

# IFC's Role in Improving Corporate Governance in Eastern Europe and Central Asia

In the emerging markets where IFC works, improving corporate governance ensures that corporations are well-managed, transparent to providers of capital and operated fairly and in the interests of their shareholders. Many enterprises in Central and Eastern Europe, both publicly listed and privately held, have reached a stage in their corporate life where professionalizing board practices, reinforcing shareholder rights and improving internal controls and transparency have become crucial to their future growth and competitiveness.

The International Finance Corporation (IFC) integrates corporate governance considerations into all its investment and advisory work across the globe. One of IFC's key goals is to help both our investment and technical assistance clients to improve their corporate governance in order to achieve better operational results and a lower cost of capital. Working with client companies to adopt good practices also helps IFC manage the risks of its own portfolio. IFC has helped improve CG at client companies in more than 80 countries, including many in Eastern Europe. This broad experience has positioned IFC as a leading global authority on governance issues for the private sector in emerging markets.

With the support of key European and North American donors (especially the Governments of Switzerland, the Netherlands and Canada), IFC's technical assistance arm for Eastern Europe and Central Asia - the Private Enterprise Partnership (PEP) - has played a leadership role in the corporate governance transformation of privatized enterprises across the region. Since 1999, IFC has conducted large-scale, donor-funded technical assistance projects in Ukraine, Armenia, Russia, Georgia, Azerbaijan and Kazakhstan.

IFC investment operations, slow to gather steam after the breakup of the Soviet Union in the turbulent early 1990s, are now reaping the benefits of this leadership in terms of better governed clients, excellent client support and an impressive local language library of model governance documents, supporting materials, and inspiring success stories.

In addition to a strong focus on the governance of our investment clients, IFC, through its corporate governance technical assistance projects, supports the OECD's Russia and Eurasia Corporate Governance Roundtables, local NGOs such as institutes of directors and banking associations, and provides policy advice to regulators on corporate governance issues.

IFC's Corporate Governance Methodology, (available at [www.ifc.org/corporategovernance](http://www.ifc.org/corporategovernance)) helps the Corporation's investment staff to assess the quality of corporate governance at potential clients and identify ways to improve these companies' governance policies and practices. It employs assessment tools tailored to the specific governance priorities of publicly-listed companies, founder and family-owned firms, financial institutions, and newly privatized enterprises. The Methodology focuses on making the business case for corporate governance; it is fully integrated with IFC's operating procedures and is applied, with appropriate

*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.*

modifications, in all the Corporation's investments on a global basis. 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.

### Work with IFC's Investment Clients

Company Name	Country
AGBank	Azerbaijan
UniLeasing	Azerbaijan
Bank Republic	Georgia
Tbilvino	Georgia
Aldagi	Georgia
Tbilaviamsheni	Georgia
Absolut Bank	Russia
CIT Finance	Russia
Locko Bank	Russia
Sotsgorbank	Russia
North West Telecom	Russia
Concern "Kalina"	Russia
Kuybyshevazot	Russia
Center-Invest	Russia
RUSAL	Russia
TAS-Kommerzbank	Ukraine
Ukrasbank	Ukraine
Galnaftogaz	Ukraine
Asnova	Ukraine
Odessakabel	Ukraine
Khlib Ukrainy	Ukraine
Mironovsky	Ukraine
Khlibzavod "Nasha"	Ukraine
"Nasha Ryaba"	Ukraine
Bank TuranAlem	Kazakhstan

### Corporate Governance Technical Assistance

Through the Private Enterprise Partnership ([www.ifc.org/eca](http://www.ifc.org/eca)), IFC conducts corporate governance technical assistance projects that focus on joint stock companies, both privately held and publicly listed, and local governments in Eastern Europe and Central Asia to help them develop sound corporate governance practices, increase transparency, and improve the regulatory framework. In addition, IFC's work with banks through these projects focuses not only on the governance of the institutions themselves, but also helps these lenders to develop corporate governance criteria and assessment tools for the governance of their clients.

Specifically, IFC's corporate governance technical assistance projects in the region work to:

- Train and advise managers, directors and shareholders on a range of corporate governance issues, such as improving corporate structures, issuing shares, and conducting shareholders' meetings;
- Select companies and banks that are most committed to improving their corporate governance practices and conduct more in-depth work with these "pilot" companies;
- Develop model documents, such as charters and by-laws, for use by local companies and banks;
- Educate the public about their rights as shareholders and about the work of modern corporations through our own specialized publications and through the national and regional mass media;
- Develop and deliver corporate governance course materials and training to university professors to ensure that future managers, lawyers, accountants and other professionals understand the importance of good corporate governance and have the skills to improve governance practices;
- Conduct surveys of corporate governance practices; and
- Facilitate links with potential investors.

### Results

In this region alone, IFC has advised governments on over 50 pieces of legislation and regulations affecting corporate governance on topics ranging from issuing additional shares to information disclosure and reporting. IFC contributed to the development of national corporate governance codes in Russia and Ukraine. IFC has provided over 2,500 consultations and 300 seminars on corporate governance to over 7,500 companies and banks in Armenia, Azerbaijan, Georgia, Russia, and Ukraine. These companies range from major corporations in the banking, forestry, telecommunications, and chemical sectors to small and mid-sized manufacturers, food processors, and construction companies.

IFC has trained professors and introduced corporate governance topics to the curricula of over 70 universities in the above-mentioned countries. These universities now teach thousands of students each year about corporate governance.

To date, IFC's corporate governance technical assistance clients in Russia and Ukraine have received over \$400 million of investment, including over \$75 million from IFC itself.

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