



CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

10th Annual DFI Corporate Governance Conference

Paris, 7 April 2016

hosted by



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CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

Opening Address Day 2

Anne Keppler, DEG

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CG Development Framework

- 1. Integrate Corporate Governance in its investment operations*
- 2. Ensure organizational capacity*
- 3. Provide training*
- 4. Collaborate with other signing Investment Institutions*
- 5. Report on implementation*

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CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

Update on CGDF implementation

Rocio Budetta, IIC
Enzo Gregori, ADB
Andres Oneto, CAF

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CG DF Agenda

- Signatories' implementation
- Results of the questionnaire on loans
- Conclusions & issues to consider

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Distribution of investments

Response

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

Institutions size:

- Over 50% 'small' < \$1.2bn
- Less than 20% 'big' > \$20bn

Public vs. Private

- 15%: PUBLIC dominated.
- 5%: balanced between.
- 80%: PRIVATE dominated.

Geographic and Sector distribution

- Almost all DFIs are multiregional and multi sector and minimally all have considerable overlaps.
- This means there is much opportunity for collaboration.

Product distribution

- The vast majority of all activity is debt.
- What does this mean for (a) training, (b) due diligence, (c) methodology and toolkit?

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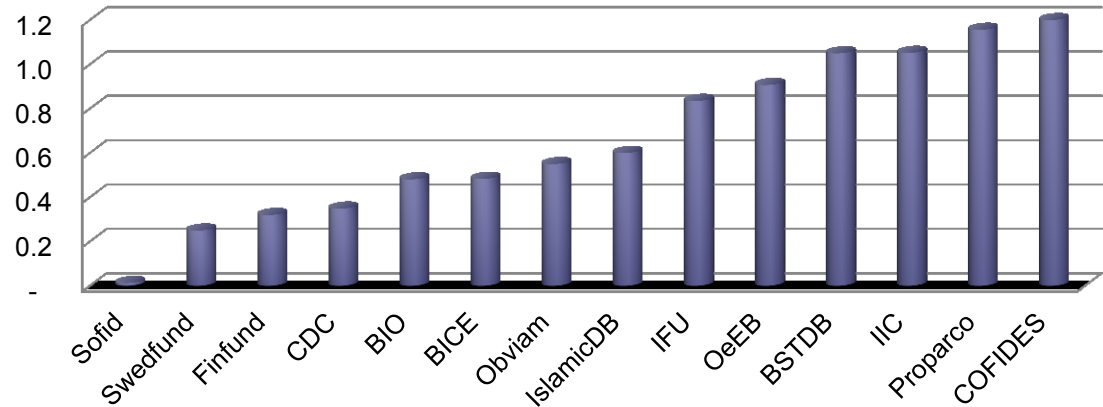


Distribution of investments

Small < US\$ 1.2bn

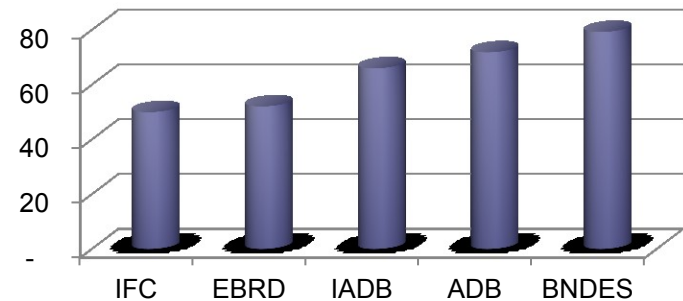
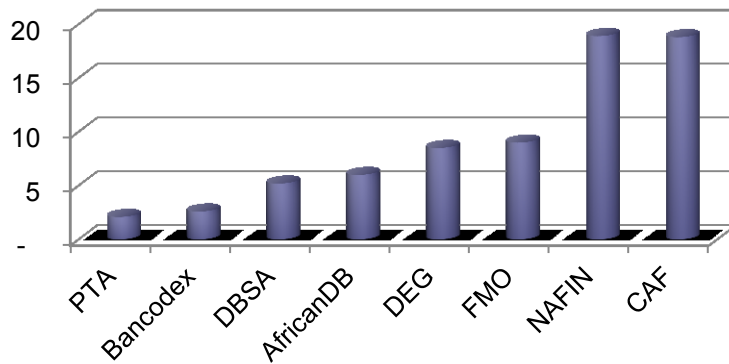
Portfolio size.

