

CORPORATE GOVERNANCE SCORECARDS

ASSESSING AND PROMOTING THE IMPLEMENTATION OF CODES OF CORPORATE GOVERNANCE



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ASSESSMENT/SCORECARD CONCEPT

- Origin – Germany, OECD/World Bank/IFC
- Investor /source of perspective
- Styles – Germany/Europe/MENA, Asia, ASEAN
- IFC experience in scorecards

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COMPARATIVE EXPERIENCES

Other countries/regions - not “one size fits all”

- Palestine
- Jordan
- Thailand
- Malaysia
- Philippines
- Indonesia
- Vietnam
- ASEAN
- Mongolia
- India – Bombay Stock Exchange
- Kenya
- Rwanda
- The Balkans – Albania, N. Macedonia, Bulgaria, Bosnia and Herzegovina

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BENEFITS OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) SCORECARDS

Different institutions have different goals. Establish clear and realistic goal is key.

Generates information for regulators on the quality of corporate governance

How effective their regulations and oversights are

Use scorecards to refine their regulations and codes and develop techniques to enhance compliance

Generates data over time

Encourage companies to assess compliance with codes and basic elements of company law

Identify governance practices where companies are weak or strong

Forces companies to conduct rigorous self-checking on CG

Provides information on CG to stakeholders



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ESG SCORECARD PROJECT GOALS

- To raise awareness of the current situation and make the case for change
- To encourage companies/banks to adopt good practices as they can assess the quality of their CG practices
- To identify any gaps or lack of clarity and amend regulations
- To facilitate analyst / investors work through a systematic overview of CG application
- Enable comparison across companies, industries and countries
- To promote regional integration

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KEY STEPS IN SCORECARDS DEVELOPMENT

- **PHASE 1**
 - Establish goals for the project
 - Gain participants and leaders understanding of the concept
 - Establish the benchmark
 - Determine the approach – company self assessment, independent assessment, hybrid
 - Determine the companies to focus on
 - Develop the scorecard structure – code basis, number of questions, weighting of areas, VERIFICATION OF INFORMATION
 - Develop the scorecard
 - Select the platform – text questionnaire, web-based or paper based
- **PHASE 2**
 - Apply and train appropriate resources to the project
 - Pilot the scorecard to test and refine before wider application
 - Determine project controls - access to data and final reports
 - Determine the report style and availability
 - Conduct the assessment
 - Provide reports
 - Beyond scorecard - awards, law improvement

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CORPORATE GOVERNANCE SCORECARD: PALESTINE

SCORING METHODOLOGY

Each individual area of the scorecard is assigned a certain weighting factor (individual score).

In all five areas, every question has its weighting factor, which will be calculated after the response is submitted.

Mandatory (75%) vs voluntary (25%) provisions.
Hybrid structure of the code.

The last step should be calculating the total score, which will be automatically retrieved by aggregation and presented in the final score section.

The score section should illustrate the status of compliance with the Code through the prism of good practices of corporate governance.



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CORPORATE GOVERNANCE SCORECARD: PALESTINE

Mandatory: 75%		Optional: 25%		PCMA Scorecard of Corporate Governance Standards				Name of Company: _____ Date: _____	
				Answers		Weight	Weight Score	Source of Information Comments	
		Yes	Partially	No					
				I. Commitment to Corporate Governance Principles Weight: 10%					
M	1.				25%	0.00%			
O	2.				20%	0.00%			
M	3.				30%	0.00%			
M	4.				25%	0.00%			
				Score:		100%	0.00%		
						0.00%	0.00%		
				II. Shareholder Rights and Stakeholder Relations Weight: 15%					
M	1.				5%	0.00%			
M	2.				5%	0.00%			
O	3.				5%	0.00%			
O	4.				5%	0.00%			
O	5.				5%	0.00%			
O	6.				5%	0.00%			
O	7.				5%	0.00%			
M	8.				10%	0.00%			

Scorecard should be ratified by board of directors, thought its CG, Audit or Risk Committee!

LESSONS LEARNT

Committed owner – Palestine CMA

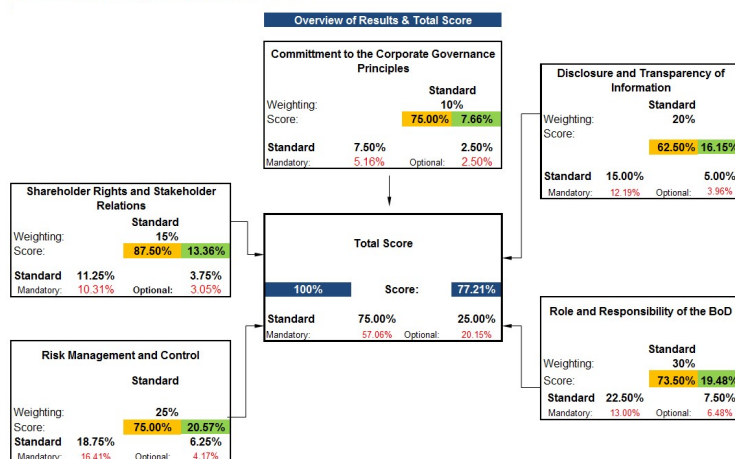
Elaborate process for developing and testing the scorecard (2013 – 2015):

