



**International
Finance Corporation**
World Bank Group

Mainstreaming Corporate Governance Risk Analysis in the Investment Process

Presentation to DFI Meeting

Darrin Hartzler

Manager

IFC Corporate Governance Unit

January 26, 2011

What is Mainstreaming?

- ✓ Easier process for IOs to secure CG Assessments by CG Unit and simplified CG Review tools and training for IOs to address 5 areas of CG risk and opportunity:
 - **Commitment** - the tone at the top and if the client values and relies on good CG - understands business benefits
 - **Board of Directors** - function and structuring of the board of directors - appropriate oversight and strategic roles
 - **Control Environment** - internal audit and internal controls - essential for appropriate risk management and efficiency
 - **Transparency & Disclosure** - accurate financial statements & appropriate reporting of financial information
 - **Minority Shareholder Rights** - treatment of investors like IFC

- ✓ Training for all investment staff - training on use of simple and field tested CG tools - CG Report generator & Matrix

What is Mainstreaming?

- ✓ A structured approach to assessing CG Operational Risk and enhancing Development Impact - Systemic CG risk assessment for IFC investment transactions using IFC's CG Methodology - relies on IFC's risk-tiering to determine level of analysis
 - **Output:** Short CG report, a single IRM slide & discussion on risks and opportunities at IRM (for internal use only)
 - **Value added for company:** When needed, as an add-on to appraisal - the CG Unit, for a separate fee, will deliver a CG Assessment to the client including a CG Improvement Program, presentation & suggested sequencing and timeline
 - **Portfolio companies:** CG Unit can provide Assessments for fees
- ✓ Tier III, CG Unit led Assessments - required as of 9/30/2010
- ✓ Tier I & II, IO led Reviews - required after 7/1/2011

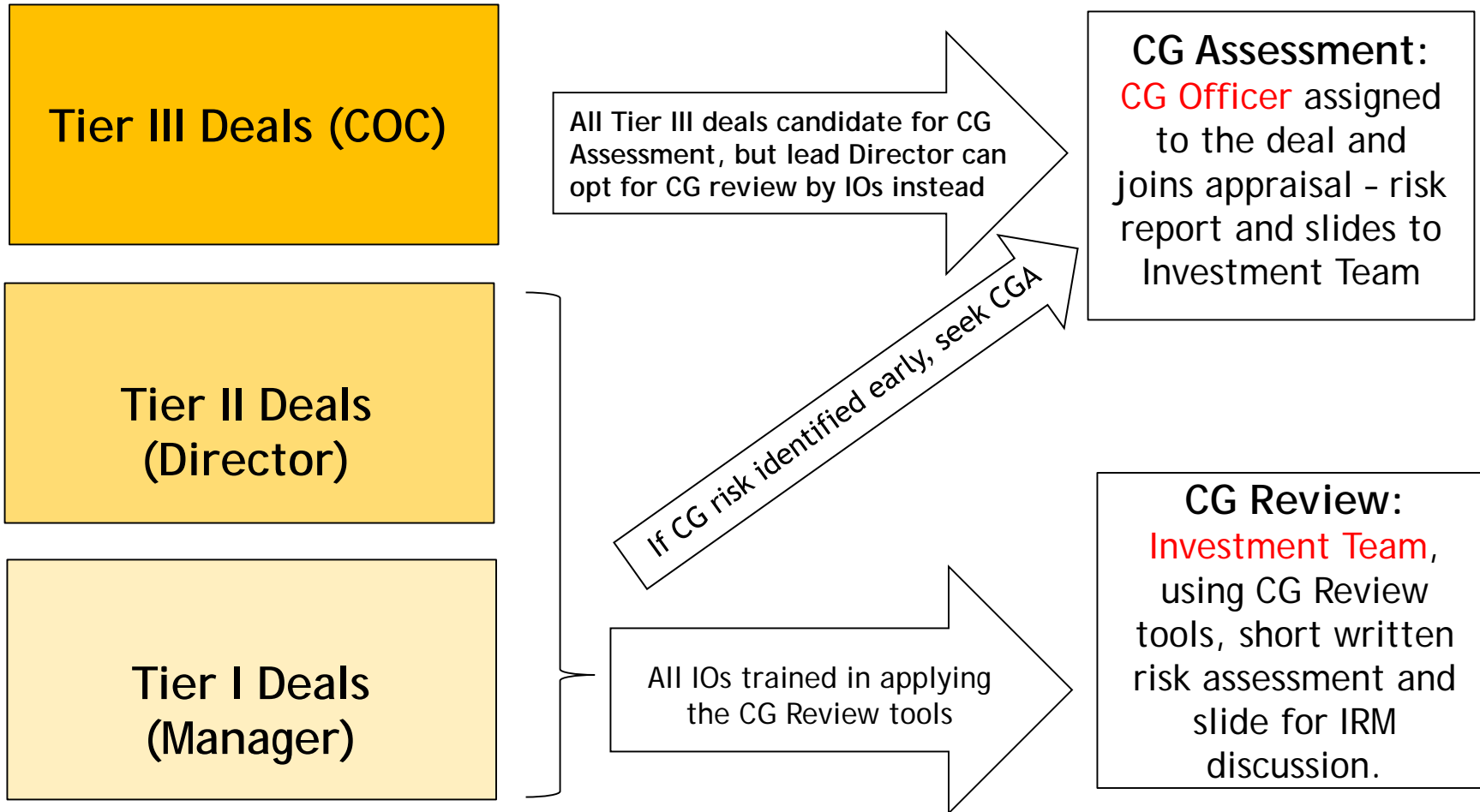
IFC's Risk Based Tiering of Investment Decisionmaking Authority