- Which cluster is your institution?
- Who else is in your cluster?



Medium US\$1.2bn to US\$20bn

Large > US\$20bn



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Integrating CG in Investment Operations

Operationalizing commitments made in the Framework

- Almost all DFIs have made concrete actions to commit in the implementation of the framework
- Almost 70% confirm their tools are modified versions of the CGF; 22% indicate they have developed their own tools; 11% N/A
- Concentrated in: policies, guidelines, training and toolkits.
 - *Keeping improvement in developing more activities and tools to operationalize the framework over last year*

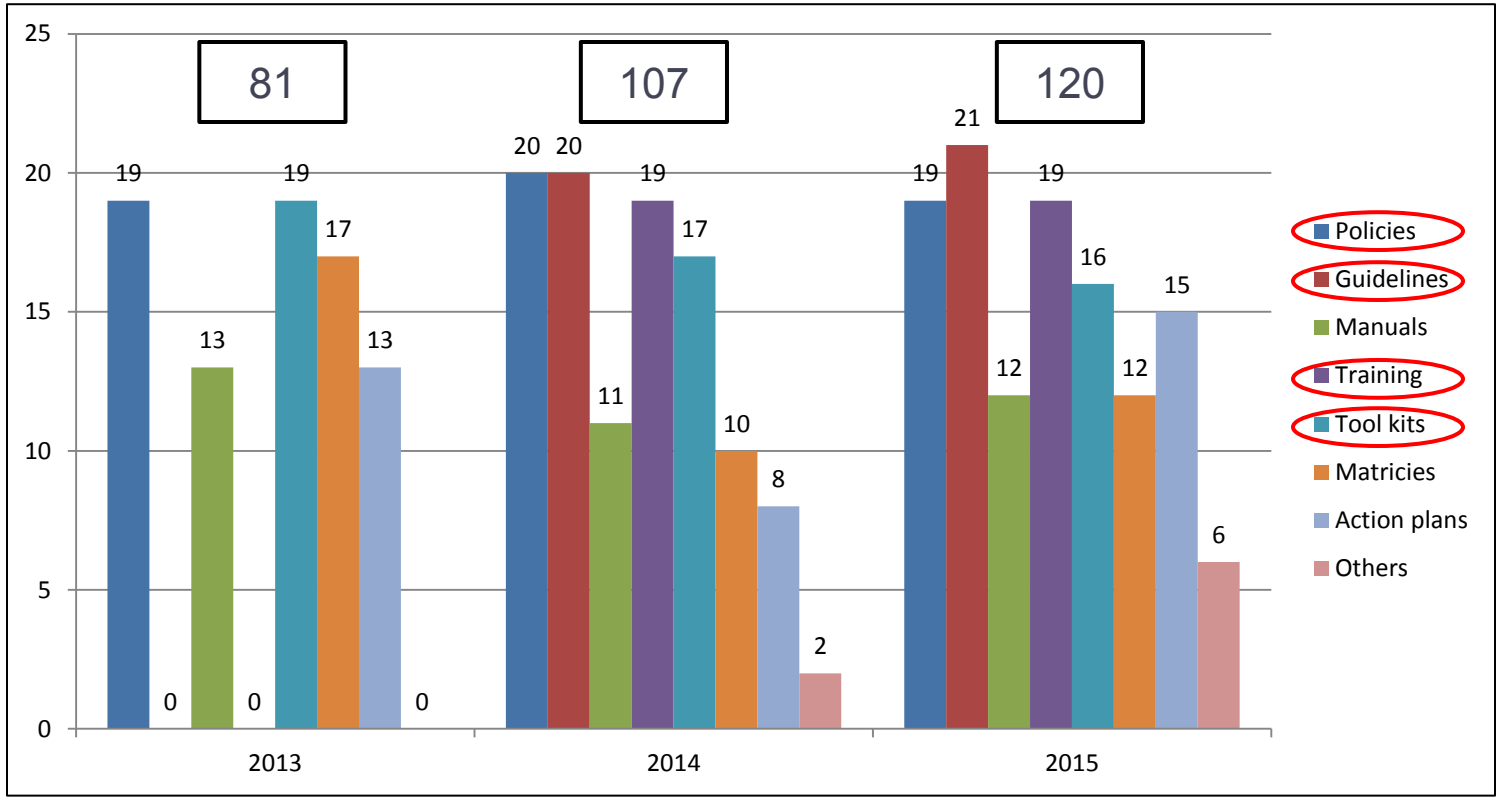
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Integrating CG in Investment Operations

