



## *Welcome to IFC Sustainability Webinar Series*

# **IFC Helps Companies Improve Corporate Governance to Operate More Profitably and Grow**

*Presented by*

**Roman Zyla**

Senior Corporate Governance Officer  
Corporate Governance  
IFC Environment, Social and Governance Dept.

May 19, 9:30am – 10:30am EDT (Washington, DC)

# Presenter: Roman Zyla



**Roman Zyla** is Senior Corporate Governance Officer, Corporate Governance, in IFC's Environment, Social and Governance Department in Washington D.C.

Roman joined IFC in 2002 as Manager of the Ukraine Corporate Development Project in the Kyiv office. He has extensive experience working with financial institutions, family-owned companies, and state-owned enterprises. He has 15 years of experience in risk research, small enterprise and corporate development, and has served as a board member of a family-run company. He is a specialist in transition economies of the former Soviet Union and business development.

Roman holds a PhD from University College, University of London on the subject of small and medium enterprise development. With experience across Sub-Saharan Africa, he has also worked throughout Eastern and Central Europe, Central Asia as well as in East Asia, Middle East and North Africa, and Latin America. A Canadian, Roman is fluent in English, French and Ukrainian and has knowledge of other languages to help in his work. Currently based in Washington, D.C., he will relocate to Johannesburg in July 2014.

# Part I

## Mainstreaming IFC's CG Methodology

# Objectives

1. Provide a general view of CG as considered by IFC
2. Explain the “mainstreaming” of CG in IFC’s investment process
3. Walk through the process and tools used by CG Officers and Investment staff to assess CG in deals
4. Provide overview of the DFI approach to CG assessment
5. Answer any questions you may have / provide you an idea of where to find out more.

# An Introduction to CG Mainstreaming

## What is Mainstreaming?

IFC 'mainstreaming' of CG requires that corporate governance issues are considered in a structured manner in each investment transaction. A structured manner includes:

- ⑦ Specific checkpoints within each transaction cycle at which the investment team will be prompted for evaluation of the need for CG tasks
- ⑦ Specific tools for use by investment officers to structure their analysis and reporting of corporate governance additionality and risk
- ⑦ A specific linkage between risk-tiering of IFC transactions and the level of corporate governance intervention
- ⑦ 5 specific areas of corporate governance additionality and/or risks to be reviewed at the decision meetings and in presentations to the IFC board

# In Introduction to Mainstreaming

Mainstreaming makes doing CG analysis easier for IOs by:

- ⑦ **Providing for consistent use** of the IFC Corporate Governance Methodology in the IFC investment cycle
- ⑦ **Aiding** the investment officer in discussion of corporate governance issues with our clients
- ⑦ **Facilitating** the consideration of corporate governance issues at decision meetings
- ⑦ **Identifying** where assistance is to be obtained when an IO encounters complex CG issues
- ⑦ **Assigning** a CG specialist to every deal that needs one
- ⑦ **Synchronizing** the responsibility for CG analysis with the risk-tiered approval process
- ⑦ **Clarifying** the level of CG analysis to be undertaken by the investment officer
- ⑦ **Specifying** the points in the investment cycle that CG action is to occur

# Why Mainstream?

Why Mainstream CG Analysis? – To realize value addition and risk mitigation

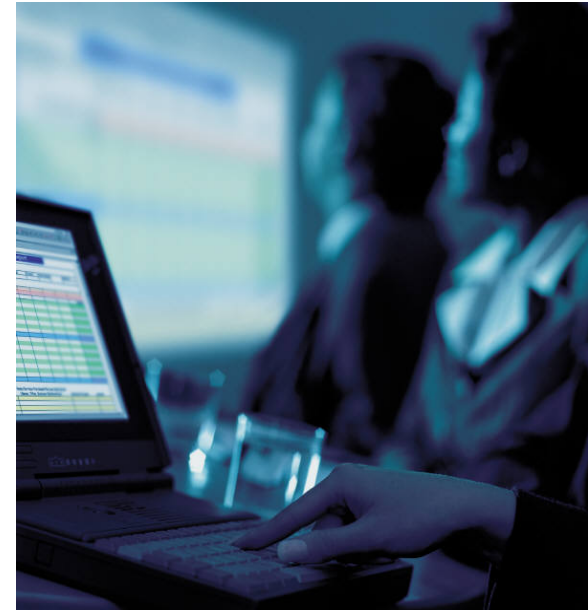
1. Definition of Corporate Governance
2. Mitigation of the 5 Key Corporate Governance Risks
3. Value Addition from Good Corporate Governance