- ✓ As part of effort to decentralize operations and delegate investment decisionmaking - three tier structure based on:
 - **Size and type of investment:** Higher thresholds for debt than equity
 - **Risk rating:** IFC Credit Risk Rating (CRR) - rating from one to six with six being greater risk - many risk factors incorporated including CG
 - **Innovation:** New investment products given fuller review
- ✓ Tier III - Committee of IFC Senior management (COC) - CG Assessment by a member of the CG Unit
 - Debt > \$75m, Equity > \$25m, CRR of 5 or 6
- ✓ Tier I & II - CG review by Investment Team
 - Delegated to manager and director levels accordingly
 - Lower thresholds for debt, equity and CRR

How level of CG Analysis is Determined at CRM

Risk Tiering from BPI

Level of CG Analysis



What would IOs need to do:

✓COC-tier or high CG risk deals:

- CG Assessment by CG Unit - include CG Officer in appraisal team, cover travel expenses from client fees - include CG Officer outputs in reports (CG Assessment and Slide for IRM)
- If chairing Director waives CG Assessment, conduct CG Review as part of appraisal

✓Non-COC tier:

- Conduct CG Review using CG Review report tools - attend CG training
- Think through CG risks ahead of appraisal and ask a few additional questions and document findings and recommendations
- Prepare short review of CG issues and slide for IRM

✓Where appropriate:

- Sell CG value added services to clients committed to CG improvement

What would Directors need to do:

✓COC-tier:

- **Decide**, at CRM when COC tiering is confirmed, to either go forward with **full CG Assessment by the CG Unit**, or to waive CG Unit involvement and rely on IO's CG Review of risks

✓Non-COC tier:

- Standard case - Ensure that IOs conduct CG Review as part of appraisal
- If obvious CG risks at CRM (will be rare) - seek **CG Assessment by CG Unit**

✓All deals:

- Review CG slide in IRM deck and discuss risks and opportunities as needed

What would change?

- ✓ Better CG analysis for decisionmaking - consistent analysis/rating of risk
- ✓ Risk based allocation of CG efforts - CG Officer for all COC tier deals
- ✓ Simplified CG Review by IOs: new tools and training already field tested
 - Training, tools and support = better, more informed CG discussions at IRM
- ✓ Better articulated CG development impact - CG in DOTS
- ✓ Value added services available for clients on a fee basis

What would not change?

- ✓ Lead/Chairing Director decides - but with better information
- ✓ CGU advises Investment Team on risks - suggests strategy to address risk
- ✓ IOs decide how to use CG specialist input in their business decisionmaking: no clearances, approvals or mandatory CG attendance at CRM
- ✓ Reinforces IFC's strong commitment to Corporate Governance

Corporate Governance in IFC

IFC Corporate Governance Unit

- Supports IFC investments
- Company assessments
- IO training
- Support to IFC Nominee Directors
- Global DFI Leadership

IFC Field-based CG Projects

- Implementing good CG practices
- Company interventions
- Capacity building
- Raising local awareness
- Bridging Investment and Advisory operations

Global Corporate Governance Forum

- Global CG KM Platform
- CG reform tools and best practices
- KM training
- Centers for CG excellence for increased outreach and south-south capacity building

Private Good:
CG Advice to IS & AS Client Companies

Public Good:
CG Enabling Environment Support

"IFC has learned that a comprehensive approach to CG is essential. It is not possible to work on the business case for CG in the absence of an adequate legal framework."

-External Review of CG Projects-