

# CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

# 11th Annual DFI Corporate Governance Conference

Working Group members are:





















# Integrating Stock Exchanges: The Case of the Latin American Integrated Market (MILA)

Marco Antonio Zaldívar President, Bolsa de Valores de Lima



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## **Gobierno Corporativo**

Marco Antonio Zaldívar Presidente Bolsa de Valores de Lima

#### 1. Buen Gobierno Corporativo en el Perú



- En el 2002 se emitió el documento "Principios de Buen Gobierno para las Sociedades Peruanas", el cual tomó como base los Principios para el Gobierno de las Sociedades de la OCDE, considerando características particulares de las sociedades peruanas.
- En el 2012 se instauró el Comité de Actualización de Principios de Buen Gobierno para las Sociedades Peruanas, integrado por 14 instituciones y gremios representativos del mercado.
- El nuevo código presenta una estructura renovada acorde a las necesidades y características del mercado y las sociedades peruanas.
- El código se encuentra dividido en cinco pilares:
  - a. Derechos de los accionistas
  - b. Junta General de Accionistas
  - c. El Directorio y la Alta Gerencia
  - d. Riesgo y cumplimiento
  - e. Transparencia de la información.
- Se han incluido dos anexos de principios complementarios: para las Empresas del Estado (EPE) y para las empresas familiares.

#### 2. Buen Gobierno Corporativo en la BVL



- Se reconoce que la adopción del Código de Buen Gobierno Corporativo para las Sociedades Peruanas es voluntaria. La sociedad que los asuma debe ser capaz de demostrar su adhesión documentadamente, así como su efectiva aplicación en línea con el principio "cumple o explica".
- En este sentido en el año 2008 nace el concurso de Buen Gobierno Corporativo de la BVL, el cual promueve las buenas prácticas corporativas y el reconocimiento público de las empresas listadas en la BVL que cumplen de manera efectiva y eficiente.
- Las empresas que se presenten voluntariamente al concurso deben cumplir tres criterios generales para ser reconocidas:
  - a. Criterio por scoring
  - b. Criterio "La Voz del Mercado"
  - c. Sanciones
- Las empresas con valores suficientemente líquidos serán las que conformen la cartera del S&P/BVL IBGC (índice de buen gobierno corporativo).



#### 2.1. El S&P/BVL IBGC

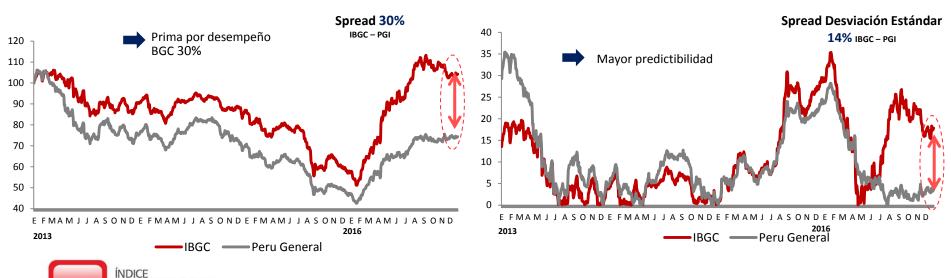
DE BUEN GOBIERNO



- El IBGC es una herramienta importante para los agentes del mercado por:
  - a. Es una fuente de investigación para inversionistas nacionales y extranjeros.
  - Distingue los valores de las sociedades con buen GC y provee visibilidad a los mismos.
  - c. Es un benchmark sobre el desempeño del GC del mercado.







#### 2.2. La Voz del Mercado



- Mide mediante una encuesta la percepción de los principales agentes de mercado de capitales respecto a la calidad del gobierno corporativo.
- La encuesta es administrada por GfK, una empresa encuestadora especializada, bajo metodología de la empresa consultora EY en alianza con la BVL.
- Es aplicada a inversionistas institucionales, analistas financieros, calificadoras de riesgo, académicos, consultores, reguladores y periodistas de negocios del mercado de valores, y otros, tanto locales e internacionales.
- La Voz del Mercado ha sido destacada como una innovación por parte de la OECD en términos de aportar la perspectiva de la demanda.





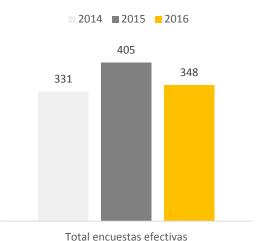
survey is intended to reflect the market's opinion regarding corporate governance compliance of the main listed companies. In other words, the Peruvian framework has provided the market, especially investors, with a set of tools to assess the value of the practices recommended by the code. In addition, the stock exchange and EY give interested issuers individual feedback on their *La Voz del Mercado* results, thus, contributing to awareness raising and capacity building. Peru has complemented an issuer-driven model in which companies have to report their progress, with a market demand-driven one based on polling market participants, thus generating a robust and practice-driven focus.

Marzo 2017

#### 2.2. La Voz del Mercado

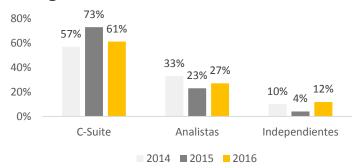


#### **Total encuestado**



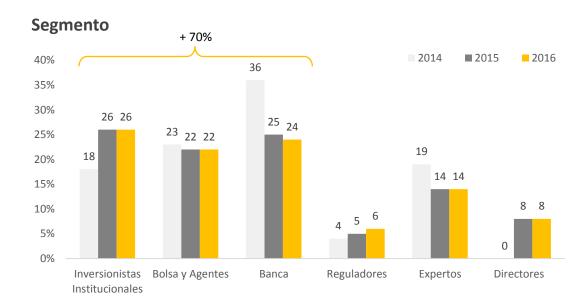
Total encuestas efectivas

#### **Cargos**



C-suite: CEO, CFO, CIO, COO, VP, Country Manager, Director, Ger.Portafolio, Ger.Primera línea, Editor, Rector, Socio.

Analistas: Analista, trader, mandos medios (subgerente, jefatura) Independiente: Consultor, periodista, abogado.



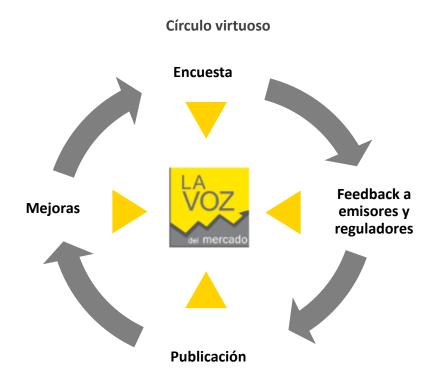
Inversionista Institucional	Bolsa y Agentes	Banca	Reguladores	Expertos	Directores
<ul><li>AFP's</li><li>Family Office</li><li>Seguros</li><li>Tesorería</li></ul>	SAB"s     Clasif.     riesgos     Entidad     Research	Comercial     Inversión     Internacion     al     Desarrollo	Autoridades     Periodistas     de Negocio	Consultor     Abogado     Gremios     Académicos	Emisores no financiero

- **⇒** 38% invierten sus propios fondos en la BVL.
- **→** 58% participaron o acompañaron de cerca una JGA.
- **⇒** 85% desean conocer los resultados de LVdM.

Fuente: Encuesta La Voz del Mercado 2014, 2015 y 2016. BVL-EY



### Como se maneja



#### 2.2. La Voz del Mercado



#### Calidad del GC

 $R^2 = 76\%$ 

#### Confianza

#### Rentabilidad



Eficiencia en la gestión del negocio

#### **Patrimonio**



Resguardo del valor patrimonial

#### **Participación**



Participación en la toma de decisiones

#### Información



Acceso a la información

#### Sostenibilidad



Gestión de la buena reputación

R2:75% 2014,77% 2015,75% 2016

#### 2.3. Reconocimientos otorgados en el concurso



**BVL & EY** 

La Llave

- IBGC
- Reconocimiento por sus Buenas
   Prácticas de GC

Top LVdM

Top mover en LVdM

Concurso de Buen Gobierno Corporativo

La **LLAVE de la BVL** se le otorga a la empresa que reúne de manera simultanea los siguientes tres requisitos:

- 1. Puntaje de validación
- 2. Mayor índice de liquidez
- 3. Entre los 5 primeros en el ranking LVdM



#### 3. Avanzando hacia la sostenibilidad



- En diciembre 2015 la SMV aprobó el Reporte de Sostenibilidad Corporativa con el propósito de que los emisores peruanos revelen al mercado las políticas, estándares y acciones que implementan para asegurar su sostenibilidad, así como para dar a conocer el impacto de sus actividades en el medio ambiente y en el bienestar social.
- Ester reporte complementará la información que se reporta sobre prácticas de buen gobierno corporativo.
- Los temas abarcados en el reporte son:
  - a. Estándares de Buenas Prácticas
  - b. Aspectos Ambientales
  - c. Aspectos Sociales
- A partir de este año los emisores han incluido el reporte de Sostenibilidad en su memoria anual del ejercicio 2016.
- Del mismo modo, la BVL es socio fundador del Programa de Inversión Responsable, entidad que busca promover la incorporación de mejores prácticas de ESG dentro o de los principales actores del sistema financiero nacional.

#### 4. El Mercado Integrado Latinoamericano



**O**PERÚ

- MILA es la primera iniciativa de integración bursátil que se concretó en Mayo 2011 con la firma del acuerdo de integración entre bolsas y depósitos centrales de Chile, Colombia y Perú.
- En diciembre 2014 se oficializó la entrada de México al MILA.

