



**International
Finance Corporation**
World Bank Group

DFI CG Meeting Jeddah January 25th, 2011

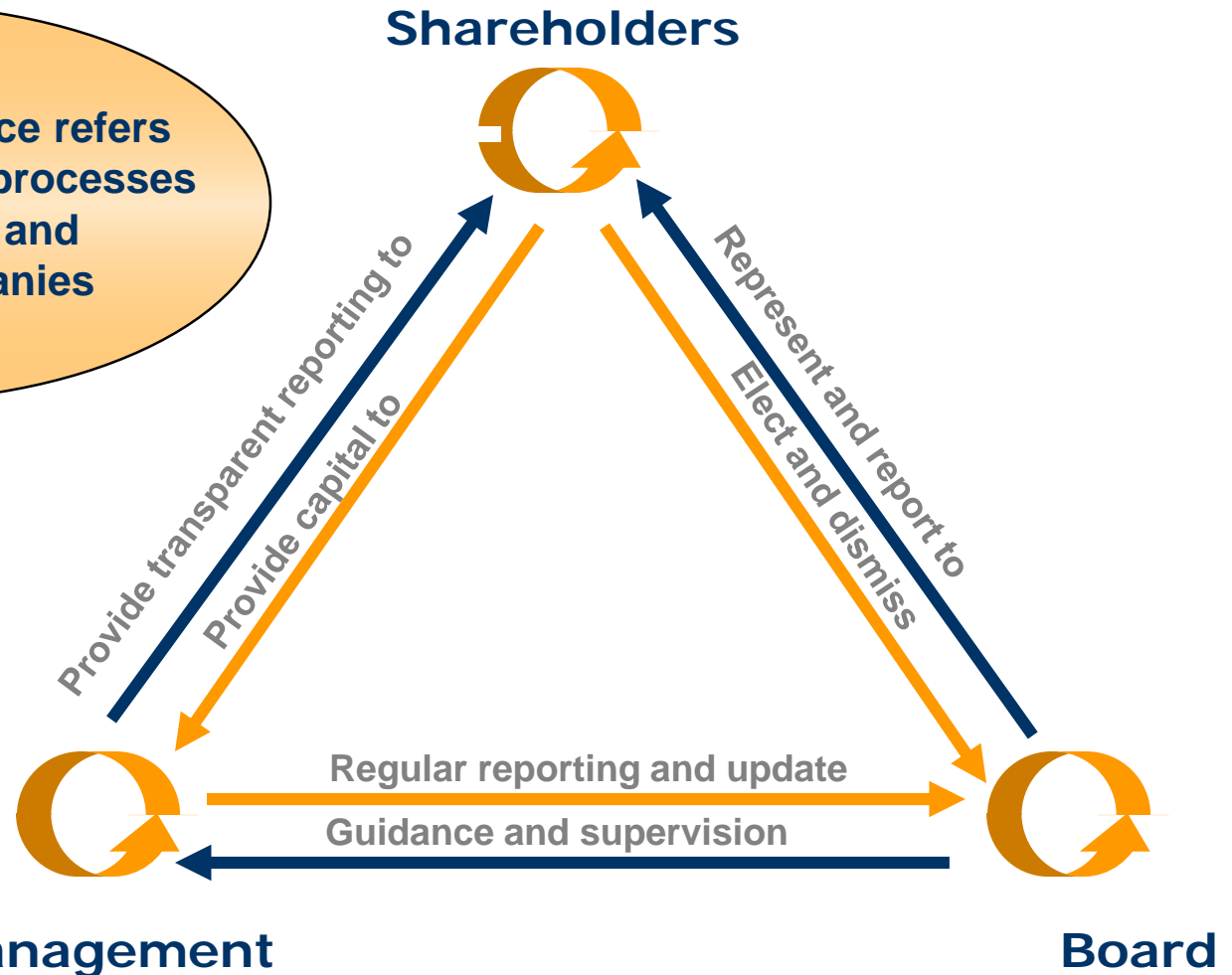
Darrin Hartzler
Manager
IFC Corporate Governance Unit

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders.

