

CG Updates

Newsletter produced by
IFC's Corporate Governance Group

Feature



Supporting Corporate Governance in Iraq

August 2017—Salahaddin Holding is a key player in Iraq's private sector, in a country still grappling with severe political instability as it emerges from years of conflict. The group works across sectors from pharmaceutical to construction, manufacturing, and banking. In a difficult working environment, however, there are glimmers of hope.

[Feature Story](#)

Read about our work in fragile and conflict-affected environments

[Video](#) | [Fact Sheet](#)

News

GLOBAL

Corporate Governance at IFC: The Year in Review

October 2017—In fiscal year 2017 (FY17) IFC's corporate governance program continued to deliver on its mandate to improve the governance practices of companies in key emerging markets across all six IFC regions with focused programmatic interventions in selected countries. In addition to direct engagement with companies, the program works with partners and regulators, building the local infrastructure to promote the broader benefits of good governance. As corporate governance is a paramount consideration in investors' decision making, they are increasingly paying equal attention to the

IFC's Corporate Governance Program

In Numbers

\$7.6 BILLION
in financing
facilitated due
to improved CG
practices

1,200+
entities have
improved their
CG practices due
to IFC advice

35
DFIS have
adopted the CG
Development
Framework

121
laws, regulations
and codes
adopted

110,000+
participants
trained at CG
events, of whom
30,000+ were
women

About IFC

IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. Working with 2,000 businesses worldwide, we use our six decades of experience to create opportunity where it's needed most. In FY16, our long-term investments in developing countries rose to nearly \$19 billion, leveraging our capital, expertise and influence to help the private sector end extreme poverty and boost shared prosperity.

July–September 2017

way companies behave on a variety of environmental and social indicators, making it essential, therefore, to assess environmental, social and governance practices in an integrated fashion. Read more on pages 11-12 or [online](#).

EAST ASIA AND THE PACIFIC

Indonesia: Diversification and New Revenue Streams for Management Consultants

Jakarta, August 22 and September 20, 2017—To meet growing demand from Indonesian businesses in need of corporate governance advice, IFC's CG team convened several workshops to train local partners on IFC's Corporate Governance Methodology. With an eye toward giving these partners the expertise to teach others, the two training-of-trainers sessions focused on how to make use of key aspects of the methodology, including conducting corporate governance assessments/diagnostics and implementing corporate governance improvement plans. In total, the sessions drew 22 professional trainers—including seven women—from the Indonesian Institute for Corporate Directorship and the Family Business Nusantara Foundation. The importance of the sessions to the organizations was apparent, as all IICD board members and FBN core faculty attended. Both organizations are looking to broaden the range of consulting services they provide to ensure longer-term sustainability and differentiate from competitors in the market.

Myanmar: Planning Underway for New Directors' Institute

Yangon, September 7, 2017—Following a June 2017 roundtable at which market players and stakeholders discussed the possibility of a new board of directors' institute, a September session focused on the practical aspects of launching the new organization. Convened by IFC, the meeting drew government officials, CEOs and senior company executives, as well as representatives from the Union of Myanmar Federation of Chambers of Commerce and Industry and the Myanmar Institute of Certified Public Accountants, among others. At the meeting, start-up plans were discussed and reviewed. The IFC team presented a concept design outlining the purpose, mission, governance model, activities, and next steps for what would be known as the Myanmar Institute of Directors. The meeting ended on a positive note, as participants endorsed the concept and provided insights on membership criteria, legal set-up, director training, and governance structure.



Vietnam: Corporate Governance as Competitive Differentiator for Listed Companies

Hochiminh City, August 2, 2017—Implementing corporate governance codes and using the new regional corporate governance scorecard were two key themes at an important workshop for Vietnamese corporate executives as well as representatives from the State Securities Commission, two stock exchanges, and the Vietnam Corporate Governance Initiative. The August event was the third such workshop organized by IFC, focusing on ways to boost the competitiveness of Vietnam's listed companies by adopting internationally recognized corporate governance practices. The corporate governance code is intended as a guide for listed companies on how to go beyond regulatory compliance. An overall emphasis on better governance practices will help the Vietnamese market to better integrate with other markets in the region and around the world—for a greater competitive edge. During the program, corporate governance experts from the Philippines and Malaysia shared the experiences of these countries in developing, introducing and monitoring their corporate governance codes. Other presentations featured technical updates of the regional scorecard for members of the Association of Southeast Asian Nations, including newly revised methodology and ratings standards. The ASEAN scorecard is now used in six countries across the region, including Indonesia, Malaysia, Singapore, the Philippines, Thailand, and Vietnam.

