ASSESSMENT/SORECARD 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

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
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

KEY STEPS IN SCORECARDS DEVELOPMENT

• PHASE 1
  o Establish goals for the project
  o Gain participants and leaders understanding of the concept
  o Establish the benchmark
  o Determine the approach – company self assessment, independent assessment, hybrid
  o Determine the companies to focus on
  o Develop the scorecard structure – code basis, number of questions, weighting of areas, VERIFICATION OF INFORMATION
  o Develop the scorecard
  o Select the platform – text questionnaire, web-based or paper based

• PHASE 2
  o Apply and train appropriate resources to the project
  o Pilot the scorecard to test and refine before wider application
  o Determine project controls - access to data and final reports
  o Determine the report style and availability
  o Conduct the assessment
  o Provide reports
  o Beyond scorecard - awards, law improvement
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.

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

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

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
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.

CONTINUOUS DEVELOPMENT OF ESG PRACTICES

[Diagram showing a cycle involving Laws, regulations, ESG Code, Scorecard, Review and Development, Implementation, guidelines, support, training, report awards]
Ralitza Germanova

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.

THANK YOU!

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