IFC Corporate Governance Methodology

Purpose

IFC's Corporate Governance Methodology is an approach to evaluate and improve the corporate governance of a company— including the governance attributes of key environmental and social policies and procedures—to identify, reduce, and manage risk. Its use can help a company confirm its commitment to demonstrate leadership and promote effective environmental, social, and corporate governance throughout the company.

Using CG Tools

IFC CG Methodology consists of eight tools that are used for analyzing the governance of companies:

1) Instruction Sheet
2) Why Corporate Governance?
3) Progression Matrix
4) Document and Information Request
5) Corporate Governance Review Report (for internal IFC use only)
6) IFC Indicative Independent Director Definition
7) Sample CG Improvement Programs or Sample Decision Book Section (for CGRs)
8) Supervision Checklist (for internal IFC use only)

The main tool of the IFC Corporate Governance Methodology is the CG Progression Matrix, which is available for six different kinds of companies—listed, family-owned or founder-owned, financial institutions, state-owned enterprises, funds, and small and medium enterprises.

Creating Markets, Creating Opportunities

2018 IFC Corporate Governance Methodology Update and Expansion

The new update to the IFC CG Methodology updates the IFC Corporate Governance Matrix to include key corporate governance considerations following the financial crisis and integrates environmental and social issues consistent with IFC's Policy on Environmental and Social Sustainability.

This includes an expanded definition of stakeholders to include affected communities, contracted workers, primary-supply-chain workers, suppliers and contractors, local and international nongovernmental organizations, and civil society organizations.

IFC CG Methodology Parameters

The development of the updated Methodology includes the assessment of six key CG parameters:

1. **Commitment to Environmental, Social, and Governance** (Leadership and Culture): The company and its shareholders have demonstrated a commitment to implementing high-quality corporate governance, including the governance of key environmental and social policies and procedures.

2. **Structure and Functioning of the Board of Directors**: The board of directors is qualified and adequately structured to oversee the strategy, management, and performance of the company.

3. **Control Environment**: The company's internal control system, internal audit function, risk management system (including an environmental and social management system), and compliance function are sufficient to ensure sound stewardship of the company's assets, effectiveness of operations, accuracy in reporting, and compliance with policies, procedures, laws, and regulations.

4. **Disclosure and Transparency**: The company's financial and nonfinancial disclosures are a relevant, faithful, and timely representation of material events to shareholders and other stakeholders.

5. **Treatment of Minority Shareholders**: The company's minority shareholders' rights are adequate and not abused, and other stakeholders are treated equitably.

6. **Governance of Stakeholder Engagement**: The company's governance of stakeholder engagement is adequate, particularly oversight over stakeholder mapping, stakeholder engagement policy and grievance mechanisms.

Progression Levels

The main tool of the IFC CG Methodology is the CG Progression Matrix, which is organized by four levels of company maturity and complexity and emphasizes the importance placed on ongoing improvements in a company's governance practices, graduating from basic to intermediate to advanced.

Level 1: Basic CG practices that the company should develop and adopt. Level 1 likely reflects newly formed or young companies, or those developing an environmental, social, and governance (ESG) agenda from the beginning.

Level 2: Intermediate CG practices, incorporating basic steps to strengthen ESG within the organization, which reflects a culture of continuous improvement.

Level 3: Good international practices, including incorporating intermediate and other good CG practices that indicate that the organization has a track record of established CG practices.

Level 4: CG leadership, international best practices, indicating that the organization has achieved the preceding three levels of CG maturity and conforms to the recognized international practices.

Level 1 Basic Practices	Level 2 Intermediate Practices	Level 3 Good International Practices	Level 4 Leadership
Companies that fulfill the requirements of national legislation	Companies that take extra steps to ensure good ESG practices	Companies that provide a major contribution toward improving ESG nationally and that comply with good international standards (e.g., IFC Performance Standards)	International best practices – companies that are publicly recognized as among national and global leaders on ESG; trailblazers
Companies fulfill Level 1 requirements	Companies fulfil Level 1 + Level 2 requirements	Companies fulfill Level 1 + Level 2 + Level 3 requirements	Companies fulfill Level 1 + Level 2 + Level 3 + Level 4 requirements

Application of IFC CG Methodology

The IFC CG Methodology can be used by companies, corporate governance evaluators, and other stakeholders to assess and improve a company’s CG practices.

The IFC CG Methodology can be used by educators and trainers to develop training materials and curricula. Similarly, the IFC CG Methodology can be used by policymakers to enhance the enabling environment to improve legislation and regulation related to CG.

The IFC CG Methodology provides principles that companies, legislators, regulators, and capital-market gatekeepers should consider in developing CG codes, listing rules, and disclosure frameworks. Because the provisions are general, based on international good practice and not based on local legislation or regulation, they may need to be modified or supplemented to adjust to any jurisdictional requirements or nuances that differ from international practice and to address sector-specific issues, if necessary.