EUROPE AND CENTRAL ASIA

Kazakhstan: Job Exchange for Sovereign Wealth Fund Staff Leads to Deeper Collaboration with IFC

Almaty, September 2017—An innovative, six-month secondment assignment to IFC's Moscow office enabled a key staff member from Samruk-Kazyna—Kazakhstan's sovereign wealth fund—to gain valuable, hands-on insight into the importance of strong environmental, social, and governance practices for companies. It was the first time that an IFC partner worked shoulder-to-shoulder as a full member of IFC's ESG team.

SK is a strategic player in the Kazakh market, with an important role to play in elevating ESG standards across the board. The idea behind the job exchange was to enhance SK's capacity and encourage a broader transformation. The fund designated one of its key players—the head of corporate governance and sustainability—to

CG FOCUS ON INDONESIA

CG Focus is a regular installment produced by the Corporate Governance Group in Indonesia to provide IFC clients with insights into the evolving corporate governance landscape in the country and advocate the adoption of leading governance practices.



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Improving Board Effectiveness



Protecting Shareholder Rights



Strengthening Stakeholder Participation

participate in the program, which involved a temporary move to Moscow. During the secondment, the SK executive participated in ESG assessments of IFC's investee clients, learning more about IFC's approach. In exchange, IFC staff benefited from the executive's knowledge and experience in state-owned enterprise governance, which has improved their ability to support IFC's advisory clients.

The job exchange—and the collaborative relationships created—yielded several important dividends. As a result, SK has committed to embed ESG standards into its investment operations. In addition, IFC and SK have entered into a new corporate governance advisory engagement—one of the largest in ECA to date. Future efforts will focus on project co-financing, support for SK's privatization process and promotion of IFC ESG standards.

According to those involved, there is an important take away from the experience: a collaboratively driven approach can result in deeper and broader impact, building the capacity of an individual firm while strengthening institutions and the market as a whole.

Macedonia: Senior Government Officials Discuss Impact of 3-6-9 Reforms on Economy and Businesses

Skopje, July 27, 2017—At a July panel hosted by IFC's long-time local partner, the Macedonian Institute of Directors, top government officials reviewed the so-called "3-6-9" reform plan, aimed at moving the country forward towards accession to the European Union, and how the reforms would affect the market. The July event, co-sponsored by the M6 Education Centre, one of the country's leading business schools, featured presentations by the country's deputy prime minister for economic affairs and the director of the European Policy Institute. Panelists presented different aspects of the reform plan. They discussed anticipated impacts, given the 2016-2020 government growth program and recent agreements for regional cooperation reached at the 2017 Trieste Western Balkans summit 2017. Drawing an audience of about 50 prominent business leaders and other key players, the presentations triggered additional discussion on the country's current state, the government's economic and social development priorities, and the role of the private sector.

Ukraine: IFC Helps Local Consultants Expand into SME Governance Services

Kyiv, August 1-2, 2017—IFC is working with its local partners in Ukraine on how to provide governance advice uniquely tailored to small- and medium-sized businesses. Part of the effort involves teaching local intermediaries how to use IFC's SME governance

Did you know?

The firm-level advice provided by IFC Corporate Governance Group across the 6 regions we work in, has helped companies access more than \$7.6 billion financing, including \$1.7 billion from IFC.



East Asia and the Pacific



Europe and Central Asia



Latin America and the Caribbean



Middle East and North Africa



South Asia



Sub-Saharan Africa

tools, which will help them assess the state of a client's corporate governance. IFC convened the August train-the-trainers' session to work with seven selected local partner consultancies on use of the tools. The partners were chosen for their commitment to building their SME governance offerings and their market reach, enabling them to build a strong and sustainable SME client base. Combined, these partners sent 16 representatives to the training, including eight women. Following the program, participants said they hoped to arrange a follow-up program to build on the skills they developed. IFC's corporate governance team has worked in Ukraine since 2016, supported by funding from Canada.

LATIN AMERICA AND THE CARIBBEAN

Peru: Annual Companies Circle Meeting Focuses on ESG Practices and Increased Investor Awareness

Lima, September 28–29, 2017—At the 2017 Annual Meeting of Latin American Companies Circle, the focus was on the importance of good environmental, social, and governance (ESG) practices, particularly as investors pay increased attention to such non-financial company details. The Companies Circle is a group of leading Latin American companies that have adopted good corporate governance practices and are committed to sharing their experiences with other companies in the region and beyond.

Hosted by Buenaventura, Ferreycorp, and IFC, this year's annual meeting brought together Circle members, invited guests from other leading Latin American firms, and the chairs and senior executives from three major stock exchanges in the region: Bolsa de Valores de Colombia, Bolsa de Valores de Lima and Bolsa de Santiago. Discussions centered on regional trends in ESG, investors' expectations and best ESG practices. IFC's Oliver Orton presented IFC's ESG Progression Matrix for Listed Companies, a tool to evaluate and improve the corporate governance of a company—including the governance of key environmental and social policies and procedures—to identify, reduce, and manage risk. For more information about the Latin American Companies Circle, visit www.ifc.org/companiescircle.