							1
	<b>(4)</b>	<b>**</b>	*		MILA		
	BVL	BVC	BCS	BMV	(*)	BOVESPA	
Capitalización (miles mill. US\$)	124	103	212	334	773	774	
Empresas emisoras	280	71	217	137	705	349	.]
Monto negociado/PBI	1.4	5.4	10.1	11.6	-	30.2	-
Market Cap. / PBI (%)	63.7	37.7	90.4	31.4	-	43.7	

Información actualizada a diciembre 2016. PBI 2016, FMI

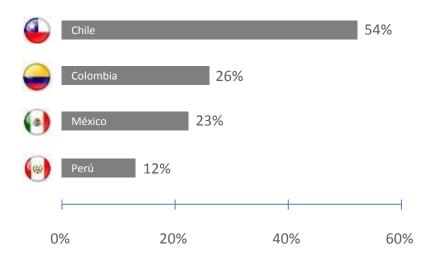
<sup>(\*)</sup> Total: Perú, Colombia , Chile y México

#### 4.1. El Gobierno Corporativo en el MILA



## Cómo calificaría Ud. el Gobierno Corporativo en general de las empresas de los siguientes países:

Calificación de Gobierno Corporativo (Top2Box) Excelente/Muy bueno



Necesidad de mejorar el Gobierno Corporativo en el Perú.

#### Nuestro desafío

- ▶ 37% de las empresas del S&P/BVL Perú General Index se encuentran en la calificación "Regular"
- ▶ 63% de las empresas del S&P/BVL Perú General Index no han participado del concurso de reconocimiento de las prácticas de BGC de la BVL.
- ► Solo **41%** de encuestados considera atractivo/muy atractivo el mercado de capitales en el Perú comparado con el resto de países de la Alianza del Pacífico

Fuente: Encuesta La Voz del Mercado 2014 BVL - EY

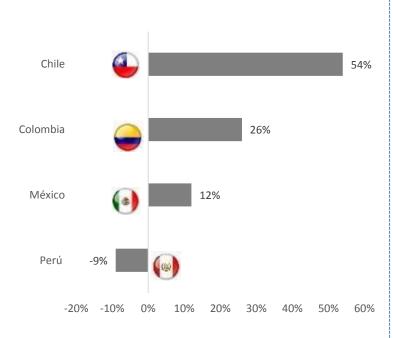
Fuente: Encuesta La Voz del Mercado 2014 y 2016 BVL - EY

#### 4.1. El Gobierno Corporativo en el MILA



#### Percepción de la eficacia del Regulador de cada país





Muy Eficaz / Eficaz / Poco Eficaz / Nada Eficaz / No sé

#### Aspectos de Buen Gobierno Corporativo que debería enfatizar el Regulador del mercado peruano



Fuente: Encuesta La Voz del Mercado 2016. BVL – EY. Sistematización de 325 comentarios. Debido a que los comentarios incluyen referencias a más de un aspecto del GC, la sistematización realizada los consideró como respuestas múltiples. Por eso el total de los porcentajes suman más de 100%.

#### 4.1. Gobierno Corporativo en el MILA



- En febrero del presente año las bolsas MILA, S&P Dow Jones Indices, IFC y RobecoSAM firmaron un acuerdo para el desarrollo de un índice de sostenibilidad.
- En este indicador estarán las emisoras que cotizan en los 4 mercados comprometidas con el cuidado del ambiente, con temas de responsabilidad social y de gobierno corporativo, pero que al mismo tiempo sean una opción atractiva de inversión.



#### MILA:

#### MILA TENDRÁ SU ÍNDICE SUSTENTABLE ESTE MISMO AÑO

Hacia el último trimestre del año, el Mercado Integrado Latinoamericano (MILA) representado por las bolsas de valores de Chile, Colombia, México y Perú, lanzará su propio índice sustentable, representado por empresas de la región que destacan en temas de sustentabilidad.

S&P Dow Jones Indices (S&P DJI), la Corporación Financiera Internacional (IFC, por su sigla en inglés), RobecoSAM y las bolsas del MILA trabajan en el desarrollo de este indicador donde estarán las emisoras que cotizan en dichos mercados comprometidas con el cuidado del ambiente, con temas de responsabilidad social y de gobierno corporativo, pero que al mismo tiempo sean una opción atractiva de inversión.

El naciente índice verde del MILA aún no tiene nombre y en los siguientes meses se definirá el número de emisoras que integrarán la muestra, explicaron en entrevista conjunta Manuel González, director para Latinoamérica de S&P Dow Jones Indices, Rocco D'Urso, gerente sénior de relaciones de RobecoSAM y Carlos Numen Ferro, investment officer para el IFC, miembro del Banco Mundial.

"Estamos apostando lanzarlo (índice sustentable) para finales del último trimestre de este año o, en el peor de los casos, en el primer trimestre del 2018. No podríamos adelantar si va a estar limitada por número de empresas o participación por país, pero el criterio más importante va a ser el de la sustentabilidad", estimó Manuel González.

#### 4. Gobierno Corporativo en el MILA



#### Chile:

- Dow Jones Sustainability Index:
  - El DJSI Chile es el primer índice local de sostenibilidad y permite la internacionalización de los indicadores ESG del mercado accionario.
  - Es una métrica estándar a nivel mundial que da exposición a las empresas chilenas globalmente.
- Normas de carácter general de la SVS (N° 385 y 386):
  - De carácter no obligatorio, con objetivo de generar incentivos para que los inversionistas tomen sus decisiones privilegiando empresas donde sus intereses estén mejor resguardados.
  - Se incluyen elementos de adopción de políticas en materia de responsabilidad social y desarrollo sostenible, difusión de información, calidad de información, tratamiento de conflictos de interés, diversidad en directorio, entre otros.

#### 4. Gobierno Corporativo en el MILA



#### Colombia:

- Reconocimiento IR:
  - La BVC promueve entre los emisores la adopción de mejores prácticas en materia de revelación de información y relación con inversionistas.
  - Tiene como finalidad posicionar la compañía, así como fortalecer la confianza y credibilidad entre la comunidad inversionista.
  - La BVC reconoce a aquellos emisores que voluntariamente adoptan criterios objetivos establecidos en su Circular Única.
  - Índice de reconocimiento IR (COLIR): compuesto por acciones de empresas que cuentan con reconocimiento IR y forman parte del COLEQTY





## **Gobierno Corporativo**

Marco Antonio Zaldívar Presidente Bolsa de Valores de Lima

Marzo 2017 <sub>20</sub>



# **Board of Directors in State-Owned Enterprises:**Role, Effectiveness and Operation

Moderator: Andres Oneto, Principal Officer, CAF
Luis Fernando Castro, President, Bancoldex
Pasquale Di Benedetta, Senior Specialist, World Bank
Patricia Elliot, Executive Director, FONAFE



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## **Board's Diversity: Women's Crucial Value-Addition**

Moderator: Sanaa Abouzaid, Regional Lead, IFC
Monica Aparicio, Senior Consultant
Susana Elespuru, Board Director and Senior Executive
Sandra Guerra, Managing Director, Better Governance



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# **Crossing the Frontier of ownership: Governance Challenges in Private and Public Sector MFIs**

Moderator: Pasquale Di Benedetta, Senior Specialist, World Bank Martin Naranjo, CEO, Financiera Confianza Martin Spahr, Senior Officer, IFC Italo Costa, Principal Supervisor, SBS











# **Crossing the Frontier of ownership: Governance Challenges in Private and Public Sector MFIs**

Moderator: Pasquale Di Benedetta, Senior Specialist, World Bank Martin Naranjo, CEO, Financiera Confianza Martin Spahr, Senior Officer, IFC Italo Costa, Principal Supervisor, SBS











## **Conclusion of Day 1**

Vassilis Christakis, Principal Officer, BSTDB



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# Join a diverse community!

- Launched after CGDF-Conference in Paris to connect a thriving community
- **❖ Fountain of knowledge** to 58 Members
- ❖ Over 100 posts:
  - Studies, Articles, News
  - News from the Working Group
  - Training opportunities
  - Career opportunities

- \* Keep up to date on what is happening in your network
- ❖ Network with peers, and ask questions about all matters relating to CG, as well as DFIrelated topics.
- ❖ Have fun, share knowledge and experience, and get engaged!

























## **Update on the CGDF Implementation**

Andres Oneto, Principal Officer, CAF Rocio Budetta, Corporate Governance Consultant, IIC



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# CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

# 11th Annual DFI Corporate Governance Conference

Working Group members are:



















# CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

# **Update on the Framework's Implementation Progress**

Andres Oneto – CAF Rocio Budetta - IIC



















## Responses

- > 2013: 27 of 31 DFIs (87%)
- > 2014: 28 of 33 DFIs (85%)
- 2015: 27 of 33 DFIs (82%)
- 2016: 26 of 33 DFIs (79%)

## Signatories' implementation

- Distribution of investments
- Ensuring Internal Responsibility
- Providing or Procuring Training
- Collaborating with other Signatories

### Conclusions & issues to consider









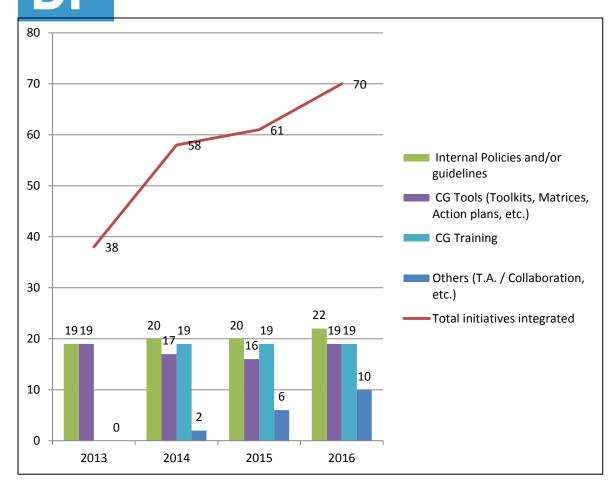












How has your institution integrated CG in its investment operations according to the CG development Framework?

