



# Corporate Governance Experiences

Linda Broekhuizen, *Manager Sustainability*

Ruhi Cosgun, *Investment Officer*

**FMO**

Finance for Development

Jeddah, 26 January 2011

## Introduction

1. Corporate Governance Implementation in FMO
2. Feedback from Investment Officers on the CG Toolkit
3. FMO-DEG cooperation





# 1. Corporate Governance Implementation in FMO

**FMO**

*Finance for Development*

## 1. Corporate Governance Implementation in FMO

- Started at credit department: one person responsible
- Already integrated in credit process: CG and management sections
- As of 2009 Sustainability / ESG part of strategic focus
- Management commitment to mainstream ESG

## 1. Corporate Governance Implementation in FMO

- Client oriented approach with focus on implementation
- More structured and uniform approach to CG in full credit process
- Business case: focus on risks and opportunities, pricing incentives
- “*Corporate governance champions*” from all commercial, legal, special operations and audit, compliance & control departments



## 1. Corporate Governance Implementation in FMO

- Champions involved in various stages of implementation
- Processes, procedures and tools aligned with E&S
- Training of IO's and pilots of CG action plans started
- Standardized "SMART" action plans tracked in central MIS
- Legal contract clauses to be defined





## 2. Feedback from IO's on the Toolkit

**FMO**

*Finance for Development*

## FMO's experience with the CG toolkit in 2010

- Pilot projects were identified
- CG Matrix used to assess 4 FI clients and 2 Corporate clients
- 4 CG improvement plans agreed
- 4 times an incentive plan was agreed (between 20bps to 100bps)





## Corporate Governance Matrix

Investment officers that worked with Financial Institutions said:

- “CG matrix is a nice tool to measure the CG level of our clients”
- “It helps us maintain a uniform language regarding CG”
- “Its useful to help us comparing Bank A with Bank B”
- “Offers the possibility on focusing on core questions/issues”.
- “Helps to monitor the progress of clients CG”



## Corporate Governance Matrix

Other comments of IO's:

- “The reality is sometimes difficult to catch in a matrix, there is always some subjectivity or judgment left that is too difficult a place”
- “What is the use of level 3 and 4”
- “Some best practices are not yet adopted or allowed in some jurisdictions”



## Some Cases

- Latin American FI: - Structure and functioning of Board (concentration of power).
  - Minority rights (shares with multiple voting rights).
  
- Co's: - Structure and functioning of Board (concentration of power or the opposite, no Independent Board members and Succession).
  - Transparency and disclosure (no IAS).



## Improvement plan and Financial Incentives

- Indirect involvement through IFC partnership
- CG was a sensitive topic, initial process improvement started with small changes
- Once trust was gained, bigger changes could be implemented
- Incentives influenced the willingness of client to work on processes and internal controls
- FMO was complimented on offering such a (motivational) product
- However, it is a long process and sometimes client found it hard to accept all consultant recommendations.



To summarize:

“CG improvement is evolution,  
not a revolution”

*Golomt Bank - Mongolia*





## 3. FMO-DEG Cooperation

**FMO**

*Finance for Development*

## 3. FMO-DEG Cooperation

- Training
  - Joint participation
  - Cooperation: DEG Board Members, FMO IO's
- Tool development: extra "level 0" to matrix
  - Based on feedback IO's and clients
  - New scope: basic, emerging, developed, advanced  
and international best practices





Questions ...

**FMO**

*Finance for Development*



## Some questions for open discussion

- How to recognize “informal” power imbalances ? (paper vs reality)
- How to develop good business cases ?
- How to convince clients to comply with international standards if even local law is not enforced ?
- What impact could different cultures potentially have ?
- How to prevent tool to be “DFI” only tool ?
- Alignment with rating agencies ?