Commitments made in the Framework are operationalized through:



Responding DFIs: 27/31

Responding DFIs: 28/33

Responding DFIs: 27/33



Integrating CG in Investment Operations

Deals subject to assessment

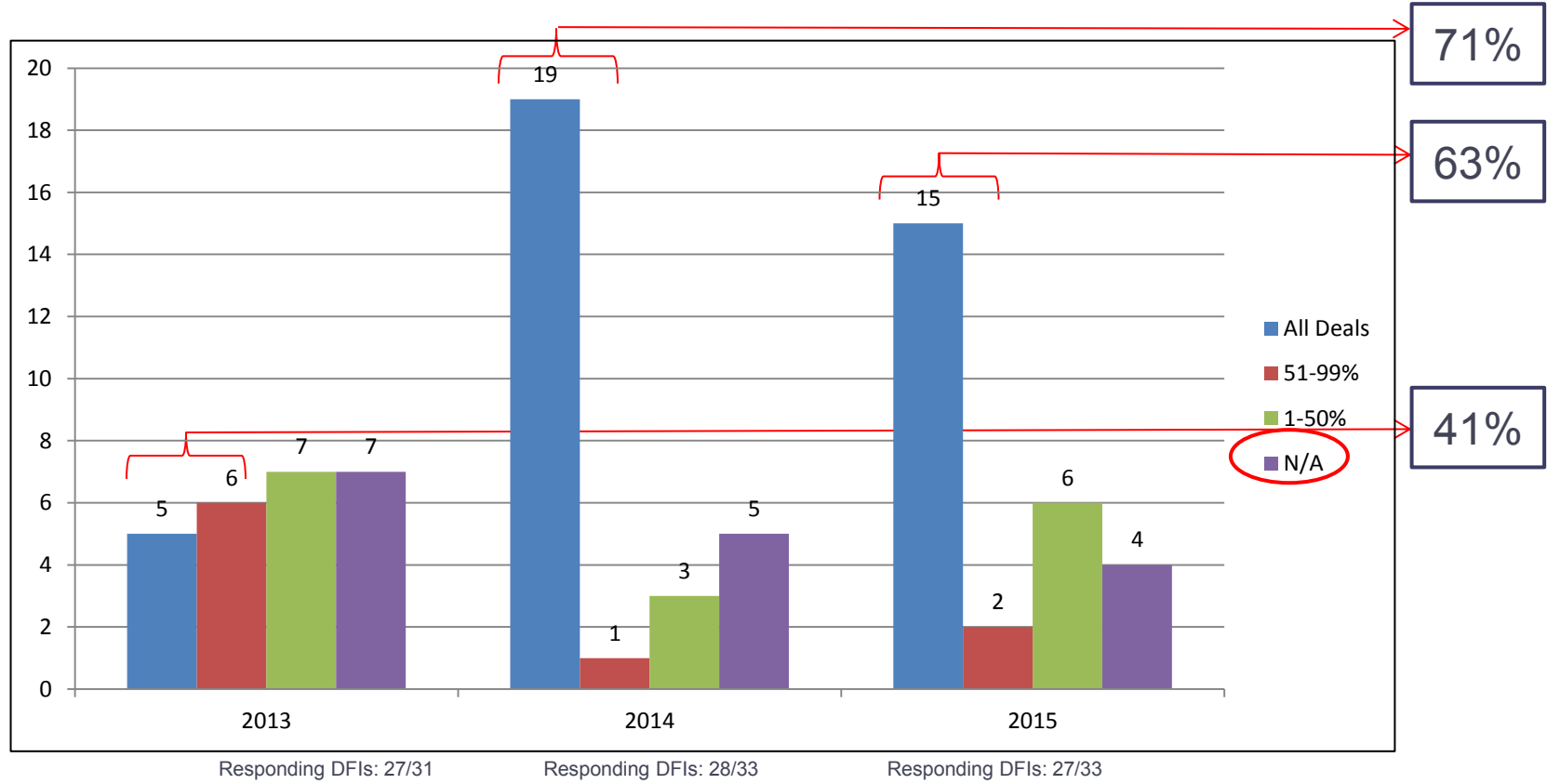
- 54% of DFIs have all deals subject to a CG assessment.
- Risk and Project Analysis Division are the main units who decide what deals are subject to a CG assessment.
- Criteria for selection is diverse (Type of product, institution, size, opportunity for GC risk or value addition).
- Most DFIs perform both a light and a deep review, depending on the type of deals.
 - *CG assessment is improving: More DFIs are incorporating CG due diligence and moving into a deep review.*