- "Other" initiatives have steadily increased.
- At an aggregate level, every year more GC initiatives are integrated into investment operations.









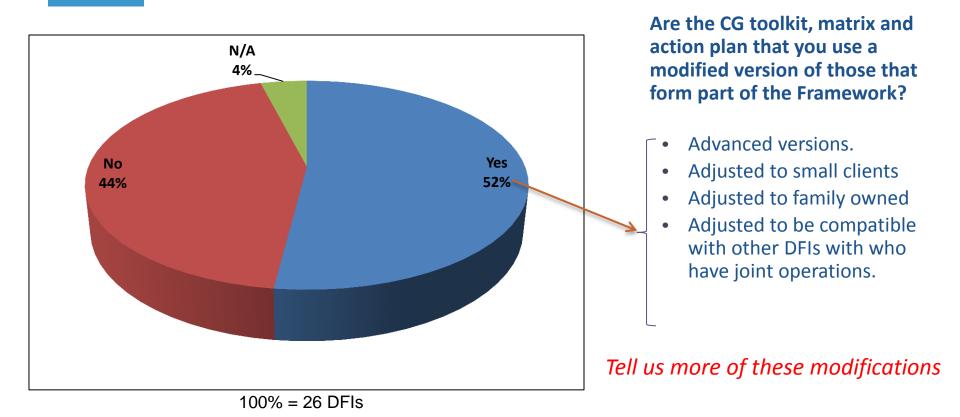
























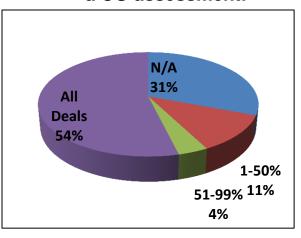






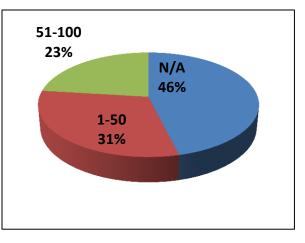


#### % of approved deals subject to a CG assessment:



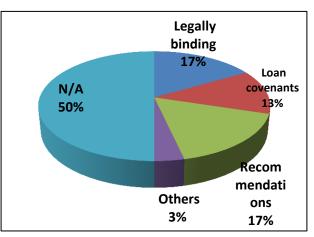
100% = 26 DFIs

#### % of CG assessed deals have an actual action plan



100% = 26 DFIs

#### Depth of these action plans



100% = 84 Responses

- What do we need to go from assessment to implementing action plans?
- What other ways/incentives are there to implement action plans?













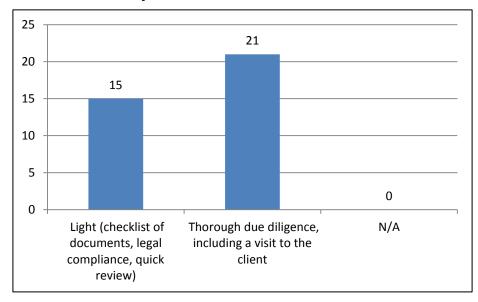




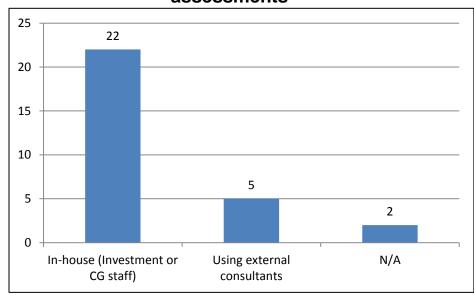




#### **Depth of assessments:**



#### Who performs the assessments



- Those who perform the light assessment are the same guys who do the thorough?
- Investment officers are in condition to perform light assessments?
- External consults is because of lack of CG team or because of the depth of the assessment?



















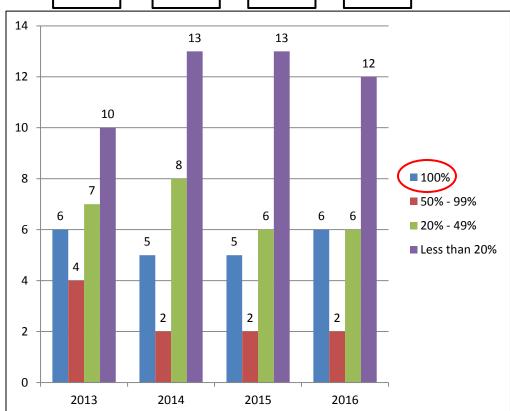




# 2. Ensuring Internal Responsibility

Avg time dedicated to CG:





- Indication of a Focal Point: 3 DFIs have not reported a Focal point
- DFIs with no full time CG unit have their FOCAL POINTs dedicate an average of 26% of their time.
- Half Time CG Focal Points: 2 DFIS
- Full time CG Focal Points: 6 DFIS
  - > IFC

EBRD

> FMO

> IIC

> DEG

- Proparco
- Avg people dedicated to CG:
   13 / DFI













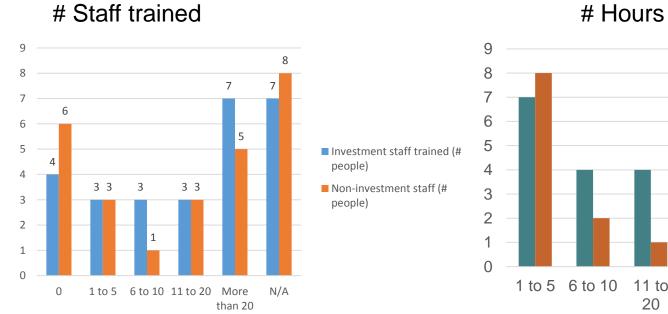


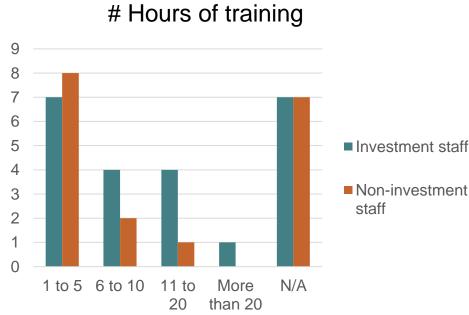






# 3. Providing or Procuring Training





Numbers show DFIs clearly see the value of training non-investment staff: Reasons?





Black

Sea Development















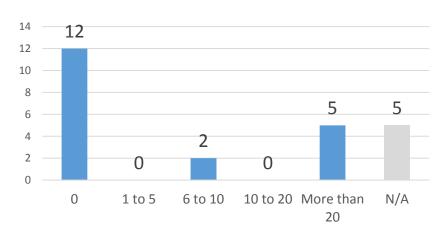




# 3. Providing or Procuring Training

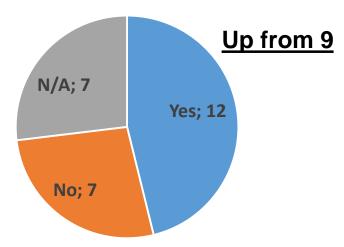
#### **Client training:**

# Individuals trained



Institutions providing client training: 21% CAF, COFIDE, DEG, FMO, IFC, NAFIN, IIC

#### Provide **Director training**?



Institutions providing Director training: 36%

AfDB, BIO, CDC, DBSA, DEG, EBRD, EIB, FINNFUND, FMO, IFC, NAFIN, PROPARCO























# 4. Collaborating with other Signatories

#### **Collaboration via joint CG trainings**

- The majority of the respondents collaborated through hosting joint trainings: Relevance of CLUSTERS
  - CAF is leading on LAC cluster to encourage joint trainings
  - EDFI cluster's meeting & Friendship Facility
  - DBSA & IDC

#### **Information sharing**

Mainly as co-lenders on deals: Examples IFC, DEG, FMO

#### **Diversified ways of collaboration**

- Creation of CG Institute in Colombia (Bancoldex-IFC)
- Sharing tools/templates/guidelines/reports/info on consultants
- Knowledge exchange to develop in-person and online trainings: NAFIN























# Checking on 2015 Next Steps:

#### Our situation vs. last year:

- Adoption of clear CG procedures in investment operations (ideally in line with the common DFIs CG tools): more activities and tools have been implemented to operationalize the framework.
- More than half of the DFIs are active in adjusting the Framework toolkit to their needs.
- Monitoring of CG action plans: Better implementation of action plans, but still 46% have no action plans (same as last year).
- Regular and in depth CG training for staff and nominee directors (when applicable)
   and clients: increase on Director Training & training for non-investment staff
- Increased collaboration among signatories in joint training and information sharing/advice on implementation: Currently European and Latin American clusters – regional trends maintained, though collaboration spectrum broadened























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### **New Tools & Research from CGDF Signatories**

Henrik Jepsen, Investment Director, IFU
Jean-Claude Chesnais, Governance Officer, PROPARCO
Andres Oneto, Principal Officer, CAF
Rodrigo Matos Huet de Bacellar, Deputy Managing Director, BNDES



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# Introduction to IFU's Corporate Governance Toolkit

Henrik Jepsen

Investment Director, IFU





### Situation before the 2015 – 2016 process

- IFU has been signatories to the two CG resolutions: CG was handled by a senior legal council who retired in 2010 – no one took over.
- IFU has focused on the role of board and management in our work on CG
- IFU found that the tools developed as part of the CGDF network were to ambitious for IFU projects. We would never get projects who would reach the two highest levels in the (IFC) matrix.
- IFU wanted a tool that could be used by all investment managers and it should look like our CSR tool.
- Follow-up should be managed by the company's board.