Colombia: At Event for Women on Corporate Boards, Emphasis on Governance to Strengthen Firms

Bogota, September 20, 2017—Good corporate governance is a foundation for strong, sustainable and competitive companies operating in the Colombian market. That was the key message



IFC Corporate Governance Programs by topic – fact sheets

Codes and Scorecards

Corporate Governance Development Framework

Fragile and Conflict-Affected Situations

Latin American Companies Circle

Nigeria Securities and Exchange Commission Develops a Corporate Governance Scorecard

Small and Medium Enterprises

Transparency and Disclosure Toolkit

Women on Boards

Afghanistan: Governance Upgrades for Ghazanfar Bank

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the bank's leadership took the next step, with a commitment to implementing the governance improvements recommended in the assessment. IFC is assisting in the implementation, helping to draft key documents, policies, and procedures based on best practice but adapted to the local context and central bank regulations. The bank's goal is to become Afghanistan's best-governed financial institution, making it more attractive to foreign investors who may be apprehensive about engaging in difficult environments.

Jordan and Pakistan: Market-Wide Improvements through Corporate Governance Codes

Amman, July 2017—The characteristics of Jordan's and Pakistan's markets are quite different. However, the two have one stand-out element in common: a regulatory focus on promoting good governance. Recently, both the Jordan Securities Commission and the Securities and Exchange Commission of Pakistan issued updated corporate governance codes for listed companies, with the assistance of IFC. In Jordan, the update makes compliance with the code mandatory for all listed companies—previously compliance was voluntary. Jordan's listed companies now are required to submit annual corporate governance reports. In Pakistan, the updated code requires all company boards to include at least one female director. Listed companies also must have in place a board-approved environmental, social, and governance policy. Both countries' codes also address board composition, requiring a majority of non-executive directors, with independent directors comprising at least one-third of board membership.

IFC's role in Jordan included supporting the regulator during the update process and providing peer review comments on the draft. IFC also is helping to spread the word about the code, co-hosting a series of seminars in partnership with the Jordan Institute of Directors to raise awareness and help companies comply with the new provisions. In Pakistan, the IFC-supported Pakistan Institute of Corporate Governance led the process to update the code.

Pakistan: Accounting Firms Find New Revenue Opportunity in SME Governance Consulting

Lahore, July 26, 2017—In July, representatives from several of Pakistan's smaller accounting companies attended an IFC roadshow designed to enhance their corporate governance knowledge. Armed with this knowledge, these firms now can expand their portfolio of service offerings to their clients, creating a new revenue stream. It's a classic win-win: the accounting and audit firms broaden their services to attract new clients, while the clients—mostly smaller and



medium companies that don't have the budget to hire specialized consultants—gain access to valuable corporate governance insight and guidance at an affordable cost. IFC is planning similar workshops in Islamabad and Karachi. The initiative is a collaboration with the Institute of Chartered Accountants of Pakistan.

SOUTH ASIA

Bhutan: Improving Corporate Governance and Reducing Risk for Bhutan's Financial Institutions

Thimpu, September 8, 2017—A September workshop on corporate governance and risk management for financial institutions attracted an audience of more than 70 financial institutions, regulators, and government officials. The program, co-hosted by IFC and Bhutan's Royal Monetary Authority, focused on best international practices, with an emphasis on emerging markets in general and Bhutan's own unique circumstances. In his keynote, the monetary authority's governor noted that other countries had deployed corporate governance scorecards as a tool to monitor governance progress and expressed interest in developing a scorecard tailored to Bhutan's market. The governor also indicated a willingness to work with IFC to further develop the country's banking sector. This effort would be in addition to IFC's ongoing engagement with the Bhutan National Bank, involving risk management and governance upgrades, with a focus on strengthening the bank's internal audit framework and IT structure. Following the program, representatives of the other private sector banks in attendance said they, too, were interested in partnering with IFC for similar services.

India: Meeting Highlights Timely Business Concerns: Disclosure, Cybersecurity, SME Finance

Mumbai, September 27-28, 2017—In today's business world, uncertainties and risks abound. Over the course of two days of an intensive training program, participants learned about the value of good corporate governance practices to protect businesses from risks and uncertainties. The event, organized by the Bombay Stock Exchange (BSE) and International Organization of Securities Commissions, featured IFC's corporate governance experts, who suggested various ways that regulatory agencies could encourage more descriptive disclosure through listing rules. In other sessions, participants explored case studies and delved into critical issues such as cybersecurity and SME finance.