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Integrating CG in Investment Operations

Percentage of deals subject to a CG assessment



Integrating CG in Investment Operations

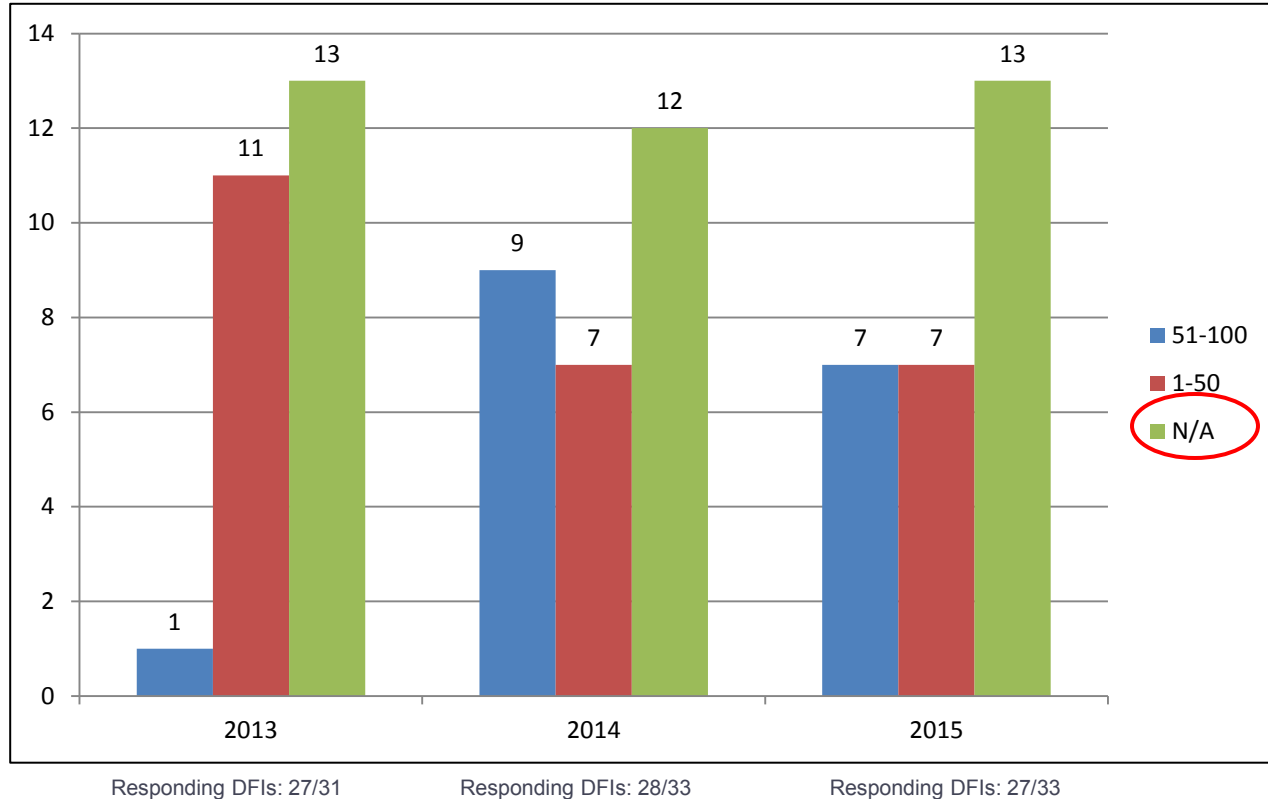
Action plans

- 26% of DFIs indicate that more than half of CG assessed deals go through an action plan
 - *Better implementation of action plans than 2013. Still 48% do not implement action plans: What do we need to get the extra mile?*



Integrating CG in Investment Operations

% of CG assessed deals that had Action Plans



Ensuring Internal Responsibility

Focal Point

- Almost all have a focal point: same situation as last year.
- 5 DFIs have a full time CG unit
- DFIs with no full time CG unit have their FPs dedicate an average of 22% of their time.
 - *Only 5 DFIs have a permanent staff dedicated exclusively to CG, however average time dedicated to CG has decreased slightly in relation to last year (26%)*

Center of gravity of CG in the organization

- Concentrated in the Legal and Risk Division: no changes over 2014.