#### Time line

- July 2015 conclusion that we should update our approach to CG
- October 2015 inviting consultants to assist us with the update of IFU's CG package. We received many good bids (thanks).
- December 2015 signing agreement with Nestor Advisers
- February 2016 Diagnosis & recommendation report received.
- April 2016 draft new CG policy and draft Toolkits received
- September 2016 presentation to investment staff
- October 2016 approval of new CG policy by IFU's board
- January 2017 all projects signed in 2017 will be assessed



#### IFU's objectives in CG of project companies

- Fit-for-purpose CG framework for every project company
  - > Tailored to company's circumstances
  - Ready for the future
- Promote continuous improvement through IFU's active role as:
  - Shareholder
  - Board member
  - Advisor
- Development of corporate governance culture
  - Capacity building
  - Demonstration effect





#### Salient characteristics of IFU's Investment Style

DFIs differ in their target clients, financial offerings, size and complexity of transactions and partners, as well as their corporate culture, in-house expertise and experience and network of collaborators.

#### Important IFU differentiators:

- Danish/international partner; project sponsor
- Early stage investments (most are greenfield)
- Project size (smaller than other DFI's)
- Emphasis on equity / equity-like instruments
- Focus on integrity and managerial quality of partners
- Provision of advisory services
- Continuity of project staff in investment
- Participation in the Board of Directors
- Thorough assessment and integration of environmental and social impact

IFU's investment style, portfolio and experience are distinct from those of the institutions for which the existing DFI tools were developed!



#### IFU's path to achieve greater impact (2016 - 2017)

IFU Classic

Shifting gears

Parameter	2004-2014	2014-2016
Investment volume Mandate Funding	<ul><li>DKK 0,5 billion annually</li><li>Tied</li><li>100% state equity</li></ul>	<ul><li>DKK 1 billion annually</li><li>Danish interest</li><li>75% state equity</li><li>25% pension funds</li></ul>
Major new initiatives		<ul><li>Climate fund launch</li><li>Agribusiness fund launch</li><li>SME facility</li></ul>
Development impact		
External enablers		
Organisation & governance		Regional & sector teams     Leadership development

#### Champions league

#### 2017-19

- DKK 2,0 -2,5 billion annually
- Untied
- 25% state equity
- 25% state guaranteed loans
- 50% pension funds
- · SDG co-investment fund
- Senior lending backed by state guaranteed instruments
- Substantial project development facility
- Enhanced SDG focussed evaluation and reporting
- · Targeted sustainability grants
- Refined SME approach
- Strengthened partnerships with DFIs and IFC
- Seek financial sector strategic partners
- Co-investments with external funds
- Increased focus on improved corporate governance
- Use of external board members in investee companies
- Strengthened regional offices



#### What is contained in IFU CG 'Core Package'

- 1. Policy on Corporate Governance in Investments
- 2. IFU Corporate Governance Toolkit
  - a) Introduction
  - b) Greenfield Tools (CiP and BC phase)
  - c) Brownfield Tools (CiP and BC phase)
  - d) Fund Tool (single tool)
- 3. Templates for CiP and BC Presentations
- 4. Format for Periodic Reporting
- 5. Board Work Manual and other supporting mate



(CIP = Clearance in Principle / BC = Binding Commitment)



#### Policy on Corporate Governance in Investments

- Scope and objectives
  - Definition
- Governance in IFU project companies
  - Compliance with law / workable internal framework
  - Fit-for-purpose / continuous improvement / CG culture

 Contributing to corporate governance culture in developing countries

- The IFU CG Toolkit
- IFU's active role in corporate governance
- Measuring results



"Are these just guidelines, or are they actual new policies?" OLLECTION



#### Structure of each Tool

- Instructions
- Questionnaire
- Identification of Risks / Opportunities
- Identification of Areas for Follow-Up
- Possible components of CG Action Plans
- Guidance for Director Nominees



#### IFU Greenfield Company CG Tool - CiP Phase

#### Introduction / Purpose of the Tool

Ensuring that the CG of IFU greenfield projects gets off to a good start and continues to advance in step with the project company's development is a critical component of project success. IFU requires that at a minimum, each project company complies with all applicable legal requirements and has in place a workable internal framework for its Board and management, internal controls, transparency and shareholder rights. IFU rejects a "one size fits all" model for CG in project companies in favor of a "fit-for-purpose" approach. IFU's objective is for project company CG at all points in time to be adequate to the demands and tailored to the needs and resources of the company. At the same time, we and our partners should look shead and prepare for the new governance challenges that always accompany a growing enterprise.

The purpose of this tool is to assist project teams and IFU's partners to ask the right questions at the early stages of discussion to take governance risks into account in project design and investment decisions. Asking the right governance questions early also helps to build a common understanding with our partners of IFU's expectations regarding governance of the project company and to avoid misunderstanding or misalignments of interests down the road.

A sister tool, the "IFU Greenfield Company CG Tool – BC Phase" is intended to be used by teams whose projects advance past QIP, to ensure that questions left open during the QIP phase are settled and that the governance issues identified during both QIP and BC are addressed in the design of the governance framework of the project company (and reflected in a CG Action Plan, if required).

#### Key Differentiators / Special Risk Factors

This tool is required to be completed during the <u>CIP</u> phase for all prospective greenfield investments. Consistent with our "fit-for-purpose" approach, in using this tool project teams should keep always in mind the particular characteristics and risks of the prospective project company's ownership structure, business operations, competitive position, financial requirements and the local environment.

In this connection, it is to be expected that IFU greenfield operations that include the following characteristics typically require <u>special attention</u> in the design of the project company's CG framework and will receive greater scrutiny by the Investment Committee:

•
IFU is the only investor in the company besides the local partner.
A new or a small (unexperienced in corporate governance and Board work) Danish
partner/project sponsor.
Highly-regulated industry (e.g., financial sector, regulated utility).
Project involves a high degree of technical assistance / technology transfer.
Project involves a high degree of sustainability (E&S) risk.

Project involves significant related party transactions with the Danish
partner/project sponsor or local partner (or other party).
IFU plans to negotiate for special rights or veto power over certain decisions.
Project structure involves potential conflicts of interest on the part of the DP, LP or
other investors.
Project company will operate in a jurisdiction with an especially weak legal or
accounting and auditing framework.
Careful Board oversight over key requirements for success (e.g., management
recruitment) is foreseen

IFU greenfield operations that include the following characteristics typically require a somewhat <u>lesser degree</u> of work for IFU to properly structure the project company's CG framework:

- Project company is a majority-owned subsidiary of the Danish partner/project sponsor
- IFU has previously invested with the Danish partner/project sponsor in other projects with a similar structure and governance experience was satisfactory.

#### How to use this Tool

Since a greenfield investment ordinarily contemplates a project company that is not yet in existence, the questions included in this tool and its BC Phase sister tool should be answered based on the project team's expectation of how the project company will be structured when it becomes operational, <u>informed by the project team's discussions with partners and other parties</u>. If a question relates to aspects of the CG of the project company that may take some time to implement, the project team should indicate its expectation of timing and explain what the preconditions for implementation are likely to entail.

IFU recognizes that not all of the questions included in this tool are likely to be answerable in a definitive fashion during the CIP phase. For that reason, this tool explicitly provides space to indicate open points and issues flagged for follow-up during the BC phase. However, the project team should make particular efforts to get clarity on the items marked in this tool with an asterisk, which would normally be answered at an early stage of discussion of a prospective investment.

Finally, this tool includes a template for items to include in the project team's <u>CIP</u> presentation.

2



#### Greenfield and Brownfield Questionnaires for direct investments (80%)

- I. Organization / Business Structure
- II. Board of Directors
- III. Control Environment and Processes
- IV. Transparency and Disclosure
- V. Equity Structure, Shareholder Rights and Ownership
- VI. Partners



#### IFU Greenfield Company CG Tool – CiP Phase

Completed by:	
Date:	
VP approval by:	
Date:	

#### Project

Name of company	
Products and services	
Danish partner; other partners	
Jurisdiction of incorporation	
Countries of operation	

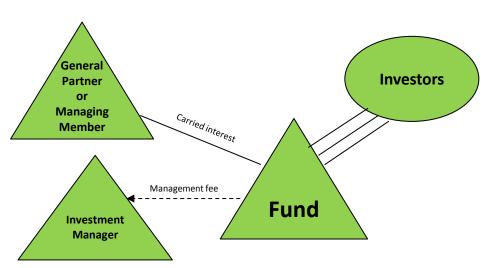
#### Questionnaire

No.	Question	Response	Explanation
1.	Organization / Business Structure		
1.1*	Is the project company expected to be organized in a well-recognized legal form that is customary in its jurisdiction?	Yes No [If No, explain]	IFU values the legal certainty accorded by well- understood corporate forms such as joint stock companies, S.A.'s and LLCs. Proposals for organizing the project company in a legal form that is unfamiliar to IFU or that is new to the country's legal system should be immediately discussed with the Legal Unit
1.2*	Is it expected that the project company will engage in <u>material</u> related party transactions in the ordinary course of its activities? (This would include purchases and sales of goods and services, licensing	Yes No [If Yes, explain]	Every project company should have a general policy for conflicts of interests. But where related party transactions are contemplated as part of the business of the company, then robust arrangements (including a requirement that such transaction be conducted on