India: Spotlight on Corporate Boards: Making Board Evaluations More Effective

New Delhi, July 18, 2017—A high-level group of board directors and senior executives gathered in New Delhi in July to learn more about ways to evaluate board performance, increase board diversity, and enhance the role of independent directors. The program was the second in a series of roundtables on board effectiveness co-sponsored by IFC, the Federation of Indian Chambers of Commerce and Industry, and Deloitte Touche Tohmatsu India LLP. Prominent speakers included some of India's top female board members. They encouraged the audience, 70 percent of whom were female directors and managers, to learn more about how to use the recently introduced Indian Corporate Governance Scorecard. Developed by IFC, the BSE and Institutional Investor Advisory Services, the scorecard helps companies assess their own corporate governance performance while enabling regulators to assess the level of governance uptake in the market, and giving investors more information about companies to make informed decisions. During the session in New Delhi, participants noted that companies outside of the financial hub, Mumbai, seemed to have less awareness about the scorecard and might benefit from additional outreach.

SUB-SAHARAN AFRICA

Cote d'Ivoire: Spreading the Word and Building Skills: Good Governance is Good Business

Abidjan, September 21, 2017—IFC's corporate governance team is working at multiple levels to promote better corporate governance across Africa's Francophone region. One such effort is a partnership with Senegal's Institute of Directors and the National Institute of Côte d'Ivoire Administrators to train local consultants on how to build the skills of board directors. At a September train-the-trainers workshop, participants learned more about various aspects of board governance and the responsibilities of board members. A second event, co-hosted by the Bourse Régionale des Valeurs Mobilière, a regional stock exchange for eight West African economies, addressed similar themes. Combined, the two events attracted more than 80 people, including regulators, international experts, local corporate governance professionals and representatives of local business associations. In follow-up surveys, participants indicated a high level of satisfaction with the programs and their content.

Shortcuts to help you access information on our website:

Main Corporate Governance website:
www.ifc.org/corporategovernance

Corporate Governance Tools:
www.ifc.org/corporategovernance/tools

CG Development Framework:
www.ifc.org/corporategovernance/cgdevelopmentframework

Investment Services:
www.ifc.org/corporategovernance/investments

Latin American Companies Circle:
www.ifc.org/companiescircle

Publications:
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Topics:
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Videos:
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East Asia and the Pacific:
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Europe and Central Asia:
www.ifc.org/corporategovernance/eca

Latin American and the Caribbean:
www.ifc.org/corporategovernance/lac

Middle East and North Africa
www.ifc.org/corporategovernance/mena

South Asia
www.ifc.org/corporategovernance/southasia

Sub-Saharan Africa
www.ifc.org/corporategovernance/africa

Ghana: Building a Foundation for the Future by Teaching Governance Principles Today

Accra, April 2017—Given the complexity of the issues and the interplay among various market sectors, IFC has long taken a multi-pronged approach in its corporate governance work. In addition to work with companies, regulators, market-makers, and government officials, efforts also are aimed at the world of academia, where future leaders are formed. In Ghana, the IFC team is helping to create a university-level corporate governance curriculum for Kwame Nkrumah University of Science and Technology, with the goal of embedding the values of good corporate governance into the next generation of business leaders. After developing the curriculum, the IFC team organized an event to train the university's lecturers on use of the modules. IFC's educational outreach in Ghana also extends to groups such as the Association of Ghana Industries, which includes more than 1200 of the country's small, medium, and large manufacturers. During a recent session for this group, representatives of member firms learned more about the governance issues unique to smaller businesses, building their skills so they could bring this new knowledge back to their own firms as internal corporate governance champions and educators.

Kenya: Improving Transparency and Accountability

Nairobi, June 23, 2017—Today, there's a new emphasis on promoting business accountability and transparency in Kenya. Recent actions demonstrate the growing commitment to elevating the country's corporate governance standards. For example, Kenya's Capital Markets Authority issued two new corporate governance guidelines that are aligned with international best practices. The authority's corporate governance code, known as the Code of Corporate Governance for Issuers of Securities to the Public, was legislated, issued in 2016, and took effect in 2017, efforts are underway to promote its use. The second is the Stewardship code for Institutional Investors. To support this work, IFC and the World Bank initiated a series of June workshops on the code and on IFC's corporate governance assessment methodology. Combined, the sessions attracted more than 100 participants, including many business owners who learned more about how corporate governance can improve business sustainability.



Corporate Governance Advisory Program Overview

In fiscal year 2017 (FY17) IFC's corporate governance program continued to deliver on its mandate to improve the governance practices of firms in key emerging markets. In addition to direct engagement with firms, the program works with partners and regulators, building the local infrastructure to promote the broader benefits of good governance. The program operates across all six IFC regions with focused programmatic interventions in selected countries. This work is bolstered by tools, publications, and guidance provided by the global knowledge management team, as illustrated in the following examples.