# How IFC defines CG

- Commitment to CG
- Boards of directors (checks and balances)
- Control environment (accounting, controls, internal and external audit)
- Transparency and disclosure
- Financial stakeholders (shareholders)

\* What we look at in a company

**Corporate governance refers to the structures and processes for the direction and control of companies**





# Business Case for Good Governance (or, why should Clients Really Care About CG?)

Provides Access to, Lowers Cost of Capital

Helps Manages Risk;

Improves Operational Efficiency;

Enhances a Company's Reputation

Adds value to firms



# Why Mainstream?

## To Mitigate Risk.

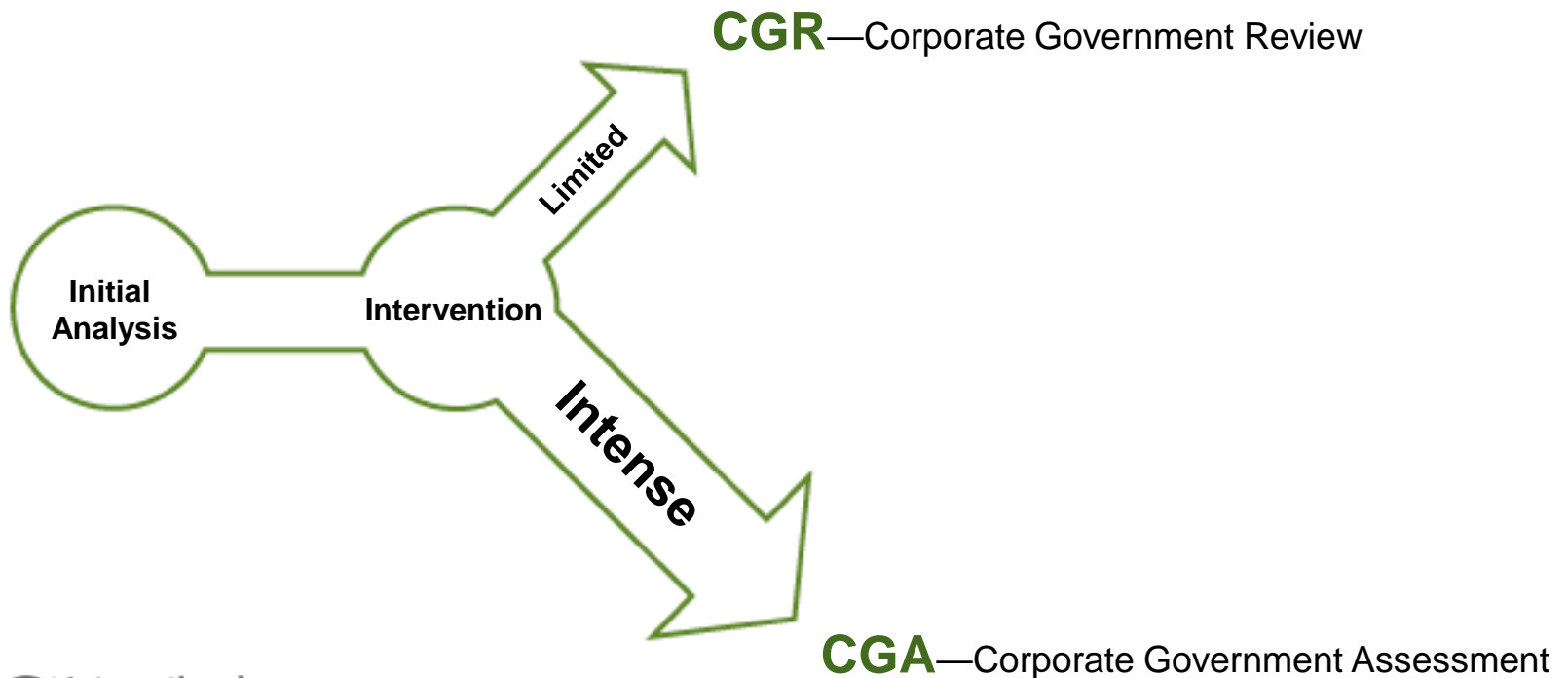
### Mitigation of the 5 Corporate Governance Risks