#### **Fund Tool Questionnaire**

- Governance of the Fund
- II. Governance of the General Partner
- III. Governance of Portfolio Companies
- IV. Incentives, Fees and Expenses
- V. Conflicts of Interest
- VI. Rights and Powers of Limited Partners
- VII. Transparency and Disclosure

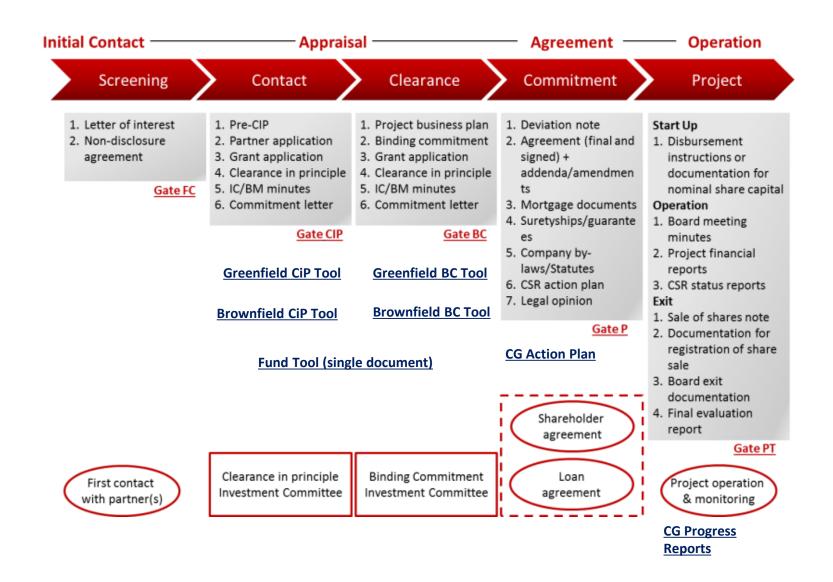




# INTEGRATING THE TOOLS IN THE INVESTMENT PROCESS



#### Integration of the Tools in the Investment Process





#### Who uses the tools?

#### IFU Investment Teams

- > In due diligence and analysis of investment
- ➤ In investment case presentations (CiP and BC)
- > To formulate action plans and define needed resources
- > To assist in the selection and support of Board member nominees
- To monitor progress and adjust action plan to future developments
- Vice Presidents sign off at CiP and BC

#### Board member nominees

- Understanding the company's current governance and requirements for future development
- Guidance for serving effectively as a Board member and guiding company's progress toward better governance
- > To identify needed resources and support



#### **Outputs**

- Identification of Governance Risks and Opportunities
- CG Action Plans or other follow-up
- Guidance for Director Nominees

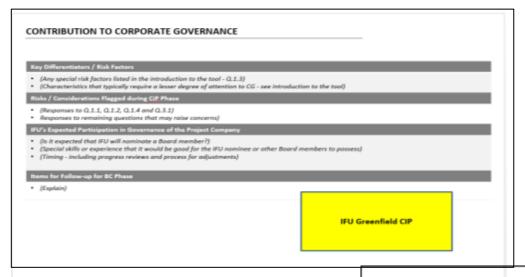


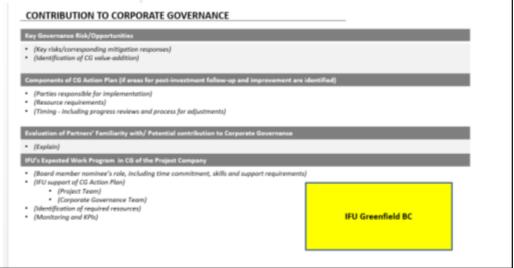
### CiP phase

5.2	Is it expected that one or more of the equity partners will also be lenders to the company?	Yes 🔲	No 🗆	equity holders who are als these can be expected to	interests and incentives of so lenders is warranted, as differ from those of investors		В	SC phas	se	
		[If Yes, explain]		who own only equity in						
6.1	Danish partner/project sponsor <sup>a</sup> To what extent does the Danish partner/project sponsor have experience / expertise in the governance of companies with diverse ownership (such as the project company)?	[Provide preliminar Level 1 = Normal Level 2 = Moderate Level 3 = High]	ranking:	The extent of the Danis governance concepts a will have important imp of efforts IFU will have on the requirements fo resources IFU will need to design and execute a framework for the proj	No. Question  Key Governance Risks / Opp	ortunitie	Response			oined effort to design and pose governance framework party.
Gover	nance issues identified / Follow-up	p areas for BC Ph	ase		Risk	CIP/BC Tool No.		ssed in project design or in	corporated into CG Action	Risk assessment (high/medium/low)
No.	Explanation of Issue		Follow-up			TOOK TWO	riery			grag-principality towy
					Components of CG Action P	Pri	as for post-investr iority igh/medium/low)	Responsibility	Deliverable	Timing
						_				
In investments involving multiple partners (e.g., Danish partners, project sponsors, local partners, technology partners, other partners uch partner.			ology partners, other partner	Guidance for Board Membe  Skills / experience requirements Time commitment estimate [days] Special areas of oversight (e.g., sustainability, finance, credit, pricing)	er year)	ea				



#### Example - Templates for CiP and BC presentations







#### **CG Questions for Annual Reporting**

#### CG Action Plan Progress<sup>1</sup>

Item	Priority	Responsibility	Level of Progress	Explanation	Resources
	(law, moderate, high)	(Party, individual)	(nane, partial, complete)	(Explain progress or lack thereaf)	A. (Existing resources) B. (Additional resources required)

#### Questions for Project Team

- 1. Have the answers to the applicable Toolkit questions changed in a material way?
- What issues, if any, have arisen in the business, ownership, management or governance of the company that could call for a reevaluation of the governance framework agreed at the time of investment?
- Have the other parties (Danish partner / project sponsor, project company, others; General Partner in the case of Fund) lived up to expectations regarding their understanding of CG and support of the project company's CG?
- 4. Do you regard the current governance framework as fit-for-purpose and ready to adapt to the project company's future needs?
  - Board of Directors
  - b. Internal controls
  - c. Transparency
  - d. Shareholder rights
- 5. What changes will be needed for the CG of the project company to develop in step with the company's evolution?
  - a. Board of Directors
  - b. Internal controls
  - c. Transparency
  - d. Shareholder rights

#### Questions for the IFU Board Member Nominee

- 1. Are you satisfied with the functioning of the Board of Directors?
  - a. Adequate notice of meetings / corporate calendar
  - b. Adequacy of meeting materials / ability to prepare / access to management
  - c. Quality of preparation of other members
  - d. Quality of conduct of the meetings / Chair / Corporate Secretary
  - e. Adequacy of discussion at meeting / decision process
  - f. Adequacy of Board skill mix (are any key skills or experience lacking?)
  - g. Overall evaluation of Board effectiveness
  - h. Suggestions for improvement, including composition, training, other resources
- Have the other parties (Danish partner / project sponsor, project company, others; General Partner in the case of Fund) lived up to expectations regarding their understanding of CG and support of the project company's CG?
- 3. Do you regard the current governance framework as fit-for-purpose?
  - a. Board of Directors
  - b. Internal controls
  - c. Transparency
  - d. Shareholder rights
- 4. What changes will be needed for the CG of the project company to develop in step with the company's evolution?
  - a. Board of Directors
  - b. Internal controls
  - c. Transparency
  - d. Shareholder rights

#### Action Items

- What changes, if any, should be made to the CG Action Plan or IFU's involvement in the CG of the project company?
  - a. Additional items
  - b. Removal of items
  - c. Changes in priority
  - d. Changes in responsibility
  - e. Required resources / support
- What additional support does the IFU Board Member Nominee require to ensure his/her continued effectiveness?
  - a. From IFU Sustainability Unit
  - b. From other IFU Units / Staff
  - c. Training
  - d. Other

2

<sup>&</sup>lt;sup>1</sup> As revised based on earlier progress reports. This table should be completed separately by the project company and the project team. As revised based on earlier progress reports



#### Board Work Manual and other supporting materials







- IFU's handbook on board work and corporate governance (2017) available at our website <a href="https://www.ifu.dk/en/news-2/publications-2/">https://www.ifu.dk/en/news-2/publications-2/</a>
- Guidelines for IFU Board representation in Project Companies (2014)
- Model shareholders' agreement with CG-specific appendices
- Legal opinions on personal liability of Board members
- Letters of nomination of Board member
- Sustainability policy, procedures, and documentation



#### Status March 2017

- 95% of all staff has been trained in the tools
- Presentations to our IC are made using the tools
- We can better complete the annual CGDF questionnaire ©

#### **Components of CG Action Plan**

Item	Priority (high / medium/low)	Responsibility	Deliverable	Timing
1.3 update of remuneration structure	high	Sponsor + IFU	New employment contracts	In connection with closing
2.1 + 2.2 Introduction of a Board of Directors	high		A board of Directors	Now
3.2 external audit	high	The shareholders	Appointment of an external auditor	At the first EGM
4.1 Introduction of "proper" annual reporting	medium	Management	"Proper" annual reports	Mid 2018
5.4 convention of AGMs with proper documentation	medium	The Board of Directors	Proper GM documentation	Stating with the first EGM
5.6 dividend policy	medium	The shareholders	Dividend policy	Already agreed in principle in the MoU

#### **Guidance for Board member nominee**

Skills / experience requirements	Proficiency in Portuguese, spoken and written, as the existing shareholders and management only speak Portuguese, with one exception, namely Mr. Jr., who speaks Spanish as well. Prior knowledge and experience of seed production may be an asset
Time commitment estimate (days per year)	4 x 3 days per year, depending on the board member's residence
Special areas of oversight	As sales through the Sponsors network is foreseen to increase, transfer pricing and appertaining
(e.g., sustainability, finance, credit, transfer pricing)	accounting skills should be considered.