WORKING WITH PARTNERS

Our work to build capacity of local partner intermediaries remained central to our program. During the year IFC signed agreements with 37 partner intermediaries to collaborate on promoting better practices in local markets. We provided 67 workshops for our intermediary partners and trained 466 trainers in our methodology and tools. We aim to ground knowledge of good corporate governance standards in these local organizations so they can offer training and services in future.

A key deliverable for this period was the third meeting of the Global Corporate Governance Institutes Network. Organized by our global team, the meeting brought together 44 delegates from 30 IFC partner corporate governance institutes and focused on long-term viability of partners, with a view towards independence from IFC support. Delegates shared experiences and knowledge.

In FY17 our partners delivered 198 workshops, reaching nearly 2000 firms and over 5000 training participants, with the support of IFC projects, tools and materials. Partners generated over \$2 million in sales revenue from providing these services, indicating a certain level of viability of their ongoing operations. We also continued the roll out of the partner capacity measurement tool, sponsored primarily by Switzerland's State Secretariat for Economic Affairs (SECO) and rolled out across the global program. The ECA region piloted the tool and findings revealed that most of IFC's 12 key partners in the region have progressed from a 15 percent assessed capacity 18 months ago, to more than 50 percent capacity today.



Of note: as of the end of FY17, more than 80 IFC partners around the world have improved their capacity, generating more than \$6 million in corporate governance-related sales revenue, due to IFC support.

WORKING WITH REGULATORS

A key part of IFC's corporate governance work involves helping to improve the regulatory environment for corporate governance. Building on our frontline experience as an investor, we collaborate closely with the World Bank to ensure that new governance regulations and codes in emerging markets are based on international best practices.

In FY17, IFC provided guidance on 17 newly adopted laws, regulations, codes, and scorecards. For example, in the Philippines, the project team supported the country's Securities and Exchange Commission in the adoption of a new corporate governance code, effective as of January 1, 2017. The new code is focused on board practices and on reporting, with an emphasis on fuller disclosure.

At the global level, the team organized the fifth high-level meeting on codes, standards, and transparency and disclosure. During the event, participants discussed ways of integrating environmental social and governance (ESG) norms into investment decisions, corporate governance frameworks such as codes and stock exchange activities, and corporate reporting.

WORKING WITH FIRMS

In FY17, IFC provided in-depth advice on improving governance practices to 65 firms. Of this number, 25 firms implemented recommended changes, all of which reported positive impacts on performance: more than \$900 million in financing facilitated, along with improvements in productivity, accountability, operations, and loan terms or valuation. IFC's rich experience has led other development banks and investors working in emerging markets to look to IFC for leadership on corporate governance strategies. Through the Corporate Governance Development Framework, 35 development finance institutions have adopted IFC's Corporate Governance Methodology, a process of analyzing corporate governance structures and policies.

In collaboration with the World Bank, we are working to improve the governance of state-owned enterprises in a number of countries, including Colombia, Egypt, Pakistan, Peru, Serbia, Turkmenistan and Vietnam. Our governance work also extends to firms in fragile and conflict-affected states, including Bosnia and Herzegovina, Iraq, Kosovo, Lebanon, Liberia, Myanmar, Sierra Leone and Yemen.

In FY17 IFC launched a new initiative to accelerate the pace of female board appointments and increase the number of women in corporate leadership positions, ultimately helping to strengthen the private sector in emerging markets. One of the programs under this initiative is the women on boards and corporate leadership training that brings together female executives, board directors, and potential board directors of emerging markets. It makes the business case for diverse boards and illustrates how emotional and social intelligence enhance corporate governance. Thus far, workshops have been conducted in Almaty, Kampala, Lagos, Nairobi, and Yangon.

From an overall results and impact perspective, the firm-level advice provided by IFC's CG Group to date has helped companies access more than \$7.6 billion financing, including \$1.7 billion from IFC.

INTEGRATING ENVIRONMENT, SOCIAL AND GOVERNANCE ISSUES

Corporate governance is a paramount consideration in investors' decision making. But investors are increasingly

paying equal attention to the way companies behave on a variety of environmental and social indicators. Investors see businesses' management of environmental and social issues as a test of how they would handle all strategic and operational challenges.

It's essential, therefore, to assess environmental, social and governance practices in an integrated fashion. In FY17, IFC developed comprehensive market guidance and practical tools to do this in the context of emerging markets, drawing on our track record in applying our Performance Standards and CG Methodology.

One tool—our ESG Progression Matrix—guides companies, investors, regulators, corporate-governance evaluators, and other stakeholders in assessing and improving a company's environmental, social, and governance framework. It emphasizes the importance of continuing progress—rather than static minimum standards—in the governance practices of a company.

