Corporate Governance

KEY HIGHLIGHTS OF 2013

Corporate governance is defined as the structures and processes by which companies are directed and controlled. Good corporate governance helps companies operate more efficiently, mitigate risk and safeguard against mismanagement, and improve access to capital that will fuel their growth. It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns, including implementation of good environmental and social practices.

Corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities. Businesses that operate more efficiently tend to allocate and manage resources more sustainably. Better stakeholder relationships help companies address environmental protection, social, and labor issues.

With strong donor support, IFC continues to strengthen corporate governance programs in underserved regions, particularly in Sub-Saharan Africa, Latin America, and East Asia and the Pacific, by closely integrating its investments and advice, and focusing on capacity building of intermediaries, resulting in improved operational efficiency.

In 2013, we nearly doubled our firm-level corporate governance engagements. Thirty-one development finance institutions have now adopted the Corporate Governance Development Framework, which is based on IFC's methodology.

In Europe and Central Asia, local partners have been independently delivering corporate governance services in their markets, both in terms of training as well as consulting services. In China, we established a partnership with the Association of Public Companies to update the China Corporate Governance Guidelines for Listed Companies, develop a White Paper on Corporate Governance in China, train board directors, supervisors and senior executives of locally-listed companies, and research specific corporate governance issues.

In 2013, IFC also achieved positive milestones in improving business environments across the world. For example, we organized consultations with regulators in Bangladesh to establish greater consistency on corporate governance codes, rules, guidelines, and regulations, and provided recommendations that were incorporated in the revised bank company's act. We also helped the Financial Regulatory Commission of Mongolia improve corporate governance provisions in their revised company laws. In Vietnam, we supported the State Securities Commission to introduce new regulations to strengthen corporate governance practices and the disclosure requirements of public companies.

We also worked with the Gosfinnadzor (Security Commission) of the Kyrgyz Republic to develop the country's corporate governance code, which was unanimously approved in 2013. In Indonesia, we helped initiate a regulatory improvement roadmap for Indonesia's new combined regulator Otoritas Jasa Keuangan. We collaborated with the Jordanian Securities Commission to make 12 provisions from the Corporate Governance Code mandatory starting in fiscal year 2014.

In 2013, we continued to promote codes and regulations. As of now, IFC contributed to the development of 77 corporate-governance codes in 24 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.

In our engagement with fragile and conflict-affected states, IFC is working in countries such as Timor-Leste, Yemen, Bosnia and Herzegovina, Myanmar and Iraq to promote good corporate governance practices.

In 2013, IFC developed new specialized firm-level services for clients in key areas of the control environment, board effectiveness and family business governance to help companies operate more profitably and grow. IFC also developed new training supplements for corporate secretaries and corporate governance scorecards and launched a media guide on corporate governance reporting that has been translated into five languages, some of them by partners.

We also produced and launched the publication ***"Raising the Bar on Corporate Governance: A Study of Eight Stock Exchange Indices,"*** joint work with the World Bank Corporate Governance Program.

PROJECT EXAMPLE: IMPROVING CORPORATE GOVERNANCE IN EGYPT

IFC helped Cairo for Investment and Real Estate Development (CIRA) strengthen its corporate governance to improve performance and smoothly transition to new leadership.

CIRA is a Cairo-based education company that currently operates 18 schools with a combined enrollment of over 13,000 students.

CIRA is at the forefront of providing quality education for young people in Egypt. CIRA runs a network of 18 schools that offers an alternative to otherwise expensive private schools and lower-quality free public education. The company has plans to further expand its schools into rural areas.

Despite its success, CIRA faced many significant challenges preparing for the future.

The company had outgrown its governance framework and management infrastructure. In many ways, the company ran itself as a small, closely-held business with a key person as its chairman, who was also serving as CEO and making many day-to-day decisions.

In addition, the company was on the precipice of transitioning to a new generation of leadership as its then Chairman/CEO and other Board members were approaching retirement. In light of this, crucial actions needed to be taken to strengthen CIRA's corporate governance framework.

IFC conducted a corporate governance assessment of the company in July 2008, followed by a short review in May 2011 to follow up on implementation. Our team also conducted interviews with CIRA's board directors and key senior staff to better understand the company's operations.

IFC then prepared an analysis of the company's governance system, highlighted areas for improvement and developed an improvement program. We agreed on a timetable and methods for the implementation of this program, which then helped the company attract investment.

As a result of IFC's intervention, the company asserts that the key corporate governance reforms they implemented have led to improved board discussions and decision-making; stronger management control; enhanced disclosure; improved sustainability; and efficiency gains due to changes in financial processes that have significantly reduced mistakes and rework.

The improvements have, in turn, fueled investors' interest and improved access to capital, including a recent $15 million IFC loan to CIRA, with one investor singling out CIRA's efforts to prepare for its second generation as a key reason facilitating their investment.

IFC uses its Corporate Governance Methodology to perform in-depth assessments for companies and banks that reinforce the business case for good governance by providing local evidence from the region. This helps to encourage other companies in the region to adopt better governance practices.

December 2013