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# CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

# 11th Annual DFI Corporate Governance Conference

Working Group: Friendship Facility Corporate Governance ToolKit

**Working Group Members:** 

Rebeca Sanchez de Tagle White, Felicie Ameschot, Jasper Veel, Jean-Claude Chesnais (Proparco), Erik Wessels (DEG)



















# CG DF Agenda

- 1. Background of the Working Group
- 2. Vision/Purpose
- 3. Avenues for improvement
- 4. What tools?
- 5. Examples
- 6. Buzz group





















# 1. Background of the WG

### **Background of the WGA**

- January 2017: Launched after EDFI-Meeting in Cologne to enhance existing Tools&Templates
- Development of a «Friendship Facility Corporate Governance ToolKit»
- Initiative of DEG FMO PROPARCO
- And of course, disclosed to CGDF's signatories





















# CG DF 2. Vision

- The Friendship Facility Corporate Governance Toolkit(s) will be developed by the Corporate Governance teams of DEG, Proparco and FMO based on the current tools & templates (and underlying Corporate Governance attributes defined in the Corporate Governance Development Framework).
- The envisioned Governance Toolkit should enhance a simple and user-friendly assessment of Corporate Governance risks and mitigation of (potential) investee companies during the investment process.
- The toolkit will be **regularly updated** reflecting the latest insights on Corporate Governance practices and related risks.





















# 3. Avenues for improvement

- Analytical Tool tailored to the typology of clients
  - Family businesses
  - o SMEs
  - Corporates
  - Financial institutions
  - Investment funds
  - Other specific adaptations ? (MFI...)
- Provide a clear layout and user-friendly Tools
- Periodic Updates: Reflecting the latest insights on CG practices and related risks

- Revision of the existing questions
  - Align with changes in regulatory framework
  - Align with applicable investment process
  - Wording
  - Delete Duplicates & Add more valuable questions
- Provide IOs with additional Templates/Guidelines
  - Glossary
  - Questionnaire
  - Interview Guidelines
  - Document request list
  - Agenda for meetings























# 4. Which tools are we working on?

#### Rapid Risk Screening

## Clearance in principle

- RRS tailored:
- Family businesses
- > SMEs
- Corporates
- > Financial institutions
- Investment funds
- Other specific adaptations ? (MFI...)

#### **Output:**

- Starting point to discussion with CG officer
- Decision on involvment of CG officer
- attention items for DD

#### Questionnaire

## Appraisal / Due diligences

- Questionnaire tailored (cf RRS)
- Questionnaire as a guideline for DD
- May be supplemented with other tools (interview guidelines)

#### **Output:**

- Insight in key CG topics
- More detailed questions tailored at specifics as identified in CIP tool

#### **Progression matrix**

## Appraisal / Due diligences

Tailored Progression
 Matrix in line with
 specifics as identified in
 CIP tool

#### Output:

Governance revue: an analytical tool better adapted to the specificity of the categories of clients

#### **Result matrix**

#### Finance proposal

No change for now



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# 5a. Example: Revision of the existing questions

Торіс	REVISED
Commitment to CG	
The FI is owned by an individual, directly or indirectly, that could dominate the decision-making process at the (supervisory) board or management level.	The FI is owned by an individual, directly or indirectly, that could dominate the decision-making process at the (supervisory) board or management level (i.e. dominant chairman dominates decision making).
A family has a significant stake (equal or more than 20%) in the FI and is involved at the (supervisory) board or management level.	The company complies with a (voluntarily) Corporate Governance code.
There is room to believe that political influence is exercised at the (supervisory) board or management level.	Politically exposed persons serve as directors in the Board.
There is resistence towards corporate governance improvement from the majority owners, the board, or senior management.	Quality of the financial sector in a country (embedded in the Banking System Risk Indicator derived from the Economic Intelligence Unit) (rating < 50).
The FI has <b>not</b> assigned responsibility for CG internally (e.g., to a corporate secretary).	The FI has <u>not</u> assigned responsibility for CG internally (e.g., to a corporate secretary).
Structure and Functioning of the Board of Directors	
The (supervisory) board is unusually large (more than 15 members) or unusually small (less than six members).	The (supervisory) board has <u>no</u> seperate Audit and Risk committee (Banks) nor an Audit committee (MFI/NBFC).
The (supervisory) board has non-executive directors but the majority of these non-executives are <b>not</b> independent.	The Contract of the Contract o
The (supervisory) board has <b>neither</b> one audit and risk committee <b>nor</b> a separate committee for each, audit and risk.	The Board has an approriate and diversified skill mix (i.e. Finance & Banking experience, women on the Board)
The (supervisory) board gets involved in day-to-day or other operationa issues.	The (supervisory) board is unusually large (more than 15 members) or unusually small (less than six members).
The (supervisory) board meets <b>less than</b> four times <u>or more than</u> 12 times a year.	The (supervisory) board meets less than four times or more than 12 times a year.



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## 5b. Example: Layout/User friendliness

#### **Landing Page**

- New functionalities
- Additional information
- New Layout and improved user friendliness

Start CIP Screening	CIP Results	Due Diligence	Result Matrix	$\rightarrow$
---------------------	-------------	---------------	---------------	---------------

Please fill out general information and choose a sector:

Client	Example Ltd.	
Project Number	1235	
CG Assessment done by	Erik	
Date	16.03.2017	Today
	•	

NFS	FS
INFS	гэ

#### Additional Information:

Manual	About CG	Questionaire NFS
Glossary	BSS	Questionaire FS









Black



















## 5c. Example: Layout/User friendliness

**CIP Results Due Diligence CIP Screening** Result Matrix Start

Please use the Option-Buttons to answer the questions under each of the five categories:

Client	Example Ltd.
Project Number	1235
Screening done by	Erik
Date	16.03.2017

CIP C	CIP Corporate Governance Rapid Risk Screening						
Topic	Торіс			Evaluation unknown		Risk Level	?
1	Commitment to CG		change high		high		
2	2 Structure and Functioning of the Board of Directors		confirm				
2.1	The (supervisory) board is unusually large (more than 15 members) or unusually small (less than six members).	?	0	0	•		
2.2	The (supervisory) board has non-executive directors but the majority of these non-executives are not independent.	?	0	•	o.	will be filled out automatically	
2.3	The (supervisory) board has neither one audit and risk committee nor a separate committee for each, audit and risk.	?	•	0	0		
2.4	The (supervisory) board gets involved in day-to-day or other operational issues.	?	0	C			
2.5	The (supervisory) board meets less than four times or more than 12 times a year.	?	<u> </u>				
3	Control Environment and Processes			change		medium	
4	Transparency and Disclosure			change		low	
5	Shareholders Rights			change		high	

Back

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Help



Continue











## 5d. Example: Layout/User friendliness

**CIP Results Due Diligence** Start CIP Screening Result Matrix

Please use the button on the right to copy the result table and paste it into the CIP-Report:

Client	Example Ltd.
Project Number	1235
Screening done by	Erik
Date	16.03.2017

CIP Corporate Governance Rapid Risk Screening			
Top	sic	Risk Level	
1	Commitment to CG	high	
2	Structure and Functioning of the Board of Directors	low	
3	Control Environment and Processes	medium	
4	Transparency and Disclosure	low	
5	Shareholders Rights	high	
Comment (Optional):			
Example			

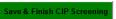
Recommended Action: Please address the medium and high-risk issues during Due Dilligence. If you need advice, please do not hesitate to ontact the Corporate Governance Officer.

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## CG DF 6. BUZZ Group

- What challenges do you face when you use the Toolkit?
- How could we improve the Toolkit?
- What should be kept and what should we change to enhance the Toolkit?
- What is missing in the Toolkit?
- What are the strengths/weaknesses of the Toolkit?
- What could we do to make it more user friendly?
- ...

#### Your input is welcome!

Working Group members are:























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#### Working Group members are:























# Gracias por su atencion Thank you for your attention Merci de votre attention

























### CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

# OF DIRECTORS AT STATE-OWNED ENTERPRISES IN LATIN AMERICA AND THE CARIBBEAN



**Andrés Oneto** 

**Principal Executive** 













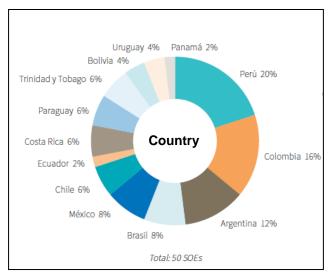


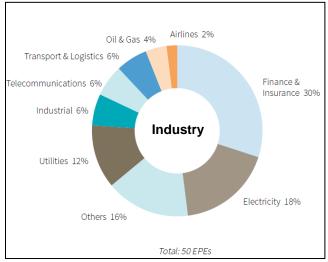






#### **State Owned Enterprises Profile**









A 45 questions survey voluntarily completed by SOES in Latin America and the Caribbean.



50

Latin American SOEs from 13 countries participated in the survey



65%

100% State Ownership



90%

Operate at a national level



31%

Listed on stock exchange markets



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#### **Board of Directors Profile**



#### 7 Directors

Is the average number of members, ranging from 3 to 15 directors



50%

Of the Boards at SOEs report that they include independent members. On average, the percentage of independent members per Board is 53%.



**72%** 

Of SOES do not have substitute members.