- Risk 1** The board of directors is not up to the task of overseeing the strategy, management and performance of the company.
  - No proper “check and balance” of managers – **e.g., UBS, Barings, Lehman Bros**
- Risk 2** The company’s risk management and controls are insufficient to ensure sound stewardship of the company’s assets and compliance with relevant regulations.
  - Catastrophic operating systems failure – **e.g., Societe Generale, JP Morgan**
- Risk 3** The company’s financial disclosures are not a relevant, faithful, and timely representation of its economic transactions and resources.
  - Fraudulent numbers shared with investors/capital markets – **e.g., Nikol-Fert, Enron, Satyam**
- Risk 4** The company’s minority shareholders’ rights are inadequate or abused.
  - Minority shareholders rights trampled or they need courts for recourse – **e.g., Royal Ahold,**
- Risk 5** The IFC potential investee company and its shareholders have not demonstrated a commitment to implementing high quality CG policies and practices.
  - Much of what investors see is window dressing – **e.g., Nova Hut, Ades Alfindo**

# CG Intervention

## Levels of CG Intervention: Intense or Limited

Initial Analysis by Team Leader Early in Client Engagement can lead to **two possible** levels of intervention:



# CG Intervention

## Reviews (CGR) vs. Assessments (CGA)

**CGR and CGA differ in depth, tools, and main actor of analysis**

	<b>Review (CGR)</b>	<b>Assessment (CGA)</b>
<b>Objective</b>	<b>Risk Mitigation</b>	<b>Value addition and risk mitigation: (in-depth approach)</b>
<b>Lead Actor</b>	<b>IO (supported by CG Unit)</b>	<b>Corporate Governance Officer</b>
<b>CG Unit Site Visit</b>	<b>Not required</b>	<b>Required (nearly always)</b>
<b>Output</b>	<b>Decision book section/covenants</b>	<b>CG Assessment report/Decision book section/covenants</b>

# CG Intervention

## CGR (IO) vs. CGA (CG Unit)

### ⑦ **Credit factors (size, type, CRR)**

- All deals requiring approval by COC will be a candidate to a CGA (led by an officer from CG Unit)

### ⑦ **Non-credit factors**

- If deal approval elevated to “director level” due to CG risks, the director decides if CGA (CG Unit) or CGR (IO)

### ⑦ **All other deals will be subject to a CGR (by the IO)**

# The Corporate Governance Review (CGR)

## Core Tool—Simple Progression Matrices

	Level 1	Level 2	Level 3	Level 4
CG Attributes	Acceptable	Extra Steps	Major Contributions	Leadership
Commitment to Good CG				
Structure and Functioning of the Board of Directors				
Control Environment				
Transparency and Disclosure				
Treatment of Minority Shareholders				