People dedicated to CG

- Average number of people dedicated: 6 Mostly part time dedication.
 - *Variance is high: 0-55 (including IOs trained to evaluate CG).*

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Ensuring Internal Responsibility

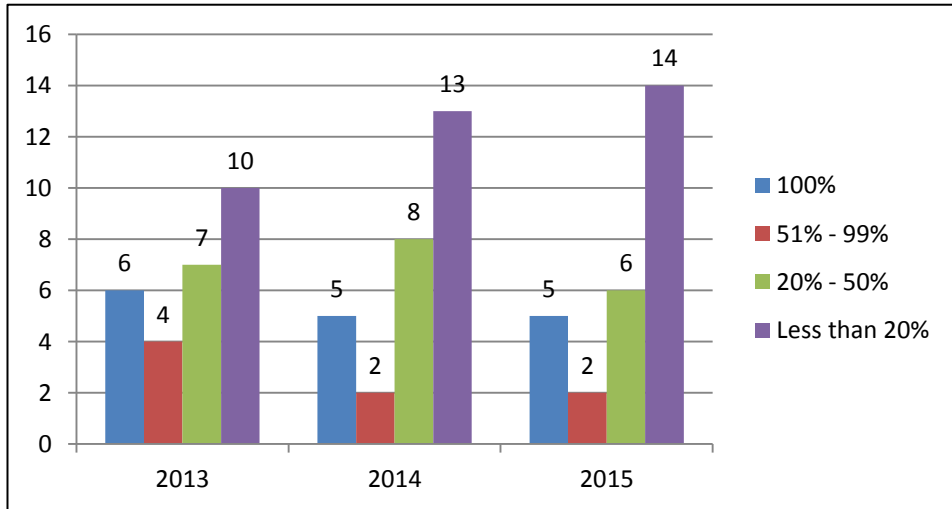
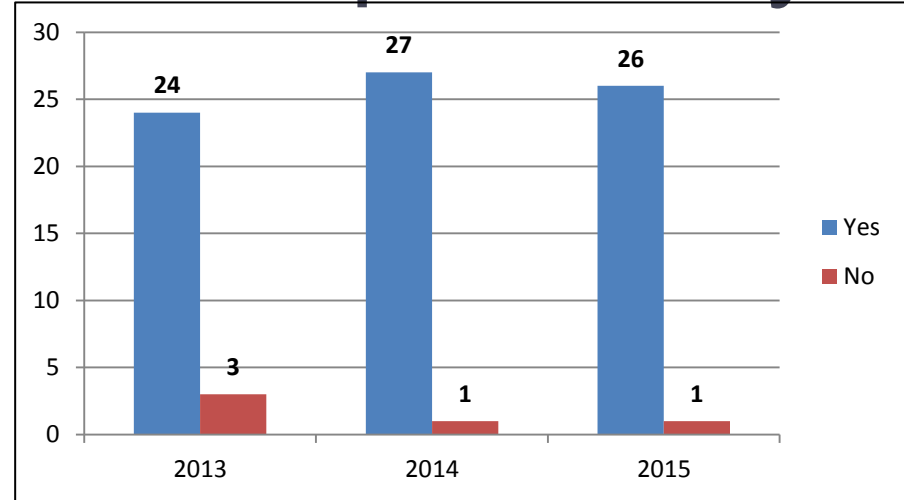
Indication of a Focal Point

As last year one DFI do not have a focal point

27/31

28/33

27/33



CG Focal Point time dedicated to corporate governance

DFIs with no full time CG unit have their FOCAL POINTs dedicate an average of 22% of their time.