Corporate governance also provides the structure through which the objectives of the company are

Definition of Corporate Governance

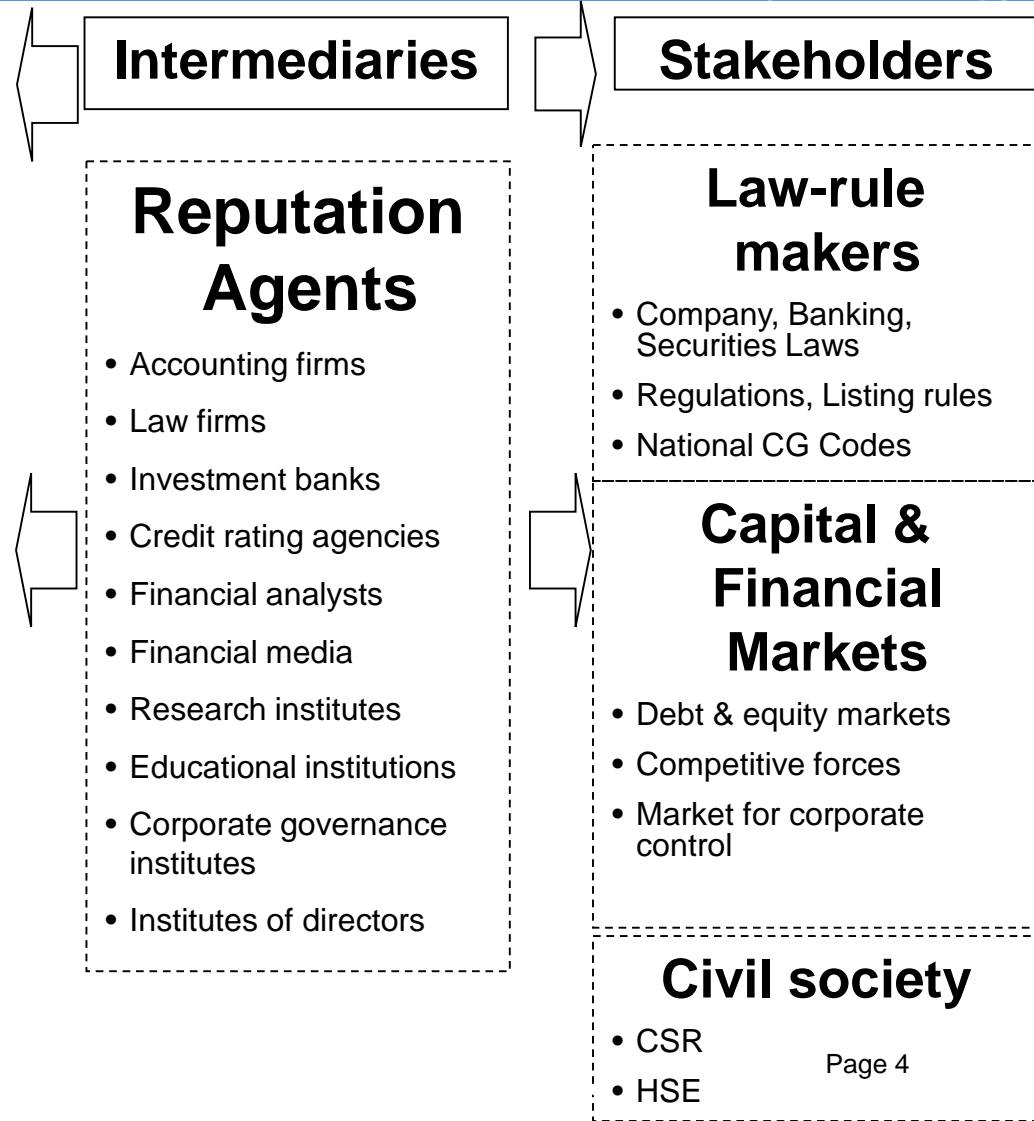
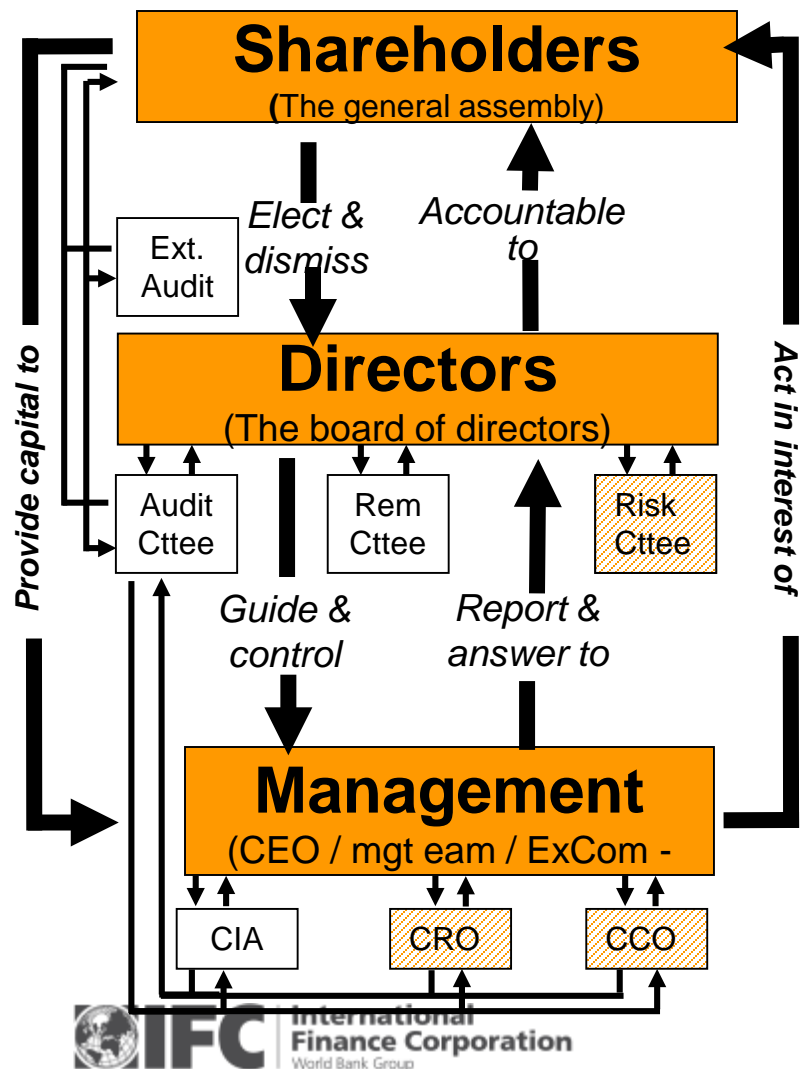
Corporate governance refers to the structures and processes for the direction and control of companies