# CORPORATE GOVERNANCE PROGRESSION MATRIX FOR FOUNDER/FAMILY – OWNED (UNLISTED) COMPANIES

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ATTRIBUTES	LEVEL 1 <i>Understanding the need to professionalize the Company</i>	LEVEL 2 <i>First concrete steps toward best practices</i>	LEVEL 3 <i>Implementation of best practices</i>	LEVEL 4 <i>Leadership</i>
<b>A. COMMITMENT TO CORPORATE GOVERNANCE</b>	<ul style="list-style-type: none"> <li>- The basic formalities of corporate governance are in place including: <ul style="list-style-type: none"> <li>- Board of Directors;</li> <li>- Annual Shareholders' meeting;</li> <li>- Shareholders and shareowners identified and recorded.</li> </ul> </li> <li>- Board member or high-level company executive explicitly charged with responsibility for improving corporate governance practices.</li> </ul>	<ul style="list-style-type: none"> <li>- Written policies established addressing key elements in family firm governance: <ul style="list-style-type: none"> <li>- Succession planning;</li> <li>- Human resources and family-member employment;</li> <li>- Non-family-member share ownership.</li> </ul> </li> <li>- Management/Board approves annual calendar of corporate events.</li> </ul>	<ul style="list-style-type: none"> <li>- Corporate Governance policy covers: <ul style="list-style-type: none"> <li>- Role of Board vis-à-vis management;</li> <li>- Long-term planning for corporate governance of company commensurate with business plan.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Applicable corporate governance, accounting, auditing and internal controls, and shareholder information practices are equivalent to those in place at best practice public companies (i.e., little would need to be done to qualify to make a public offering).</li> <li>- Company fully complies or explains any deviations from all applicable provisions of voluntary code of best practices of the country (some elements of which may be applicable only to public companies).</li> </ul>
<b>B. STRUCTURE AND FUNCTIONING OF THE BOARD OF DIRECTORS</b>	<ul style="list-style-type: none"> <li>- Board of Directors constituted and meets periodically.</li> </ul>	<ul style="list-style-type: none"> <li>- Board Meetings held according to a regular schedule, agenda prepared in advance, minutes prepared and approved.</li> <li>- Non-family members (probably company executives or ex-executives) appointed to the Board and core competency (skill mix) review of Board conducted, or advisory Board of independent professionals established and consulted on a regular basis.</li> </ul>	<ul style="list-style-type: none"> <li>- Board composition (competencies/skill mix) adequate to oversight duties.</li> <li>- Annual evaluation conducted.</li> <li>- Audit Committee of non-Executive Directors established.</li> <li>- Directors independent of management and owners appointed to the Board (perhaps "graduated" from the advisory Board).</li> </ul>	<ul style="list-style-type: none"> <li>- Audit committee composed entirely of independent directors.</li> <li>- Nominating Committee established.</li> <li>- Compensation Committee established.</li> </ul>
<b>C. CONTROL ENVIRONMENT AND PROCESSES</b>	<ul style="list-style-type: none"> <li>- Adequate internal control systems are in place and are periodically reviewed by independent external auditors.</li> </ul>	<ul style="list-style-type: none"> <li>- Internal audit and internal control systems are in accordance with <u>highest national standards</u>.</li> </ul>	<ul style="list-style-type: none"> <li>- Internal audit and internal control systems are consistent with <u>highest international standards</u>.</li> </ul>	
<b>D. TRANSPARENCY AND DISCLOSURE</b>	<ul style="list-style-type: none"> <li>- Adequate accounting and auditing systems in place including: <ul style="list-style-type: none"> <li>- Quarterly financial reports prepared by internal accounting and approved by the Board;</li> <li>- Annual financial statements audited by independent external auditors and approved by Shareholders' Meeting.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Accounting and reporting are performed in accordance with the <u>highest national standards</u>.</li> <li>- The annual audit is performed by a recognized accounting firm in accordance with the <u>highest national standards</u>.</li> </ul>	<ul style="list-style-type: none"> <li>- Accounting, reporting and auditing systems meet the highest <u>international standards</u>.</li> </ul>	
<b>E. SHAREHOLDERS</b>	<ul style="list-style-type: none"> <li>- <u>All</u> shareholders kept informed of company policy, strategy and results of operations.</li> <li>- Annual shareholders' meetings held.</li> </ul>	<ul style="list-style-type: none"> <li>- Shareholders provided with all material information and detailed agenda in advance of shareholders' meetings.</li> </ul>	<ul style="list-style-type: none"> <li>- Family council established (if number of family members large or substantial portion are not working in the business).</li> </ul>	<ul style="list-style-type: none"> <li>- Company in position to quickly implement all aspects of best practice code with respect to shareholders when company to go public.</li> </ul>