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Ensuring Internal Responsibility

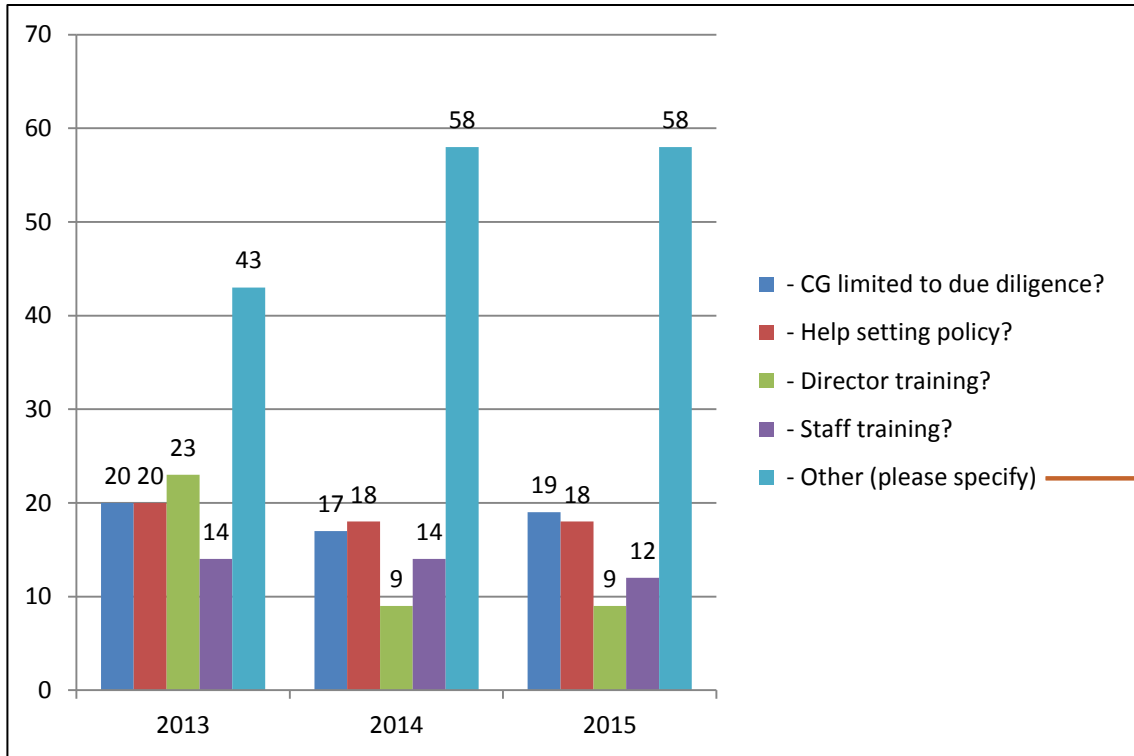
What is the scope CG activity

- CG concentrated in: due diligence activities, helping setting policy and staff training.
 - *“Other” activities appear as relevant, specially TA programs with clients and regional allies .*
 - *Less intensive in Director Training than in 2013
¿no need for more training from some DFIs?*



Ensuring Internal Responsibility

Scope of CG activity



Other:

- *Technical assistance programs with clients and regional allies*
- lobbying for a FTE
- legal reform projects
- assistance CG reviews
- Self-Assessment Tools
- Creating awareness
- Develop CG tools and materials

Providing or Procuring Training

Training for investment staff

- Most institutions provide training
- Models vary from 2 hours to 3 days
 - *This means there is much to choose from and no need to reinvent the wheel.*

Training for non-investment staff

- Duration 2 hours to 1 day.
- Trend is towards training dealing officers and non-dealing officers together.
 - *This is good development as it increases corporate governance awareness across the institution.*

Training for Clients

- Focus examples
- CDC provide Funds focused training.
- NAFIN provide 'Family business' specific training plus an on-line offering targeted at Small businesses and entrepreneurs.
- Delivery mode examples
- IFC, IFU and IIC have regular scheduled training.
- FMO is more demand driven.
 - *Remember the CG website for training information.*

Director training

- Most active DFIs are FMO, IFC and NAFIN.
- Don't start from scratch. Use the existing knowledge.
 - *See the Nominee Director Guidelines being launched today.*

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Collaborating with other Signatories