- Consultation – IFC, workshops, stakeholders engagement
- Evaluate the **outcomes** for different users, sectors, cap size
- **Pilot Implementation** (2014 trial period, CMA provides assistance)
- Launch

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CORPORATE GOVERNANCE SCORECARD: PALESTINE (WEIGHTS & SCORES)

PCMA Scorecard of Corporate Governance Standards



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IMPLEMENTATION STRATEGY

Application of the scorecard would be through:

- *Development and provision of the assessment tool*
- *Stakeholder engagement*
 - Training of regulator's Staff on CG and Scorecard
 - Training and support for companies on CG and Scorecard
 - Sensitization of the public, including media (press, radio, TV), seminars, conferences
- *Development of a guide to filling the scorecard*
- *Availability of a helpdesk*
- *Self Assessment by Companies*
- *Awards*
- *Regulatory Assessment by the regulator*
 - Passive (Off-Site Evaluation)
 - Active (On-Site Verification)

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ESG SCORECARD: RWANDA (2020)

Environment, Social and Governance Scorecard for Listed Companies - Rwanda										
Cons ultative No.	Part No.	M or GP Question	Code or other reference	Relevant Guidance	Good - Towards Leadership - 2 points	Fair - 1 point Insufficient or Needs Improvement - 0 points	Points	Source of Response		
INTRODUCTION - GOVERNANCE FRAMEWORK AND COMMITMENT										
1	1	GP Has the board established and publicly described a good corporate governance framework?	OECD Principle I, OECD Principle VI	Established and allocated board responsibility for corporate governance; corporate governance structure, policies and processes described on website						
2	2	GP Has the board ensured that all directors, CEO and management are fully aware of the requirements of the Corporate Governance Code?	IFC Matrix for Listed Companies (IFC Matrix)	Policies in place to support the CG Code; practices in place to support CG Code; Activities occur to support spread of CG Code knowledge						
3	3	M Is there a statement indicating the board responsibility for application of good corporate governance policies and practices?	par 129	Annual Report includes directors' statement acknowledging responsibility, specifically mentioning ethical and effective leadership and good governance.						
4	4	M Does the company have a board approved Code of Ethics and Conduct, establishing values and behaviours by which it will operate and which is embedded in company activities?	par 8 h	Code of Ethics evident; board approved; public statement that the company will abide by the Code of Ethics and Conduct when doing business; activities evident which embed ethics into company; acceptable and unacceptable behaviours included						
5	5	GP Does the company strategy and activities promote long-term sustainability by referring to environmental, social and governance (ESG) matters?	IFC Matrix, IFC D&T Toolkit	ESG matters are specifically mentioned in the strategy; activities for advancement of women, for financial inclusion, for consideration of the environment and for respect for human rights are evident.						
Chapter I - THE BOARD, BOARD COMMITTEES AND GOVERNANCE										
6	1	M Is the board publicly accountable to shareholders, stakeholders (including creditors and employees), in accordance with the CG Guide provisions?	par 5	Evidence of consideration and communications with shareholders, and stakeholders, including creditors and employees.						
7	2	M Does the board charter cover all the elements required in par 8 and distinguishes the role of Chairperson and CEO and is it published on the company website?	par 8, 31	Charter contains all elements of par 8; distinguishes role of Chairperson and CEO; is published on company website						
8	3	M Has the board developed and approved a Delegations of Authority policy which distinguishes the roles of board, its reserved powers, the role of board committees and management?	par 8i and 8j	Delegations of Authority policy in place and board approved; distinguishes reserved powers of the board; articulates powers delegated to board committees and to management						
9	4	M Do director profiles indicate the board is competent to carry out its legal and governance duties and is balanced in its composition?	par 9, 15, 19	Director profiles available and detail skills and experience; board members are diverse in background, skills and experience; board includes business, industry and financial						

Footer

Footer

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OTHER SCORECARD ISSUES

- CMA platform for the scorecard – computer spreadsheet style formatted to web-based completion and web access facilitated. IT development. Allow for document attachments.
- CMA/company interaction
 - Before, during and after rating process
- Period of review and timing of filing
- Evidence/source
- CMA usage of the scorecard information – may dictate scorecard content and process
- Company use of scorecard information
- Other issues data management and privacy matters
- Reporting from CMA, including generalized recommendations
 - Single style formatted report to companies by automated download from website
 - Aggregated report to public Company users of the scorecard – training and support
- Company signoffs on scorecard contents - accountability

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CORPORATE GOVERNANCE SCORECARD: **NIGERIA**

IFC provided technical assistance to the Nigeria Securities and Exchange Commission to develop a corporate governance scorecard for assessing the compliance of listed companies with the CG Code.