# CompanyX: Corporate Governance Review

CG Risk	Risk	Description and Mitigants
<b>Commitment to Good CG</b>	Moderate	<p>CompanyX 's written corporate CG policies and coded practices are in place and go well beyond the minimum legal and regulatory requirements in CountryK. There is a nationally embraced corporate governance code for listed companies in the country. Within the Company, a system exists where accountability meetings, consultations and reviews are expected to be held on a weekly, monthly and quarterly basis. These include the weekly meetings of the Leadership team, monthly business reviews (with management reports) and project review meetings and quarterly 'village' meetings for the professional staff. It is however not clear, with the exception of the Board Committee meetings that are well documented, whether these internal consultations and processes take place or are monitored or efficiently conducted. Overall, the system appears cumbersome and 'procedure-heavy' for the company of this size.</p> <p><b>Recommendations:</b> The Company needs to work on a realistic and most time- and cost-efficient CG system for its operations. This includes improving the company's understanding of the limitations of its current internal management practices and decision-making structure in a relatively authoritarian and compartmentalized corporate culture and systematically addressing these issues.</p>
<b>Board Structure and Function</b>	Moderate	<p>The CompanyX Board is made up of six Non-Executive Directors and two Executive Directors. The position of the Chairman is distinct from that of a Managing Director. The Board meets six times a year. Every new appointed director undergoes an induction process. The Non-Executive Chairman and two of the Non-Executive Directors out of six are closely associated with UAC as a present or former employees and one is a representative of a significant shareholder (First Trustees fund).</p> <p>The Board functions through the Risk &amp; Governance Committee and the Finance &amp; Projects Committee that make recommendations for approval by the full Board. Records are kept of the presence of Committee members in the meetings of which there are five annually. Both Executive Directors belong to the Committees and both Committees are chaired by current or former UAC employees, which gives significant influence to the parent company and compromises some of the independence of decision-making on the subsidiary level.</p> <p><b>Recommendations:</b> More real estate sector expertise, independence and transparency need to be injected to the Board. IFC should also be granted an Observer Seat on the Board.</p>
<b>Risk Management and Controls</b>	High	<p>BigAuditCO acts as CompanyX's external auditors. The company is currently transferring from CountryK GAAP to IFRS. Risk Management &amp; Controls matters should fall under the responsibilities of the Board's Risk &amp; Governance Committee; however no individual member of upper management is accountable solely for risk management, which partly contributes to the fact that CompanyX has issues with internal controls and systematic risk assessments. During and following the appraisal, CompanyX's information records and information management systems have proven to be deficient and inadequate and cannot provide reliable information in satisfactory detail for informed day-to-day or strategic decision-making. No formalized regular auditing or monitoring systems are in place for staff or management to effectively provide feedback or recommendations on the operations.</p> <p><b>Recommendations:</b> A new MIS to be put in place, together with new information-sharing practices and policies. Systematic risk assessment and mitigation strategies need to be implemented throughout the organization and clear responsibility needs to be assigned.</p>



# CompanyX: Corporate Governance Review

CG Risk	Risk	Description and Mitigants
<b>Transparency and Disclosure</b>	High	<p>CompanyX is a publicly listed company and thereby needs to satisfy the transparency and disclosure requirements of the CountryK Stock Exchange. While the Company's external accounts are audited by BigAuditCO and the Company allegedly runs SAP to assess and report regularly and when needed on its operations, CompanyX's internal accounts, analysis and reporting lack both quality, detail and transparency. The consistency and reliability of operational and financial data provided by the company is oftentimes questionable and some historical data has been lost or is otherwise unavailable; some basic data and key performance indicators for the real estate sector have historically not been assessed and therefore often not available. Explanations for some key strategic or financial decisions (such as dividend payout) are not given in the Annual Report.</p> <p><b>Recommendations:</b> New suitable Management Information Systems are to be put in place and staff is to be trained in their use; Finance Team and the overall analytical capacity of the Company must be strengthened and monthly management reports introduced with adequate KPIs to assess performance and enable informed decision-making.</p>
<b>Treatment of Minority Shareholders</b>	Moderate	<p>CompanyX is majority owned (46%) by its parent company UAC of CountryK and this is strongly reflected in the composition of the Board (where the Chairman and Committee Chairs are all UAC representatives) as well as certain key strategic choices of the company (e.g. dividend policy); the degree of interdependence between the company and its parent is however not fully transparent. The second largest shareholder, the First Trustees fund (14% of shares), has a representative on the Board.</p> <p>There is no separation of voting rights from ownership rights. IFC is not aware of any negative history of shareholder relations or particular minority shareholder abuses.</p> <p><b>Recommendations:</b> New independent sector expert Board members should be assigned to ensure that the company strategy serves all shareholders' interests at large.</p>