The Internal vs. the External Perspective

Internal—Corporate—Perspective

External—Stakeholder—Perspective



The Principles of Corporate Governance

As put forth in the 2004 OECD Principles of Corporate Governance



These Principles should:

<ul style="list-style-type: none">▪ Ensure for mgmt.'s accountability to the Board▪ Ensure for the Board's accountability to SHs	<ul style="list-style-type: none">▪ Protect SH Rights▪ Treat all SHs, incl. minorities, equitably▪ Provide for effective redress for violations	<ul style="list-style-type: none">▪ Ensure for timely and accurate disclosure▪ On all material matters, incl. the:<ul style="list-style-type: none">✓ Financial situation✓ Performance✓ Ownership✓ Governance	<ul style="list-style-type: none">▪ Recognize the legal rights of stakeholders▪ Encourage co-op. between Co. & stakeholders in creating<ul style="list-style-type: none">✓ Wealth✓ Jobs; and✓ Sustainability
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And while corporate governance issues will vary from company to company, these principles hold true for all companies.

CG Parameters



Structure & Functioning of Boards of Directors

Roles & Responsibilities (vis-à-vis mgmt)

Composition & Structure, incl. committees

Independence & Skills

Remuneration & Evaluation

Commitment to Good CG

Dedicated CG officer

Written code of CG

Board committee on CG

**A practical
investment-driven
definition**

Transparency & Disclosure

Accounting & Audit

Internal control & Risk mgmt

Financial reporting

Treatment of Minority SHs

SH meetings & Voting rights

Representation & Fair treatment

Access to information

...as distinct from:

Corporate citizenship

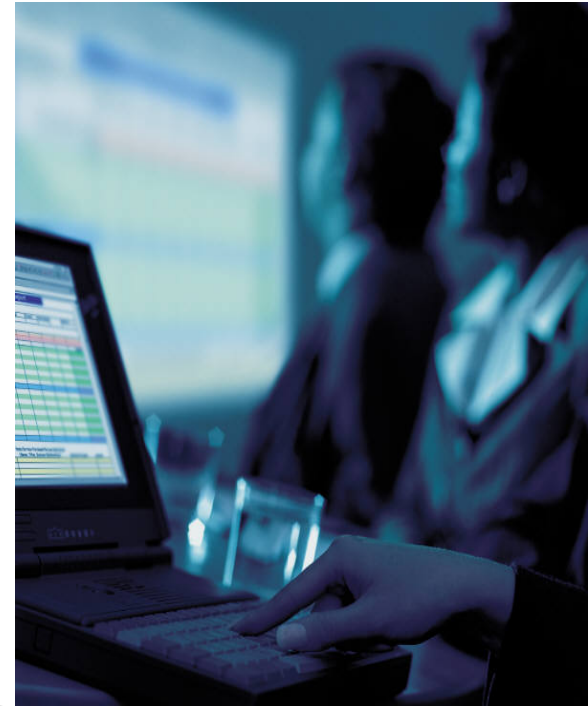
Corporate social responsibility

Socially responsible investing

Other elements of sustainability

Political governance

Public sector anti-corruption / AML



But...

