IFC and Corporate Governance

AT A GLANCE

- Good corporate governance helps companies operate more efficiently, improve access to capital, and safeguard against corruption and mismanagement. It makes companies more accountable and transparent to investors and enables them to respond to legitimate stakeholder concerns, such as sustainable environmental and social development.
- IFC is strengthening corporate-governance programs in underserved regions, particularly in Sub-Saharan Africa, Latin America, and South Asia, by more closely integrating advisory and investment services.
- IFC’s system of evaluating corporate-governance risks and opportunities is recognized as the most advanced of its kind. It served as the basis for the Corporate Governance Development Framework, adopted in September 2011 by 29 development finance institutions (DFIs), including IFC. Signatory DFIs cover emerging markets around the world.
- The framework will help DFIs assess the quality of corporate governance at companies they invest in. Signatories aim to raise awareness, at the private and public sector levels, of the importance of good governance to sustainable economic development. They will also work together to advance the business case for good corporate governance.
- IFC is now the first DFI to require a systematic corporate governance analysis of every investment transaction as part of its due diligence process. As of July 1, 2011, all new IFC investments are subject to a focused corporate-governance analysis during the appraisal process. This is expected to help IFC clients make better decisions and manage their businesses and their risks more strategically.

WHAT IFC IS DOING: INVESTMENT OPERATIONS

IFC addresses corporate governance systematically through its investment operations. Each investment client’s corporate-governance practices are examined during the appraisal process. This helps improve efficiency in firm-level operations, improves risk management, and helps firms attract financing on better terms.

- Promoting firm-level change: In fiscal 2012, IFC provided full corporate-governance assessments to 48 clients, representing more than $4.02 billion in new debt and equity investments across all regions.
- Promoting board-level change: By nominating directors to the boards of selected investment clients, IFC works to improve client practices and create shareholder value. About 15 percent of IFC’s nominee directors are women—this number is expected to increase as part of IFC’s new directorship policy adopted in March 2010. IFC also works with organizations such as Women Corporate Directors to improve board diversity in emerging markets.
- Adopting good corporate governance in-house: IFC adopted a new share voting policy in June 2011 to ensure that IFC actively and consistently votes its shares in companies where IFC staff members serve on the board of directors. This policy allows IFC to protect its interests as a shareholder while adding value to the company at the board level. It complements IFC’s approach to directorships, which aims to increase the number of consultants and former World Bank Group staff to serve on client companies’ boards. Nominating external candidates to board seats helps professionalize IFC’s selection process, ensures transparency, and minimizes potential conflicts of interests.
- Promoting methodology: IFC’s corporate-governance methodology served as the basis for the Corporate Governance Development Framework. By adopting a common approach, DFIs expect to increase capacity at individual companies and raise the bar for corporate governance more broadly.
WHAT IFC IS DOING: ADVISORY SERVICES

IFC delivers targeted capacity-building efforts to organizations and institutions that are change-agents in this field, such as Institutes of Directors, as well as to individual companies at the pre-investment stage. At the global level, the Global Corporate Governance Forum, a multidonor-funded knowledge and capacity-building platform, develops best-practice guidance tools and advocates for corporate-governance reform across the globe.

- **Delivering large-scale firm-level interventions:** IFC provided more than 6,600 direct firm-level interventions from FY06 to FY10, helping facilitate $2.9 billion in new financing in more than 30 countries.
- **Developing cutting-edge knowledge tools and research:** From FY06 to FY12, IFC produced more than 60 publications on corporate governance, including 21 short publications summarizing corporate-governance experiences and lessons learned and six toolkits.
- **Engaging with board members across all markets:** IFC has delivered board-leadership training resources that have been used to instruct about 700 corporate-governance master trainers in 46 countries.
- **Strengthening partner organizations:** IFC has worked with regulators, institutes of directors, corporate-governance associations, the media, and educational institutions in more than 40 countries.
- **Promoting codes and regulations:** IFC contributed to the development of 48 corporate-governance codes in 32 countries. These are essential tools for enhancing corporate-governance practices at the national level. They help raise standards, drive reform efforts, and encourage private sector commitment to good corporate governance.

RESULTS

- **Farmakom, Serbia:** IFC is providing a €40 million loan and mobilizing an additional €80 million to help Farmakom Group, one of Serbia’s leading private sector employers, expand its operations, create jobs, and support the country’s economic recovery. The transaction is one of the biggest this year in Southeast Europe. IFC’s assessment of corporate-governance risks was a crucial part of the investment approval process. IFC’s continued advice to Farmakom on issues related to corporate governance has also been an important catalyst in the mobilization process with commercial banks.
- **Matco Rice Processing Company, Pakistan:** IFC will make a $5 million equity investment in Matco Rice Processing, a family-owned firm and the country’s leading basmati-rice exporter. The investment came about after one of the company’s board members attended a corporate-governance leadership training offered by the IFC-supported Pakistan Institute of Corporate Governance (PICG). Seeing value in the training, the board member invited PICG to conduct a corporate-governance workshop for Matco’s board to address the role, authority, and fiduciary duties of the board and its structure and composition. This enabled Matco to make necessary changes and position itself as a viable investee client.
- **Craftsman, India:** Craftsman is a family-owned firm with revenues of about $120 million in FY2011. As part of IFC’s $13.6 million equity investment, the company’s governance practices were significantly improved, including reducing the family’s representation on the board, nominating two independent directors, and hiring a chief financial officer. Craftsman also had to form an audit committee comprised solely of independent directors.

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**Media contact:** Vanessa Bauza, E-mail: vbauza@ifc.org; Phone: (202) 458-1603 or (202) 758-5286