# Mainstreaming makes CG analysis easier by:

- ⑦ **Providing for consistent use** of the IFC Corporate Governance Methodology in the IFC investment cycle
  - Clear directive for all transactions, no guesswork
- ⑦ **Aiding** the investment officer in discussion of corporate governance issues with our clients
  - 5 clear risks and additionality instead of a diffuse subject
- ⑦ **Facilitating** the consideration of corporate governance issues at decision meetings
  - Approving Managers & directors have questions around the 5 key risks (and idiosyncratic issues)
- ⑦ **Identifying** where assistance is to be obtained when an IO encounters complex CG issues
  - Assigning a CG specialist to every deal that needs one

# Mainstreaming makes CG analysis easier

- ⑦ **Synchronizing** the responsibility for CG analysis with the risk-tiered approval process
  - Uses IFC wide measure of risk, integrated with other transaction considerations
- ⑦ **Clarifying** the level of CG analysis to be undertaken by the investment officer
  - Clear differentiation btw CGR and CGA
- ⑦ **Specifying** the points in the investment cycle that CG action is to occur
  - Specific actions at specific points
  - Additional training available

# Conclusions

- CG adds value
- CG is integral to all investment deals (explicitly or implicitly)
- CG analysis is required – FGA or DDR
- Managers – ensure staff is diligent, conscientious, and skeptical about promises



Our motto:  
**“United Front Against Window Dressing”**

Q & A

# Part II

## The Corporate Governance Development Framework:

A Common Corporate Governance Approach for  
Investors in Emerging Markets

# Milestones

Paris, June 2004, hosted by IFC

- Introduction & sharing of the IFC CG Methodology

Amsterdam, March 2007, hosted by FMO & IFC

- DFIs CG Approach Statement & CG Working Group

Tunis, October 2008, hosted by AfDB

- Strengthening CG collaboration among DFIs

Rio de Janeiro, November 2009, hosted by CAF

- Implementation assessment and agreement on creating common CG tools

## Milestones (cont.)

Jeddah, January 2011, hosted by IsDB

- Introduction of the DFI Toolkit on CG

Washington DC, September 2011, hosted by IFC

- Signature of the CG Development Framework by 29 DFIs

Cologne, February 2012, hosted by DEG

- Introduction of the CG Development Framework

Manila, February 2013, hosted by ADB

- Implementation of the CG Development Framework & 2 New Signatories

Washington DC, March 2014, hosted by IIC

- Implementation of the CG Development Framework & 2 New Signatories



# CG Development Framework

5 key components:

## 1. Integrate CG analysis in investment operations

- Adopt CG procedures and tools in line with the Framework's methodology;
- Where considered appropriate, conduct CG assessments of investee companies and develop CG action plans;
- Monitor progress of the implementation of CG action plans.

## 2. Ensure internal responsibility

- Identify and assign an internal function that is responsible for the implementation of the Framework.

# CG Development Framework

## 5 key components (continued):

### 3. Provide or procure training

- Ensure capacity building and knowledge transfer to staff for the implementation and further development of the Framework.

### 4. Collaborate with other signatories

- Share experience and resources in training and implementation.