Collaboration via training

- Approximately half the respondents collaborated in this way
- EDFI cluster led by FMO and DEG and Latin America bilateral collaboration.
 - *Familiarize yourself with what each cluster provides.*

Information sharing

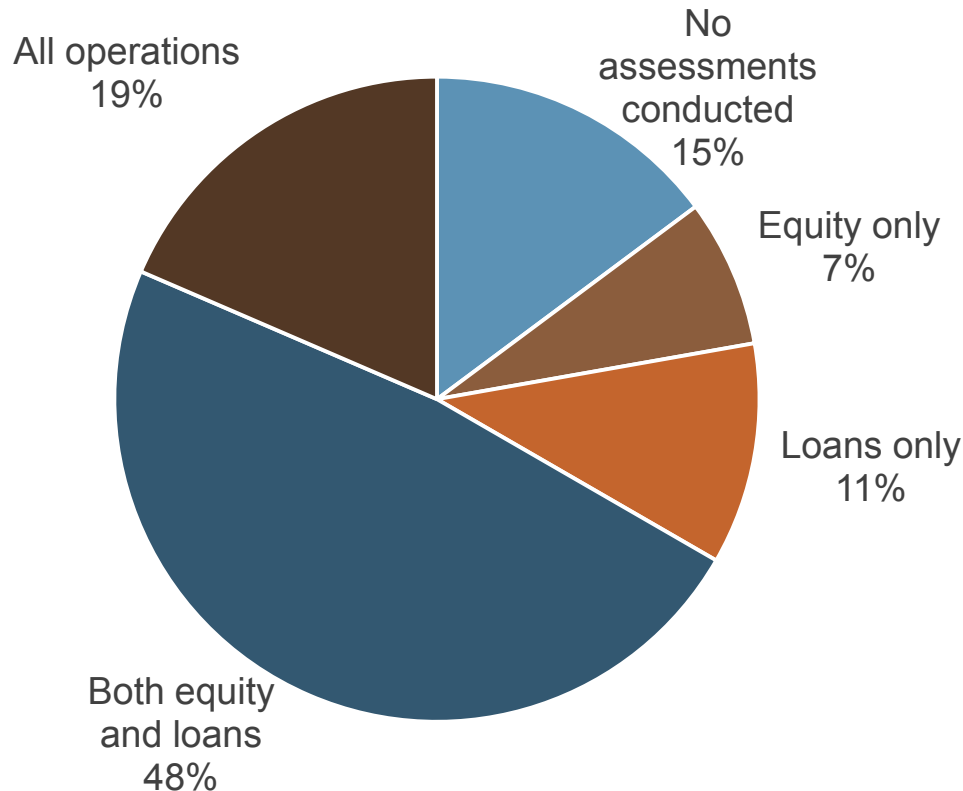
- More than half collaborated in this way
- Majority as co-lenders on deals
- Ongoing significant ad hoc collaboration amongst signatories
 - *CG signatory community becoming more active and more networked*
 - *Website providing additional avenue for information sharing*

Joint CG events and capacity building

- Restricted to large DFIs and limited to European and Latin American clusters mentioned above
 - *Familiarize yourself with what each cluster provides.*

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Results of the questionnaire on loans - Loan vs Equity Assessments



78% of respondents conduct CG assessments for loan operations

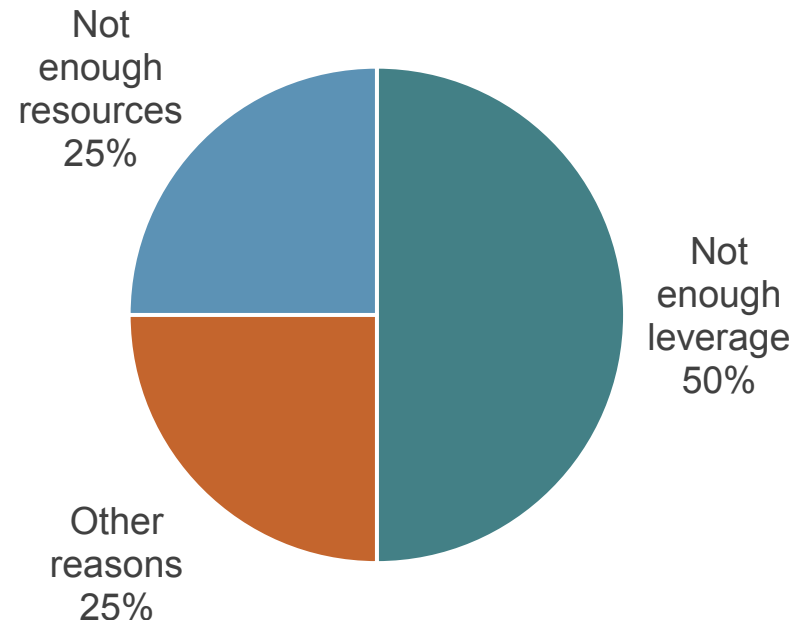
Loan operations: Resource allocation and "leverage" perception