44%

Of Boards have a Chairman who is a civil servant (external to the SOE).



14%

Of Boards have a Chairman who is independent.





















## CG DF

### **Operation of Boards**

## Frequency and duration of Board meetings



- Frequency of the meetings (%)
- Duration of the meetings (average hours)

#### Frequency



42%

Of meetings have a weekly and biweekly frequency



22%

Of meetings have a bimonthly and quarterly frequency

#### **Duration**



3,5 hours

Is the average duration of weekly, biweekly meetings



3 hours

Is the average duration of bimonthly and quarterly meetings

















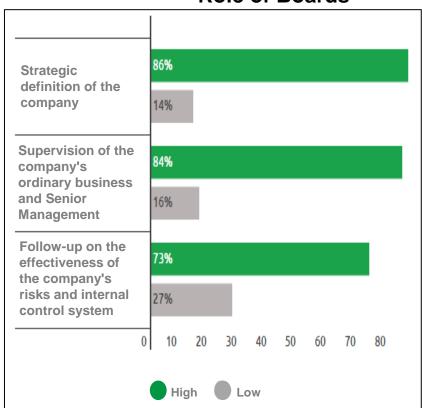






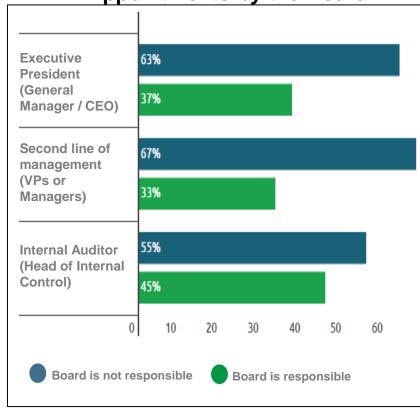
## Role of Boards and participation in decision making





The control environment (risk and audits) is perceived as the topic with less level of involvement by the Board.

#### **Appointments by the Board**







Of SOES, the Board appoints the CEO and management team



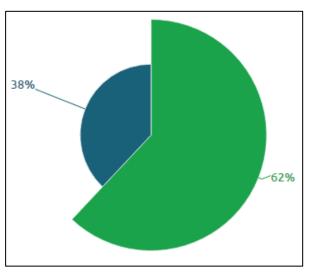
Only in 55%

Of SOES, the Board appoint the Internal Auditor

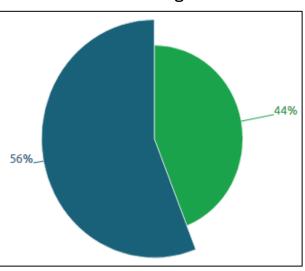


### **Induction and training of Board members**









Implement



**Does not Implement** 

#### Areas emphasized

- 77% Corporate documents of the company
- 63% growth prospects for the sector
- 63% Functioning of the Board

- 73% Corporate Goverance
- 59% Strategy and business
- 50% Risk and control.
- 9% Accounting policy.





















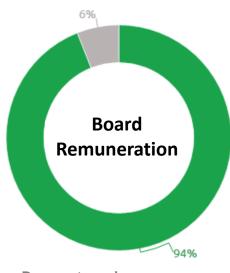
## CG DF

#### **Board Evaluation and Remuneration**



evaluations

Conduct evaluations



Receive Poes not receive remuneration



58%

Of Boards conduct an evaluation process



76%

Are bases in self-evaluation models



45%

Are externally assisted by specialized companies



**Only 31%** 

Use the evaluation results as input in the nomination process



60%

Base their remuneration models on an attendance allowance



51%

Recognize a differentiated (higher) remuneration allowance for the Chairman



86%

Of SOEs consider that Board remuneration is barely or not competitive

Board member average remuneration is USD 480, ranging between less than 100 USD to USD1.000 per session.



### Conclusions and challenges ahead

- Strengthening the Boards of Directors and incorporating GCG practices greatly depends on the willingness and commitment on the part of the State as owner to enhance the efficiency and transparency of its companies' management
- 6 aspects which have been chosen because of their impact on the construction of effective, objective and independent Boards of Directors:
  - Structure and composition of SOE Boards
  - The role of the State as owner/shareholder of companies
  - Appointment of the Executive President at SOEs
  - Board induction and training processes
  - Evaluation and strengthening of SOE Boards
  - Incentives for directors





















#### Gobierno Corporativo



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### CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

## 11th Annual DFI Corporate Governance Conference

### Rodrigo Bacellar

#### Working Group members are:





















#### **BNDES & BNDESPAR HIGHLIGHTS**

#### **BNDES**

Latin America's largest development bank:

Total Assets: US\$ 268.8 billion

Disbursements: US\$ 27.1 billion

#### Solid profitability:

Net Income: US\$ 2.0 billion

ROA: 0.71%

ROE: 14.78%

Solid capitalization with a BIS Total Capital

ratio of 21.7%

Consistent high quality loan portfolio - NPL

ratio at 1.67%

#### **BNDESPAR**

#### **BNDES** subsidiary:

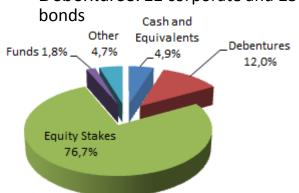
Total Assets: US\$ 25.8 billion

BNDESPAR holds direct investments in

164 companies

47 funds

Debentures: 22 corporate and 23 project

























## **Corporate Governance Practices Induction Policies and Actions**

## Main Atributes for New Investments

- ✓ Social and Environmental Impact
- ✓ Productivity and Innovation
- ✓ Exports
- ✓ SMEs
- ✓ Infrastructure

## Corporate Governance at Investee Companies

- ✓ Strengthen capital structure and support projects and business plans;
- √ Improve corporate governance and social-environmental responsibility;
- ✓ Requirement to be a joint stock company (S.A), provide minimum rights for minority shareholders, nomination to the Board of Directors and Fiscal Council, IPO obligation (best efforts) for closed-held companies.

## Governance Development at Capital Markets

- ✓ Increase number of companies with access to capital markets;
- ✓ Increase number of investors and market liquidity:
- Develop and launch new financial products;
- ✓ Presence in main capital market discussions, such as regulatory improvements.























- Internal governance rules to prevent conflict of interest, mainly between credit and equity transactions;
- Evaluation and monitoring of investee companies (part of CGDF implementation plan);
- Proactive engagement with investees management and other shareholders (including board member nomination)
- Diligent exercise of the voting rights and disclosure of the reasons for the votes;
- ESG factors as relevant criteria in investment and monitoring processes.





















- Minimum requirements of qualification and experience, based on the type and size of the investee companies
- Limit of participation in up to 5 boards of directors and upon 6 years in the same board
- Necessary commitment of due preparation for the board meetings, to act in favor of the company and in compliance with legal obligations
- In public companies, independent directors with recognized experience is preferred instead of internal team, in order to add value and minimize the conflict of interests;
- A database with all the candidates, profiles and periodic nominated board member evaluation





















- Environmental risk assessment for new investments;
- Continuous monitoring of ESG's risks and practices;
- Verification of compliance with environmental regulations and judicial and administrative contingencies related to environmental violations;
- Different assessment and monitoring requirements depeding on the type and size of investments (direct/investment funds, SME/public companies)





















Gradual implementation plan for CGDF is in progress:

- Minimum requeriments of corporate governance, ESG and compliance for companies supported by BNDES loans
- Corporate governance scorecard to evaluate and encourage the adoption of best practices – stimulus mechanism to be applied in credit operations
- CGDF Framework as an evaluation and monitoring tool in companies invested by BNDESPAR.





















### **SME Governance: Presentation of Tools and Case Study**

Henrik Jepsen, Investment Director, IFU Slava Ryabota, Regional Lead, IFC













### CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

### **SME Governance Assessment Tool**

11th Annual DFI Corporate Governance Conference March 29 – 30, 2017 Lima, Peru



















## SME Governance Assessment Tool

Purpose

- Help in assessing risks related to governance of SMEs and identifying relevant mitigating factors
- Guide investment teams during appraisal on questions to ask/areas of attention
- Serve as a basis for CG Action Plan design and negotiations with the Client
- Give ideas for director selection and nomination

Features

- · Simple
- Educative
- User-friendly
- Suitable for use by companies for benchmarking

Approach

- Collect existing tools developed by others
- Select questions relevant to SMEs based on Committee members' experience
- Peer-review within DFI signatories and beyond
- Discuss at DFI Meeting
- Improve and disseminate











## CG DF

## **Committee members**



Henrik Jepsen, IFU



Helena Arlander, Finnfund Chair



Vladislava Ryabota, IFC



Veera lija, Finnfund



Alex Hondros, BSTDB





Andres Oneto, CAF











## **CG**Overview of Existing Tools

Organization	Tool Description	Structure		
Organization	Tool Description	Structure		
IFU	A questionnaire with yes/no responses and explanation for asking the questions for:  • Brownfield CIP and BC  • Greenfield CIP and BC	<ul> <li>Organization/Business structure</li> <li>Board</li> <li>Control Environment and Processes</li> <li>Transparency and Disclosure</li> <li>Equity Structure</li> <li>Shareholder Rights and Ownership Structure</li> <li>Danish partner/project sponsor</li> </ul>		
Finnfund	CG Matrix with 4 levels (including descriptions of the levels)	<ul> <li>Commitment</li> <li>Board</li> <li>Control Environment and Process</li> <li>Transparency and Disclosure</li> <li>Shareholders' Rights</li> </ul>		
IIC	Separate CG Screening Tools - a list of questions with predetermined responses – for:  Corporates Family Owned Enterprises	<ul> <li>Commitment</li> <li>Board</li> <li>Control Environment and Processes</li> <li>Transparency and Disclosure</li> <li>Equity Structure</li> <li>Shareholder Rights</li> </ul>		
IFC	<ul> <li>A set of Tools for use by fund managers:         <ul> <li>SME evolution matrix</li> <li>SME report generator</li> <li>SME information request list</li> </ul> </li> <li>Self-diagnostic questionnaire for use by companies or fund managers as value addition</li> </ul>	<ul> <li>Commitment</li> <li>Decision making and strategic oversight</li> <li>Control Environment and Processes</li> <li>Transparency and Disclosure</li> <li>Founders/Shareholders/Family</li> </ul>		