### 5. Report on implementation

# 33 Signatories



AFRICAN DEVELOPMENT  
BANK GROUP



African Export-Import Bank  
*The Trade Finance Bank for Africa*



Asian Development Bank  
FIGHTING POVERTY IN ASIA AND THE PACIFIC



# Signing Event, September 23, 2011 - World Bank/IMF Annual Meetings, Washington, DC



# CG Development Framework Signing Event, September 23, 2011 - World Bank/IMF Annual Meetings



***“By adopting a common approach... we will be setting consistent standards for corporate governance due diligence and common expectations from our clients...thereby raising the bar for corporate governance in emerging markets.”***

Lars Thunell, Sept. 23, 2013  
IFC, Executive Vice President

# CG Working Group

## Members:

- ADB- Enzo Gregori
- BSTDB- Vassilis Christakis
- CAF- Michael Penfold & Andres Oneto
- CDC- Barry Lawson
- DEG- Anne Keppler
- EBRD- Gian Piero Cigna
- FMO- Martin Steindl - Chairman
- IIC- Rebeca DeTagle White
- IFC- Sanaa Abouzaid & Darrin Hartzler
- IsDB- Ababacar Gaye

## Next steps

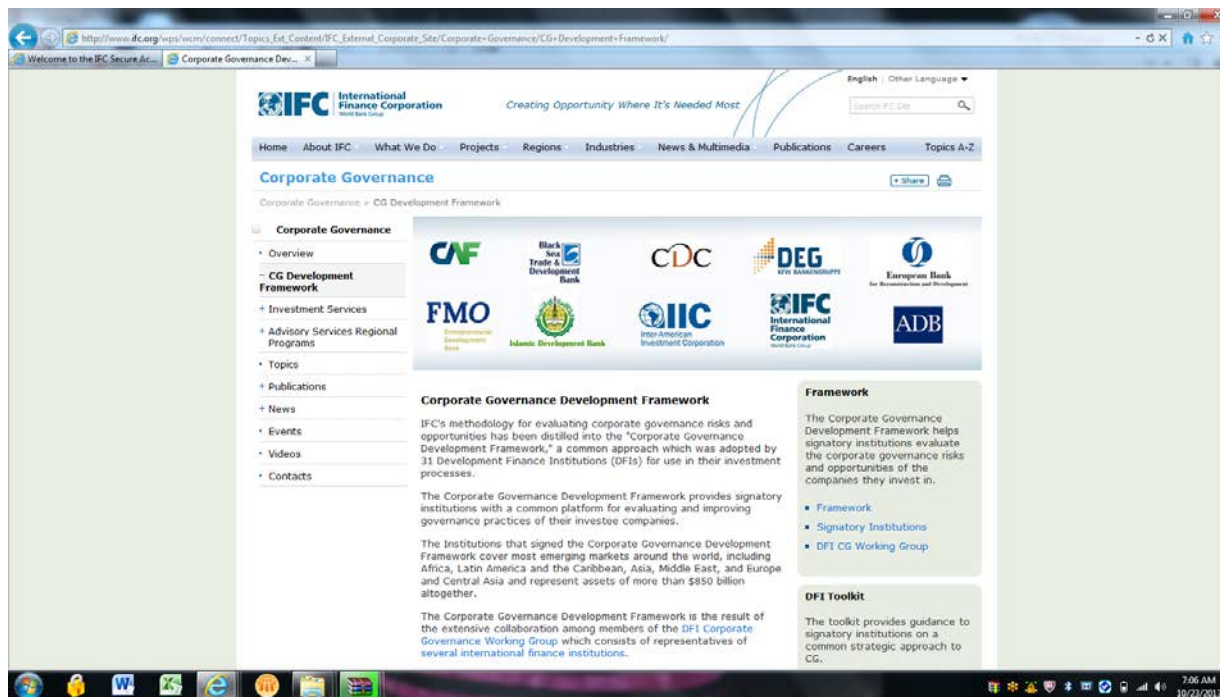
- More collaboration among signatories (led by the Working Group)
- A joint website featuring CG resources, publications, and training opportunities
- Reaching out to the non-DFIs investment community



# More Information - Web Sites

[www.cgdevelopmentframework.org](http://www.cgdevelopmentframework.org)

[www.ifc.org/cgdevelopmentframework](http://www.ifc.org/cgdevelopmentframework)





Q & A