

# Corporate Governance

## Europe and Central Asia



### 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. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities.

### IFC CORPORATE GOVERNANCE GROUP

The 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 client services in areas such as increasing board effectiveness, improving the control environment, and family business 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.

### WHAT WE DO

IFC works with firms to improve operations, enhance strategy, and attract and retain investment by promoting the adoption of good corporate governance practices and standards and by strengthening investment climates in markets throughout the region.

### HOW WE DO IT

IFC and the World Bank deliver corporate governance services at various levels of a given market, including:

- assessing a firm's corporate governance practices and providing advice on how to improve them;
- providing specialized advisory services on board effectiveness, the control environment and family business governance;
- building capacity of local partners, institutes of directors, media, and educational institutions on corporate governance services, training and reporting;
- working with regulatory institutions and governments to improve corporate governance laws, regulations, codes and listing requirements; and
- raising awareness of corporate governance through conferences, workshops and publication.

### PROMOTING CORPORATE GOVERNANCE PRACTICES IN INVESTEE COMPANIES

IFC's Corporate Governance Methodology is a system of evaluating the corporate governance risks and opportunities of client companies, applying the relevant set of tools in the areas of commitment to good corporate governance practices, shareholder rights, accountability and the board of directors, the control environment, and disclosure and transparency.

IFC is the first development finance institution to undertake corporate governance analysis of every investment transaction as part of its standard due diligence process. This focused approach has been implemented for many years but it was formalized as of July 1, 2011. This has helped IFC identify relevant corporate governance risks in our clients and suggest appropriate solutions to address the risks and take advantage of improvement opportunities. IFC now leverages this expertise and offers firm-level services to other companies in the region on a selective basis in order to help build a strong demonstration effect in the market.

### EUROPE AND CENTRAL ASIA CORPORATE GOVERNANCE PROGRAM

The Europe and Central Asia (ECA) Corporate Governance Program builds on IFC's decade-plus of corporate governance experience in the region. This work helps improve the corporate governance practices of companies and financial institutions throughout the region, enabling better operational efficiency and strategic decision making, increased investor and creditor confidence, and expanded access to finance.

## OUR WORK WITH LOCAL PARTNERS

After many years delivering CG services in ECA independently, IFC has moved to a different model, focused on building the local corporate governance consulting industry, as a way to ensure sustainability once IFC exits. We train local partners, giving them the technical skills and know how to provide corporate governance consulting services to companies and financial institutions. Efforts here include facilitating events to build a network of consultants who can share knowledge and learn from each other.

The work is propelling notable, locally generated progress, with a multiplier effect in several markets. For example, IFC's partner in FYR Macedonia, the Macedonian Institute of Directors, is moving toward full financial sustainability, while supporting the work of sister organizations in other nations—such as providing guidance on strategy for IFC partner Advantis Broker in Bosnia and Herzegovina. Advantis helped set up the Bosnian Institute of Directors, through which it delivers corporate governance training using IFC methodology, and is also independently providing company consulting services. IFC has also helped Armenian and Georgian Institutes of Directors in developing their business plans.

## SUCCESS STORY: ALTYN AJYDAAR, KYRGYZ REPUBLIC

Founded in 1995, Altyn-Ajydaar is an award-winning regional leader in the corrugated packaging industry and a prosperous family-owned business, supported by a series of IFC loans and careful strategy. As part of our 2011 investment appraisal process, we conducted a corporate governance assessment for the company, which revealed several key challenges related to CEO succession planning and internal controls and proposed changes to address the issues.

With corporate governance studies showing that family-owned businesses sometimes struggle to survive the transition to the second generation, the owners understood the importance of implementing the recommended changes. They created a family constitution to formalize succession planning and reduced key-person risk by developing a training process for younger family members. They also implemented a code of ethics, introduced internal processes and controls, and clarified roles and responsibilities.

These corporate governance improvements have directly and positively impacted the company. In early 2015, IFC rewarded Altyn-Ajydaar's corporate governance improvements by reducing the relevant spread on an existing loan from 6 percent to 5.2 percent—a significant saving. In addition, the changes have laid the groundwork for a seamless transition to the next generation while mitigating risks as the company moves forward with its multi-national expansion plans, ensuring that subsidiaries maintain corporate governance practices consistent with company standards.

## SELECTED REGIONAL RESULTS AND IMPACT AS OF SEPTEMBER 2015:

- \$620 million in financing for companies facilitated due in part to corporate governance improvements.
- 86% of in-depth client companies reported day-to-day operational improvements as a result of their CG work.
- 40% of companies reported increased ability to access finance as a result of their CG upgrades.
- 2,700 companies and banks were reached, representing more than 5,500 participants attending over 300 training and public-awareness events.
- 3,700 local business executives participated in CG workshops conducted by local IFC-trained partners.
- 2,300 women attended CG events or received CG training.
- 500 local consultants built their CG skills and knowhow, attending 74 workshops in selected ECA countries.
- 111 local trainers improved their knowledge and ability to deliver CG workshops through train-the-trainers programs.

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