A Corporate Governance Approach Statement by Development Finance Institutions

October 19th 2007

I. Statement of Purpose

Acknowledge the importance of corporate governance and encourage the largest possible number of Development Finance Institutions (DFIs) to develop guidelines, policies or procedures on the role of corporate governance considerations in their investment operations.

Collaborate amongst each other on an ongoing basis, and when appropriate with our partners, to further advance the cause of good corporate governance.

II. Definition of Corporate Governance

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

The OECD Principles of Corporate Governance provide an international best practice framework, identifying its key practical aspects: the rights and equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the responsibilities of the Board of Directors.

The Principles have gained acceptance throughout much of the world. They can be used as a framework for analyzing the corporate governance environment in different countries, and for improving the governance of individual companies within those countries.

III. Why Corporate Governance Matters

Why Corporate Governance Matters to Emerging Market Companies

- Improving Performance. Good corporate governance can bring better performance for companies because good governance structures and processes can improve decision-making within the company.
- Access to Capital. Good corporate governance can improve access to capital for companies. Much of the attention to corporate governance issues in emerging markets has focused on the role governance can play in improving access for emerging market companies to equity capital, whether from domestic or international sources. An increasing volume of empirical evidence also indicates that well-governed companies receive higher market valuations. Improving corporate governance can also increase the flow of debt financing to companies in developing countries, whether from domestic, international, private or public sources.
- Improving Stakeholder Relations. Better corporate governance leads to transparency and better disclosure, thus providing the opportunity to establish relationships with all stakeholders in fair and more productive terms.

- Developing Capital Markets. Promoting good corporate governance helps develop deeper and broader capital markets over time. In contrast, poor governance undermines the integrity of publicly traded securities and discourages the use of public markets as a means to channel investment.
- Reducing Investment Risk and Adding Value. Improving corporate governance presents opportunities to manage risks and add value to clients. In bad corporate governance environments, poor standards and weak enforcement are barriers to investment. Improving the corporate governance of investee companies allows DFIs and their commercial partners to invest in high risk/high return environments. It can also increase the market valuation of companies and can attract further investment, which in turn would increase exit opportunities on favorable terms.
- Avoiding Reputational Risk. In contrast, if DFIs in emerging markets do not work to improve the corporate governance of client companies, then they assume not only investment risk, but also reputational risk. This risk is particularly serious when minority shareholders and other stakeholders stand to lose from governance abuses.

IV. Why an Approach Statement on Corporate Governance by DFIs

DFIs can be leaders in the promotion of good corporate governance practices because of their emphasis on sustainability in their role as providers of financing and advisory services to emerging market companies. Good corporate governance is a public good and can be considered a pillar of sustainable economic development on par with good environmental and social practices.

Considering the linkages between good corporate governance and access to capital, company performance, and sustainable economic development, improving corporate governance practices has become an important element of the development mission of DFIs.

V. Approach Statement

Each DFI that adopts this Approach Statement will endeavor to:

1. Develop or adopt guidelines, policies or procedures on the role of corporate governance considerations in its due diligence and investment supervision operations; these could cover aspects such as: commitment to good corporate governance, the rights and equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the composition and responsibilities of the Board of Directors.
2. Provide or procure training on corporate governance issues to its investment and supervision staff.
3. Encourage companies where it invests in (whether directly or indirectly) to observe local codes of corporate governance in the spirit of best international practice. Engage company management and board members in a dialogue to foster improvement in those cases where corporate governance practices are weak.
4. Promote the use of internationally-recognized financial reporting standards and encourage investee companies to adopt or align their accounting principles and practices to such standards.
5. Collaborate with other DFIs on an ongoing basis, and when appropriate with its partners, to further advance the cause of good corporate governance.

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