**CG does reinforce
all of these!!!**

Support for the Value-Added Proposition

CG funds:

- ⑦ Dynamo Puma II, Lazard Korea Corporate Governance Fund

S&P, Moody's and Fitch:

- ⑦ CG explicit part of credit rating
- ⑦ BCR upgrade

Experience of activist institutional investors:

- ⑦ CalPERS
- ⑦ Hermes Pension
- ⑦ Ontario Teachers Association

Listing requirements:

- ⑦ Novo Mercado
- ⑦ NYSE and other markets

Why Care about CG?

Portfolio Performance

Development Mandate

Reputational Risk/Reputational Agent

- Sustainable development – alongside social, other elements of sustainability



Why Clients Care about CG?

CG Works

Provides access to, and lowers cost of capital

Improves operational efficiency, manages risks

Enhances the Company's reputation

When to Focus on Corporate Governance?

Risks and/or Opportunities – Financial Return and Development Impact

Risks may be:

- attitudinal (little or no commitment to governance)
- financial/operational (weak controls)
- legal (weak compliance)
- reputational (negative image)

Opportunities (to add value) may be:

- attitudinal (strong commitment to governance)
- financial (access to capital/better valuations)
- legal (model codes/compliance/documentation)
- reputational (fulfilling IFC's mission)

Case Study: BCR, Romania

Section 1.2

Why CG?

Case Study: Value-Addition—Realizing the Upside

An Example of Success! BCR in 2003 – The Before

- ⑦ Largest Commercial Bank in Romania
- ⑦ US\$1 billion book value
- ⑦ State-owned (70%), with minority (30%) held by Investment Funds (SIFs)
- ⑦ Two failed privatization attempts in 2002
- ⑦ Management and board indistinguishable
- ⑦ Board composed of senior managers and SIF representatives, Met more than 25 times annually
- ⑦ Risk management and internal controls systems weak



Section 1.2

Why CG?

Case Study: Value-Addition—Realizing the Upside

BCR Corporate Governance Improvement Program

- ⑦ Used the IFC methodology to develop a reform programme
- ⑦ Introduced Two-Tiered Board Structure
 - Management control on Supervisory Board reduced
 - Redrafted Charter
 - Amendments to Banking Law
 - Audit & Compliance and Compensation Committees
- ⑦ IFC and EBRD-nominated directors
- ⑦ Active engagement at Shareholders Meeting
- ⑦ Implemented transparent ESOP
- ⑦ Two-Stage Training Program
 - IMD/IIF Seminar, In-house Program



Section 1.2

Why cg?

Case Study: Value-Addition—Realizing the Upside

Great Results

- ⑦ Rating Agency Upgrades
- ⑦ Board effectiveness improved (committees still nascent)
- ⑦ Professionalization of Shareholders Meetings
- ⑦ Implementation of new internal processes
 - Improvement of Risk Management and Internal Controls
 - IFC-sponsored Resident Advisor to Internal Controls Unit
- ⑦ Transparency sufficient to privatize

Deal to Full Privatization

- ⑦ Eleven initially interested bidders, seven bids submitted in mid-October
- ⑦ Erste (Austria) for Gov't and IFC/EBRD shares
- ⑦ Estimated total value – US\$ 4.5 billion
 - >4x book value of US\$ 1.2 billion
 - IFC's shares worth >US\$ 700 million



Section 1.2

Why Mainstream?

Case Study: Value-Addition—Realizing the Upside

Key Event helped – Romania Joined the EU

Our Role—IFC's Investment

- ⑦ 12.5% + one share for US\$111
 - .88x book value
 - Negotiated in tandem with EBRD
 - Tag-along / drag-along
- ⑦ Medium-term trade sale anticipated (no IPO)
- ⑦ Subsequent distribution of 8% to management, employees and retirees
- ⑦ Institution-building program