The matrix focuses the assessment along six ESG parameters—key environmental, social and governance policies and practices, the structure and functioning of the board of directors, the control environment, disclosure and transparency, treatment of minority shareholders, and governance of stakeholder engagement (which includes civil society and communities affected by a company's operations).

Another tool is the IFC Transparency and Disclosure Toolkit—which helps companies in emerging markets prepare comprehensive and best-in-class integrated annual reports that are appropriate for their size and organizational complexity and adapted to the context of operation. The objective is to provide useful information for investors and other stakeholders.

We apply this integrated approach beyond the companies we invest in. We also use it in our advisory work with regulators and stock exchanges—to help them apply higher disclosure standards to corporate listings, reporting requirements, and other disclosure obligations.

For more details, read the full [IFC Corporate Governance Advisory Program Overview](#).

MEDIA COVERAGE

This section includes links to articles, editorials, and op-eds where IFC colleagues are the authors or have been quoted or interviewed about IFC corporate governance programs. This material was published in various media outlets around the world. Also featured here are our contributions to reports, white papers, and other documents published by organizations outside IFC. Items are arranged in chronological order and text is in English, unless otherwise noted.

Colombia

Buenas practicas de gobierno corporativo para PYMES (Good corporate governance practices for SMEs) – in Spanish (video)

(Francisco Prada)

Te lo cuento ya, September 2017

Peru

De lo bueno, mucho (The business value of adopting good corporate governance practices) – in Spanish

(Jorge Echeandia)

Stakeholders Magazine, September 2017

Côte d'Ivoire

La SFI et la BRVM s'engagent dans le renforcement de la gouvernance des entreprises cotées (IFC and BRVM commit to strengthening the governance of listed companies) – in French

(General)

Agence Ivoirienne de Presse, September 22, 2017

Peru

La Sostenibilidad Corporativa y el Rol del Directorio (Corporate Sustainability and the Role of the Board) – in Spanish

(Fiorella Amorrtortu)

Revista Capitaes, September 2017

Global

IFC - Understanding Sustainable Investment

(Albena Melin)

Devex, July 17, 2017

Peru

What is the Role of the Board? (video)

(Oliver Orton)

PAD television, July 21, 2017

Myanmar

Taking Family Businesses to the Next Level in Myanmar

(General)

Myanmar Times, August 29, 2017

Adapting to new trends: CORPORATE SUSTAINABILITY AND THE ROLE OF THE BOARD

In this article, the author highlights how corporate sustainability, encompassing environmental, social and governance factors, has been playing an increasingly critical role in a company's performance, and explains the role of the board in this trend.

Sustainability comprises how environmental, social and governance (ESG) matters impact company long-term performance. Currently these issues comprise the key focus of non-financial information disclosure. A number of major international investment funds are now of the view that improvements in ESG practices can project future performance, as they evidence the way in which companies develop the entire operation of the business. Therefore companies committed to sustainability should develop a business model that includes these aspects.

While it is difficult to reach consensus among investors on how to assess ESG risks, there are universal standards that companies can apply, as well as initiatives that they can promote and implement in their operations, such as: (i) support of pollution reduction, (ii) improvement of water and resource use, (iii) a focus on stakeholder interests, (iv) addressing of issues linked to climate risk, among others. It is also important for companies to take into consideration criteria such as the industry in which the company operates, relevant local regulations, and international benchmarks such as the United Nations' 17 Sustainable Development Goals (SDGs).

In July 2017, the second SDG Business Forum was convened at the United Nations with the attendance of over one thousand international representatives to discuss the role of the private sector in the achievement of the SDGs. The Forum encouraged companies to comply with the SDGs and the corporate report that includes mitigating future risks, as well as creating new opportunities for their business.

It is well known that many countries are incorporating sustainability concepts into their codes of practice. In addition, investor groups also consider it a component of their fiduciary duty to analyze the sustainability aspects of companies in which they have an interest. In Peru we are already seeing several initiatives in this regard by companies, regulators and other institutions, although there is still much to do.

The role of the board in sustainability

It is important to observe that, within the good practices of corporate governance, board commitment and its role in managing sustainability is essential. Since the 70s, there were already shareholders who would present proposals to require company boards to supervise sustainability-related issues. Since then, investors have collected a wealth of information showing that oversight by the board is an effective way to ensure greater emphasis is placed on the relevance of the issues to their companies.

Sustainability is related to the corporate governance of the company, and, as a result, to good board practice. The latter should include within its functions the supervision of the environmental opportunities and risks faced by a company, including related economic and social risks. Consequently, board members should promote sustainability as an integral part of corporate strategy and vision.

