

Corporate Governance Fragile and Conflict-Affected Countries

OVERVIEW

Many countries today face severe political instability or are struggling to emerge from years of conflict. These conflicts threaten to destroy once vibrant businesses, sending more people into poverty. At a strategic level, IFC is prioritizing its work in fragile and conflict-affected countries (FCS), to increase investment in these most difficult markets. By promoting stronger corporate governance, IFC is strengthening companies doing business in FCS, helping them weather the difficulties while increasing their potential to become IFC investment clients.

ABOUT THE FCS FRAMEWORK

Given the complex challenges faced by companies operating in fragile markets—and given the unique circumstances of each of these situations—IFC's Corporate Governance Group has developed a corporate governance operational framework to guide the group's activities in these markets. It is based on IFC's widely-accepted Corporate Governance Methodology, a solutions-oriented system for evaluating the corporate governance risks and opportunities of IFC client companies, now also adapted to tackle non-standard challenges private sector is facing in FCS.

The FCS Framework includes guidelines for best practices, processes and procedures that IFC staff can use when engaging in these environments. Emphasis is on an approach that will further integrate and leverage corporate governance considerations also as part of IFC's investment due diligence. This supports the corporate goal of expanding IFC's footprint in FCS markets.

HOW IT WORKS

Aimed primarily at IFC CG officers, investment officers and country managers, the framework includes several key components:

- Introduction to FCS and the particularly strong business case for good corporate governance practices in these countries
- Approach, methodology, and tools to guide the engagement, adapted to market specifics and stage of conflict
- Step-by-step guidance, ideas, and checklists, including examples of risks and challenges faced in FCS markets and possible solutions to address the issues
- Detailed overview of the broader relevance of good governance practices and the link to reputation, integrity, and mitigation of environmental, social, and credit risks



BACKGROUND

Corporate governance is defined as the structures and processes by which companies are directed and controlled. Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk and safeguard against mismanagement. It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns. Corporate governance also contributes to development by helping facilitate new investment, access to capital, and long-term sustainability for firms, leading to economic growth and increased employment opportunities across markets.

IFC CORPORATE GOVERNANCE GROUP

The IFC Corporate Governance Group brings together staff from investment support and advisory operations into a single, global team. This integrated team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

CG ACTIVITIES REFLECT UNIQUE FCS CIRCUMSTANCES

In recent years, IFC has increased its efforts to shore up businesses in some of the world's most challenging markets, in the midst of and in the aftermath of conflict. As with all of IFC's corporate governance engagements, activities are carefully tailored to the unique circumstances of the company and the operating environment. In FCS markets, this involves taking into account variables and uncertainties that might not be encountered in more stable markets.

For example, in **Sierra Leone**, IFC is working with authorities in a collaborative effort to promote the adoption of corporate governance best practices and standards with a corporate governance code. In **Myanmar**, in the absence of national regulation, IFC developed environment, social, and governance guidelines for Yoma Bank—IFC's first financial market investment client in this country. The efforts helped the bank navigate business and reputational risks, while reducing IFC's portfolio risks. In **Timor Leste**, IFC works with microfinance institutions to strengthen their governance policies and support the transition to traditional banking, requiring additional regulatory compliance.

IN BOSNIA & HERZEGOVINA, FOCUS ON REBUILDING

With the help of IFC, R&S, a family business and the market leader in distribution of office materials, has developed a family constitution and a strategy on dividends, profit sharing and family employment. The company is focusing on improving its governance practices to increase growth. As the country rebounds after a devastating civil conflict, demand for corporate governance consulting services is growing. Here, IFC is working to build the capacity of a local consultancy, as a way to develop a sustainable corporate governance professional services industry.

IN MIDDLE EAST AND NORTH AFRICA, WEATHERING CONFLICT

Despite ongoing challenges, Iraq's first Institute of Directors (KIoD) is busy and active today. Supported by IFC, KIoD has organized 13 awareness raising and training events for 327 participants, including 37 women. The group has provided training material to two local training partners, including a women's empowerment organization that trains current and potential female board directors.

As the conflict continues in Yemen, business activities do continue. Several Yemen-based IFC client companies are continuing operations by temporarily relocating to the United Arab Emirates. IFC also helped 10 Yemeni companies raise a total of \$15.5 million in financing as the result of improved corporate governance practices. In addition, IFC is encouraging south-south collaboration in this region, by making use of Yemen's trained governance faculty to lead the sessions run by Iraq's KIoD.

CORPORATE GOVERNANCE IN FCS COUNTRIES:

- makes companies stronger and helps them withstand crisis
- is critical for family businesses
- helps manage risk and bolster investor confidence

VIDEO: STRENGTHENING CORPORATE GOVERNANCE IN FRAGILE AND CONFLICT-AFFECTED COUNTRIES



IFC's powerful video on the importance of strengthening corporate governance in fragile and conflict countries has received hundreds of views since its posting on YouTube in August 2016. [Watch the video.](#)

CONTACTS

Darrin Hartzler
+1 (202) 473 0027
Washington, DC | dhartzler@ifc.org

Merima Zupcevic Buzadzic
90-212-385-3057
Istanbul, Turkey | mzupcevic@ifc.org

Amira El Saeed Agag
20-2-2461-4347
Cairo, Egypt | aagag@ifc.org

ifc.org/corporategovernance

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