## CG DF

## **Agreed Tool Design and Structure**

- A simple questionnaire with five key areas:
  - Commitment
  - Board and decision making
  - Control environment and processes
  - Transparency and disclosure
  - Shareholders' rights and Family Governance
- Reflects two levels of SME development: Basic and Advanced
- Three components: A question, Answer, Explanations (as a guidance for assessors or a Client, if used for self-assessment
- Includes additional table for board and committees composition analysis
- Introductory Note, explaining the purpose, structure and application













## Sample: Commitment, Basic Level

	Questions	Response	Explanation
A1.	Commitment/Basic level		
A1.1	Are the basic formalities in place?  • Board of Directors  • Annual Shareholders' Meeting  • Shareholders identified and recorded  • Charter or Articles of Incorporation	Yes No Yes No No Yes No	The basic formalities need to be in place based on legislation. They are also needed in order to make the administration of the company in a systematic way possible. The Board of Directors is the key governing body of any company with responsibility over strategic guidance and supervision over senior management. The Board is also responsible for ensuring the company's compliance with the law.
A1.2	Is there a clear division of responsibilities and authorities between management and the Board?	Yes No [If No, explain]	Organizing the company in a way that is appropriate considering the business and the size of the company is one of the tasks of the promoter (the founding shareholder) at the initial stage. However, later on, it becomes the Board's responsibility to create the necessary controls and structures for the company, ensure their adequacy and make changes commensurate with the company's development. The Board may always represent the company but often it is practical to delegate some responsibilities to the management. The Board should set the strategy of the company and oversee the management performance, but it is not efficient to be involved in everyday management decisions.
A1.3	Are the core functions in the company identified (accounting, legal, admin, IT)?	Yes No [If No, explain]	The need for different core functions depends on the size and age of the company. The promoter and the Board need to make sure the necessary functions exist.
A1.4	Does the company have documented strategic plans and budgets (1-3 years)?	Yes No [If Yes, explain]	Plans and budgets are needed in order to make the right decisions about future actions and to be able to control the operations. It is important to understand the process (preferably formal) for monitoring performance against and revision of the business plans. The plan is essential to align stakeholders internally and externally, and is a crucial element in attracting investors or seeking external finance.
A1.5	Is developing governance structures somebody's responsibility?	Yes No No [If Yes, explain]	If responsibilities are not clear, development of governance structures might be sporadic and most important issues may not get enough attention. Assigning responsibilities to a designated



### **Case Study: Rockstar Clothing Company**

#### **Questions to discuss:**

- 1. Using the SME Governance Assessment Tool, please identify key risks for this potential investment [each table will be assigned a separate section].
- 2. As a potential investor, would you suggest a Governance Improvement Plan to Rockstar? If yes, what would you include into the Plan? Please prioritize and indicate timelines for implementation.
- 3. Do you see a need for any changes in the decision making process? Would you nominate a director? Why? What would be his/her task?













### **SME Governance Assessment Tool: a way forward**

- What do you think about this approach to assessing SME governance?
- Do you have any suggestions on how to improve the Tool?
- Who will be a "custodian" of the Tool after this meeting (to improve/revise based on DFIs' application experience)?













## DFI Client's Experience: from CG Assessment to Implementation

Moderator: Rebeca Sanchez de Tagle White, Senior Officer, FMO Rosario Bazan and Jorge Aranguri, Shareholders of Danper Trujillo















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## Update on Existing and Future Working Group Committees

**Representatives from Working Group Committees** 













### CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

## **CGDF Communication Tools**

COMMUNICATION COMMITTEE MEMBERS: Shirley Payet-Jacob (CDC Group Plc), Erik Wessels (DEG), Vassilis Christakis (BSTDB)





















#### An Update on CGDF Communication Tools

11th Annual DFI Corporate Governance Conference Lima, 29-30 March, 2017





















- 1. Background of the CGDF Communication Tools
- 2. Overview of CGDF Website Statistics
- Overview of CGDF LinkedIn Group
- 4. Avenues for improvement
- 5. Buzz Group



















### **CG** Background of the CGDF DE Communication tools

#### **Background of the website**

- **❖** April 2015: launch of the new website
- Traffic Statistical analysis commenced August 2015
- Maintenance Agreement with FCI Creative up to end of 2020 (special thanks to IsDB!!)
- Main repository of all key CGDF info

#### LinkedIn

- Launched after CGDF-Conference in Paris to connect a thriving community
- **❖ Fountain of knowledge** to 58 Members
- ❖ Over 100 posts:
  - Studies, Articles, News
  - News from the Working Group
  - Training opportunities
  - Career opportunities
- \* Keep up to date on what is happening in your network















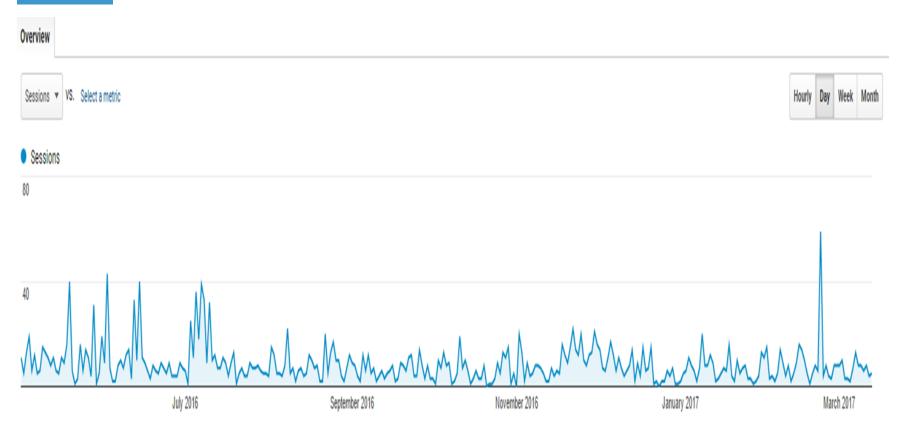






### CG DF

# Overview of the CGDF website statistics

















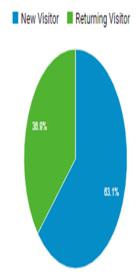






# Overview of CGDF website statistics





% New Sessions 63.07% 









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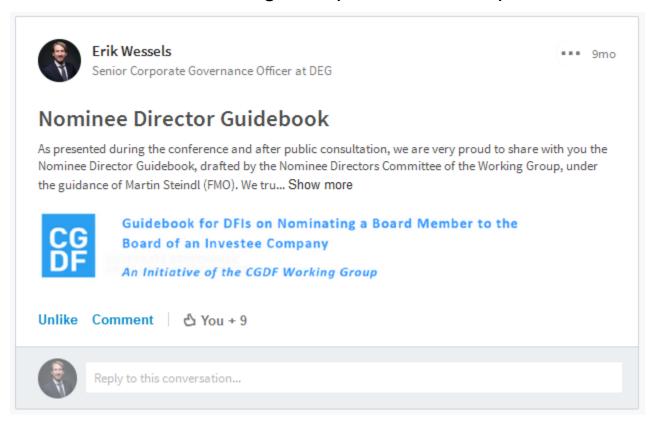






# Overview of the LinkedIn Group

Find out what the CGDF Working Groups have developed:



















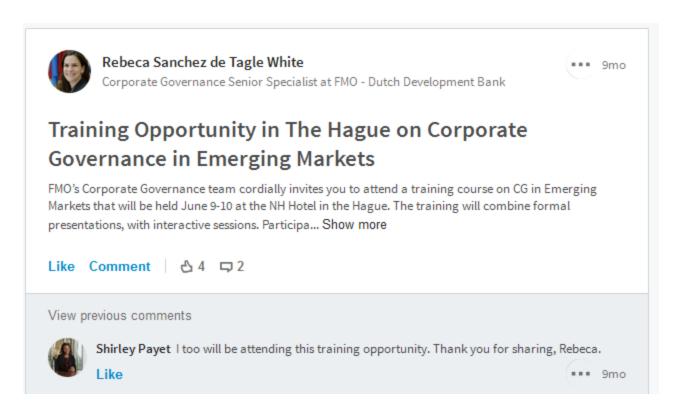






# Overview of the LinkedIn Group

Find information about training and career opportunities:

























# Overview of the LinkedIn Group

Keep up to date and read the latest studies:

























#### Avenues for improvement

#### **Website**

- Populate the Resources page
  - New tools adopted by Signatories
  - What is good or bad in implementation-stories from the battlefield
  - CG-related publications
- Share training events

#### LinkedIn

- Join a diverse community
- Network with peers, and ask questions about all matters relating to CG, as well as DFIrelated topics.
- Have fun, share knowledge and experience, and get engaged!





















## CG DF BUZZ Group

- What could we do to improve communication?
- What could we do to make our website more user friendly?
- Feedback?
- Ideas?
- ...

You input is air and water for us!

#### **Working Group members are:**





















## Thank you









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