There are a number of ways to address sustainability issues in the board, whether through existing board committees, by creating a new committee or in regular board sessions. According to the Pearl Meyer NACD 2017 Director Compensation Report, out of the 1,400 public enterprises included in the study, only a little more than 5% of the boards had a specific committee to address ESG issues, with topics focused mainly on environmental and safety aspects. This study also showed that

corporate governance committees or audit committees were usually given responsibility for these matters.

The Sustainable Investments Institute (Siz) and the Investor Responsibility Research Center Institute (IRRCI) report, which included companies in the S&P 500, shows more detailed figures. Only 277 companies of the S&P 500 have a board that voluntarily oversees sustainability issues. Of this group it is worth highlighting the following findings:

- a. 32% of the companies in the study have a public affairs and sustainability committee to oversee sustainability issues.
- b. 34% of the companies incorporate sustainability monitoring with other governance functions.
- c. 10% of the companies use the audit committee to address the various issues related to sustainability.
- d. Only 1% of companies include this topic in the risk committee.
- e. 13% of the companies combine sustainability issues with other types of committee, such as the compensation or remuneration committee.
- f. 10% of the companies address the issue in regular board sessions and not through committees.

The report also revealed that companies have board committee regulations specifying roles related to sustainability issues, which should be part of the annual committees' agenda. Some examples include: 55% of companies include supervision of social issues; 33% of companies specify the supervision of environmental issues in their regulations; 21% specify safety and health related issues; 9% specify aspects related to workplace diversity, 4% in human rights and only 2% aspects related to climate change.

Other issues that arise when discussing sustainability and corporate governance are related to the composition of the board. It is important to include members with expertise and experience in ESG matters. Should there be none available, a subject matter expert could be invited to temporarily support the board. Requirements or standards related to sustainability experience can become part of a company nomination process for new executives. This experience could come from

participation in other boards or committees related to this topic or from involvement with relevant non-governmental organizations. A company that has more members with experience in environmental and social issues will be able to become more involved in sustainability issues compared to other similar companies within its sector, and, thus, make a real difference.

It is important for the board of each company to understand how social and environmental risks and opportunities are being managed. It is also key that the company incorporates its initiatives into its strategy and culture, and for the board to establish what information it should be reviewing and approving, as well as the frequency of the same. The board should also ensure that senior management, along with the units responsible for sustainability issues within the company, carries out proper follow-ups. Further, adequate resources should be allocated, and internal and external communication plans should be developed.

The board should also determine the level of disclosure of ESG matters. In some cases, the company will only disclose topics requested by investors. In other cases, and in line with best practice, greater detail should be disclosed on a voluntary basis, which promotes greater transparency.

Requirements to develop sustainability

A company that decides to start working on sustainability issues should, first of all, include these aspects in its strategy, vision and culture, and raise them to the board level. It should also consider sustainability aspects within all important company decisions, such as mergers and acquisitions, partner search or divestitures.

Secondly, to properly include sustainability issues within an effective board committee function, it is important to provide training to board members and for these matters to become part of the induction process for new members.

Third, companies should foster an ESG culture, develop written policies and formalize them. Aspects to cover in these policies might include community involvement, working conditions, value chain management, inclusive human resources policies, payment policies and corporate governance issues such as data reporting and disclosure, board structure, disputes and contingencies, among others.

Fourth, a management or a sustainability unit (depending on the size of the company) should be created to ensure that the organization works towards the achievement of sustainability objectives. This unit will develop and coordinate with the other parts of the company to ensure the implementation and monitoring of environmental and social strategies of the company, as well as communicating and promoting its initiatives both inside and outside the organization (suppliers, customers, etc). Sustainability managers should work in coordination with all parts of the business, including senior management, in order to assure adequate accountability to the board.

Finally, information disclosure and communication policies should be implemented and reviewed. Companies should familiarize themselves with trends relevant to the industry in which they operate, with particular attention to the type of information that should be disclosed to stakeholders (including investors). In the case of listed companies, consideration should be given to capital market regulations, listing requirements or corporate governance codes and / or sustainability reports. In the case of non-listed companies, although they have greater flexibility (as they are not required to comply with applicable regulation), the report could become an important tool to access new sources of financing or investment, contact new stakeholders or, as the company grows and becomes more complex, to meet the demands of new interest groups.

What should companies expect for the future?

The market will demand greater attention to ESG aspects because stakeholders play an integral role in the performance of the companies. It will be key for the company to be up to date with sustainability trends

and best practices. Companies should encourage collaboration with new recommendations and public policy debates, familiarizing themselves with trends related to the consumer, the supply chain, stakeholders, general trends and issues that could have an impact on them.

We will see more companies committed to these issues, to achieving their goals and to communicating their progress to their multiple stakeholders. It should be noted that in Peru, there are already several companies that monitor and report on their contributions and the impact of their decisions, as well as various institutions that promote sustainability.

However much remains to be done.

The time is NOW.



