The Governance of Listed Companies
Publicly listed companies provide the most commonly cited paradigm for analyzing corporate governance. Most of the attention of policymakers, the media, and investors, as well as the bulk of the academic literature, has focused on the governance of publicly listed companies. In the United States and the United Kingdom, the fundamental governance issues in listed companies typically concern the principal-agent relationship between atomized shareholders and dominant managers. In contrast, across the emerging markets and even in most other developed markets, a more fundamental governance issue is usually the treatment of minority shareholders by the controlling shareholders. The standards expected of listed companies should also be applied by the Investment staff to private companies that have plans for public share offerings in the short to medium term.

Using the CG Tools
Eight key corporate governance (CG) tools are used for analyzing the governance of potential IFC investee companies. The Instruction Sheets, Progression Matrixes, Document and Information Request, and the Sample CG Improvement Programs have been adapted for the listed-company paradigm. [Note that, depending on the client and project characteristics, the Document and Information Request can be either the Corporate Governance Review (CGR) Report Generator or the Corporate Governance Assessment (CGA) Tools.] The Model Independent Director Definition, the Supervision Checklist, and the explanatory note “Why Corporate Governance?” are applicable across all six paradigms, without any adaptations.

1) Instruction Sheet—Listed Companies. The purpose of this Instruction Sheet is to describe each of the key CG tools, how they should be used, and who should be interviewed in the course of either a Corporate Governance Assessment or a Corporate Governance Review.

2) Why Corporate Governance? This note explains IFC’s approach as value-added for clients. This explanatory note should be given to the client at the earliest opportunity in the pre-appraisal.

3) Progression Matrix—Listed Companies. The Progression Matrix relates the six areas of governance (Commitment to ESG, the Board of Directors, Control Environment, Transparency and Disclosure, Shareholders Rights, and Governance of Stakeholder Engagement) to four levels of achievement. The matrix framework emphasizes the importance of ongoing improvements in the governance practices of clients, rather than trying to apply rigid and static minimum standards. In particular, the Progression Matrix allows clients to assess the governance of their own company against a simple framework. The Progression Matrix should be given to the client at the earliest opportunity in the pre-appraisal.

4) Document and Information Request—Listed Companies. This list of questions and document requests establishes the basis for the Corporate Governance Assessment of an IFC client. The Document and Information Request is organized along the same lines as the six areas of governance in the Progression Matrix. For a CGA, the Document and Information Request should be circulated to the company at least three weeks in advance of the onsite visit. The company should identify a designated officer who will be charged with responding to the Document and Information Request by providing brief written answers of one or two paragraphs to each of the questions and delivering these to IFC prior to the onsite Corporate Governance Assessment. For the CGR, the investment officer must collect the required information from the documents or from interviews during the appraisal. If the investment officer elects to send a specially prepared CGR document and information request ahead of the site visit, an amended “questions only” version of the Report Generator should be sent to the client. Discussions relevant to IFC’s understanding of the governance of a company will arise throughout the appraisal and diligence process.

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1 The term “listed companies” is a simplification: for example, not all “public” companies have equity listed on stock exchanges, because they may have only offered debt securities to the public; on the other hand, a company can have a relatively large pool of outside shareholders but not have securities traded on an organized exchange. Nonetheless, “listed companies” is a useful term for listed, broadly held, or public companies, and the CG tools for this paradigm can be applied to all such types of companies.
Therefore, IFC Investment staff are encouraged to edit the document and information requests as necessary before sending them to the client, to avoid duplication.

5) Corporate Governance Review Report Generator: This document is intended for use by Investment Officers (and CG Officers, in the case of detailed reviews) in conducting a CGR; preparing the corporate governance section of an Investment Review Memorandum; responding to questions from Director at the Investment Review Meeting; and in presenting any major issues to the IFC Board. The CGR Report Generator uses negative assertions on each area of risk, and then uses questions to frame the risk issue and identify and assess relevant company practices and procedures, helps Investment Officers to determine the level to which the company mitigates the risk. The Investment Officer is required to collect information about the company and report in the Decision Book CG section which features are displayed by the client and which are not. The CGR Report Generator aids Investment Officers in preparing this CG section as it indicates the data that must be collected from the client and provides guidance on how to collect this by interviewing individuals at or contracted by the company, or by reviewing a specific legal document.

6) Model Independent Director Definition. Perhaps the most frequent governance recommendation is to increase the board’s independence from both the management and the controlling shareholders. However, to achieve genuine board independence, it is crucial to carefully define what it means for directors to be “independent.” This Model Independent Director Definition is often used during discussions with the client to clarify the assessment of the current board and its future needs.

7) Sample CG Improvement Programs or Sample Decision Book Section (for CGRs)—Listed Companies. Sometimes, a CGA results in the need for the client to develop and implement a Corporate Governance Improvement Program (CGIP). The CGIP should always be tailored to the circumstances and priorities of the company. However, sample CGIPs give a good idea of what has been negotiated with clients in the past; therefore, they can be used as a reference point in the drafting process. The CGR always generates a section for the Decision Book, and sometimes this will include recommendations for improvements. This Sample CGR Decision Book Section provides a useful reference point for the investment officer’s use.

8) Supervision Checklist. The Supervision Checklist provides a list of key issues that Investment staff should consider while supervising IFC investee companies and, in particular, those companies undertaking CGIPs.

Corporate Governance Interviewees
To carry out a thorough corporate governance analysis (CGA or CGR), IFC staff need to have direct discussions with people who play a variety of governance roles in the company. A list of the people who would normally be interviewed is provided below. However, companies may differ significantly in how they apportion responsibilities and in the titles they use for different positions in the company, so it is important that IFC staff meet with those who, as a practical matter, are responsible for the principal corporate governance functions, regardless of their job titles.

1. Representatives of controlling shareholders
2. Representatives of other holders of significant blocks of shares
3. Chair and members of the board of directors, including any “independent” board members and the chairs of the audit and other special committees of the board (and where applicable, members of the inspection committee: the fiscal board, commissaire, audit commission, comisario, or revisor fiscal)
4. Chief executive officer
5. Chief financial officer (or senior accounting officer)
6. General counsel (or senior lawyer)
7. Corporate secretary
8. Chief internal auditor
9. Chief of investor relations
10. Independent external auditors
11. Sustainability officer

Consult with assigned EoS specialist, who may have requested/obtained these documents.