the region.

Technical Assistance in East Asia

IFC is working at many levels to improve corporate governance practices in East Asia and the Pacific. In addition to the work of investment staff on IFC investee companies, IFC's Private

Enterprise Partnerships (PEPs) based in China, Indonesia, the Mekong region and Pacific Islands work more broadly to improve corporate governance standards in the region. This technical assistance work includes advising governments on policy and regulatory reforms, building capacity among intermediaries, such as business associations and financial institutions, and promoting public awareness of governance issues. In China, the PEP has developed CG Tools – in both English and Mandarin – which are tailored to the needs of Chinese companies. In Vietnam, the PEP advised the government on reforms to the Enterprise Law.

Governance of Banks

Banks have been a particular focus of IFC's corporate governance work in East Asia, addressing special bank governance issues, such as the role of banks as deposit-taking institutions, the importance of risk management for banks and the need for extra regulatory oversight. IFC currently has sixteen equity investments in banks spread across the region – in Cambodia, China, Indonesia, Korea, Mongolia, the Philippines and Vietnam. In China alone, IFC has investments in seven banks, including joint stock banks, city commercial banks and one rural bank. IFC works with each of the investee banks in Asia to strengthen their boards of directors, to enhance their internal risk controls and to promote their transparency to both minority shareholders and public depositors. IFC has nominated highly experienced banking experts to serve on the boards of the banks and complemented this by working with McKinsey & Co. to provide Bank Board Training.

IFC has also engaged with policy-makers and bank regulators on bank governance issues. IFC serves as an advisor to the OECD Roundtable's Task Force on Bank Governance in Asia to develop best practice standards applicable to the whole region. IFC participated in the World Bank's advisory work with Bank Indonesia and recently published an article, *Reforming the Governance of China's Banks*.

Institutes of Directors

IFC regularly collaborates with institutes of directors and corporate governance centers throughout the region. IFC's main partner in promoting director professionalism in Asia is IDEA.Net, the Network of Institutes of Directors of East Asia, encompassing institutes of directors from Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand. IFC collaborates with these institutes to source talented individuals to serve as independent directors and to run training seminars for both IFC's own nominee directors and the boards of IFC's investee companies.

Mike Lubrano
 Manager, Investor & Corporate Practice
 Corporate Governance and Capital Markets Department
 Washington, DC
 Tel: 1-202-473-0027 Email: dhartzler@ifc.org

Peter Taylor
 Corporate Governance Officer
 East Asia and Pacific Department
 Hong Kong
 Tel: +852-2509-8123 Email: PTaylor@ifc.org