*Fiorella Amorrortu, Corporate Governance Officer, Latin America and the Caribbean, International Finance Corporation
- IFC*

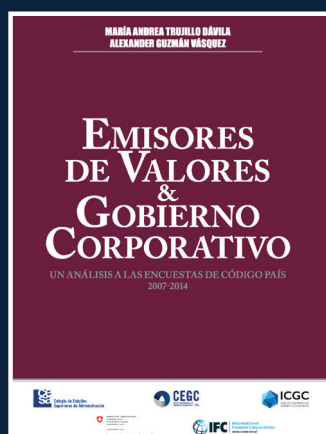
[Original text in Spanish](#). Revista Captales, Year 10, Number 110, September 2017

Related Link:

PSO 36: [Responsible Boards - Action Plan for a Sustainable Future](#)

REPORTS AND PUBLICATIONS

This section lists reports and publications produced by IFC's corporate governance group and in collaboration with other organizations. Some items are available in different languages and are organized in chronological order by publication date.



Emisores de Valores and Gobierno Corporativo - Un Análisis a Las Encuestas de Código País 2007-2014



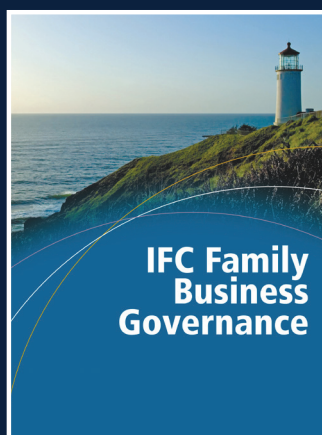
PSO 39: Headaches, Concerns, and Regrets: What Does the Experience of 102 Brazilian Directors Tell Us?



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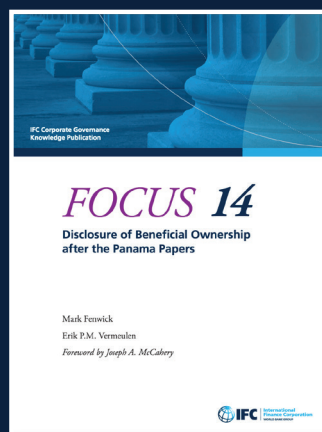


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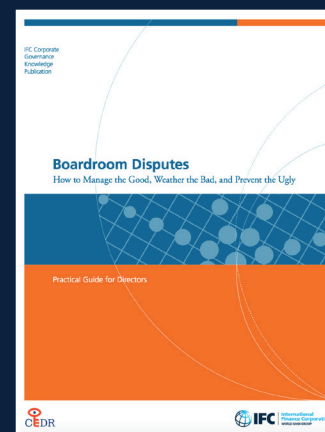


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Focus 14: Disclosure of Beneficial Ownership after the Panama Papers



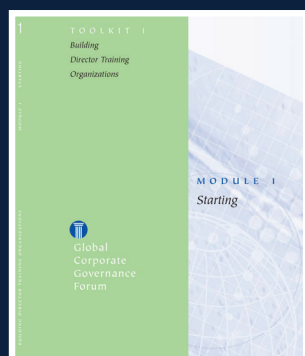
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To support the improvement of the CG framework and regulatory environment in which companies operate



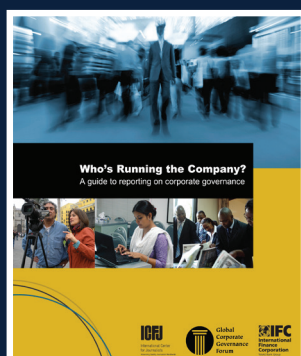
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To provide training material that builds on directors' expertise and emphasize practical approaches to leadership



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To promote understanding of good CG practices among reporters



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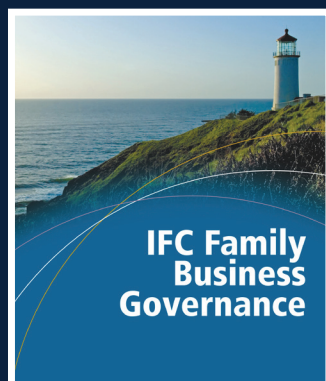
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METHODOLOGY AND TOOLS



The process of analyzing companies' corporate governance structures, policies and processes applying the relevant set of tools for listed companies, family businesses, financial institutions, funds, state-owned enterprises, and SMEs.

For more information regarding any of these toolkits and manuals, contact Ghita Alderman at galderman@ifc.org



Creating Markets, Creating Opportunities

About IFC Corporate Governance Group

IFC Corporate Governance Group brings together staff from investment support and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted services in areas such as board effectiveness, the control environment, and family businesses governance. We also help assess and 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.

For more information about our work, visit:

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For questions and feedback contact

Inna Peoria at ipeoria@ifc.org

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