The objective of the Scorecard is to promote good corporate governance practice in Nigeria by:

- Assessing the level of compliance of public companies with the Code;
- Identifying the strengths and weaknesses in corporate governance practices;
- Ensuring better disclosure of verifiable information to stakeholders.

Benchmark: Nigerian SEC Corporate Governance Code

Type: Spreadsheet to develop to web-based

To substitute SEC Form 1 on corporate governance information. Mandated by SEC. Submitted annually.

Signed by board members and senior management representatives.

Self-assessment, verification by SEC



Launch of the SEC CG Scorecard – with the DG SEC, Mounir Gwarzo, Chairman of Senate Committee on Capital Markets, Isiaka Adeleke, Chairman of Nestle & GSK, Olusegun Oshunkoya.

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STAKEHOLDER 'BUY-IN' IS MOST IMPORTANT

- Who will be responsible for this?
- Will company participation be compulsory or voluntary – if voluntary e.g. at pilot stage, create incentives for company participation
- Awareness – promote the scorecard broadly; include other country examples/experiences and link to the business case for CG
- Review of the scorecard and feedback from users after first round is vital - listen
- Pilot companies – publicity, media
- Support mechanisms
 - Training
 - Guidance
 - FAQs

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ESG MONITORING: THE 'SOFT' WAY OF ENFORCEMENT

The Scorecard: devised as a **transparent tool** for all stakeholders (available at little cost) to analyze the governance situation at individual companies.

Companies should also use the Scorecard as a **transparent scoring system** to allow internal evaluation and to discover opportunities for improvement.

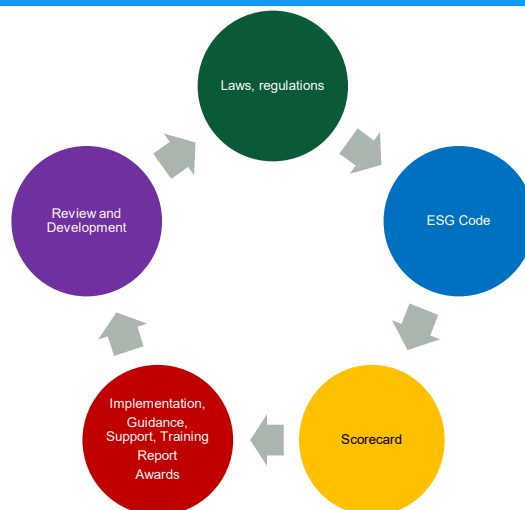
It promotes strengthening of monitoring bodies, necessary for **systematic and compelling enforcement**.

CAUTION: A Scorecard is not expected to change corporate governance practices overnight. It is a process to develop awareness and understanding of good corporate governance policies and practices. Experience tells us it takes time for this magnitude of change.

A Good CG scorecard result will not guarantee future poor practices in a company... that may change quickly depending on culture and circumstances.

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CONTINUOUS DEVELOPMENT OF ESG PRACTICES



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Ralitza is a Corporate Governance Officer with the IFC Environment, Social and Governance Department based in Washington, DC. She has 20 years of experience working with regulators, stock exchanges, partner institutions and private sector companies to improve corporate governance practices and ESG disclosure and transparency in Europe and Central Asia, Africa, the Middle East and East Asia.

Ralitza works with companies and boards on corporate governance assessments and stock exchanges, regulators and investors in emerging markets on ESG disclosure and transparency. Ralitza is leading the IFC Practice Group on Codes, Standards and ESG Disclosure and Transparency, and works on development of knowledge tools and solutions in these areas. She is the architect and one of the principle authors of the Beyond the Balance Sheet – IFC Disclosure and Transparency Toolkit, recipient of 2018 World Bank Group President's Award for Excellence and CG Scorecards Toolkit. Ralitza has supported the development of over 20 CG codes and scorecards worldwide (Nigeria, Bulgaria, Serbia, Brazil, Kenya, Palestine, Jordan, Iraq etc.). In addition, Ralitza has been leading the development of knowledge and training materials on Corporate Governance Codes, capacity building of director training institutions, and bank governance. Publications: From Companies to Markets - Global Developments in Corporate Governance, Challenges in Group Governance: The Governance of Cross-Border Bank Subsidiaries, A Guide to Corporate Governance Practices in the European Union.

Before joining IFC, Ralitza worked for UNDP Bulgaria as a Coordinator of the UN Global Compact Network introducing Corporate Social Responsibility concepts in the country and with the Bulgarian Foreign Direct Investment Agency to promote foreign investment. Ralitza holds a Master's degree in Corporate Governance from HANKEN School of Economics in Helsinki and Master's in Laws and Economics from the University of National and World Economy in Bulgaria.

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THANK YOU!

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