From those institutions that provide CG assessments for both loan and equity deals:

- More than 90% of the portfolio of signatories is composed of loan operations
- Less than 25% of those loan deals are being assessed for CG issues

Equity to loan ratio in terms of resource allocation seems to be unbalanced

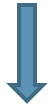
From those institutions that do not provide CG assessments:



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100% of loan operations reviewed in 2015 (125 deals)



2/3 required a deeper assessment



In 30% of the cases, improvements were required and implemented by client

LEVERAGE

- Reputational risk is comparable
- Receptivity from clients is the same
- Internal resources allocated are independent from type of deal



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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*, but still 12% N/A.
- Assessment of CG in investee companies as needed: *More DFIs are incorporating due diligence as mandatory and performing deeper assessments*.
- Monitoring of CG action plans: *Better implementation of action plans*, but still 46% have no action plans.
- Regular and in depth CG training for staff and nominee directors (when applicable) and clients: *Wide options for staff, less for non staff, directors and clients*
- Increased collaboration among signatories in joint training and information sharing/advice on implementation: *Currently European and Latin American clusters*
- Opportunities may be left on the table to add value on loan operations

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Questions from 2015

- Action Plans: why so rarely used?
- CG due diligence on loans: why so rarely done?

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Guidebook for DFI on Nominating a Director
A project of the DFI WG Committee on
Nominee Directors

Martin Steindl, FMO

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Presentation objectives

- Share the contents of the Guidebook.
- Obtain feedback from conference participants to keep improving the contents ('living document').



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Contents of the Guidebook

- Document primarily addresses topics related to the nomination of individuals to board seats in corporations
- Other sections include:
 - Corporate/institutional board seats
 - Nomination to governance bodies of Private Equity Funds

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Guiding principle

- Governance is viewed as a journey, rather than a destination. The ideal CG model set up for a specific company will need to be modified as the size, complexity and structure of the company changes.
- The following objectives generally motivate DFIs to nominate directors to boards of investee companies:
 - Value addition
 - Portfolio monitoring
 - Skill transfer opportunity

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Why, When, Who and How?

- WHY : value addition, portfolio monitoring, skill transfer
- WHEN : investment structure & terms, opportunity vs. liability, potential to add value
- WHO : profile, fit with rest of board members, staff member or external candidate
- HOW : Internal process considerations – when, who selects, who manages, what shall be achieved

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Responsibility of parties involved

- Nominee Director – Attending meetings, being responsive, transparently managing conflicts, etc.
- Nominating Shareholder – Provide appropriate information, set clear objectives, provide training for nominee, provide clarity about information to be shared, etc.
- Investee Company – Provide adequate information about regulatory environment, arrange on-boarding process, provide remuneration, indemnification and D & O insurance.

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Word of caution about Alternate Directors and Observers

- Alternate Directors- when not an obligatory condition, generally recommend to refrain from nomination of ADs. Can be disruptive, may raise liability issues and often alternate director attends in addition to/in place of Nominated Director.
- Observers- raises liability issues. Recommend to negotiate a Director seat if DFI intends to have a regular contributing attendee to meetings.

Additional issues covered in the Guidebook

- Remuneration of the nominee director
 - Who should pay and how much is appropriate?
- Protection of the nominee director
 - Indemnification
 - Insurance
- Number of director seats and committee seats that a nominee should hold
- Tenure? Rotation? Change in nominee based on changing strategic needs of investee

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Potential conflicts of interest

- Types of potential conflicts of interest:
 - Personal conflicts
 - Structural conflicts (employment-related conflicts that only apply to internal nominees: oversight, competition, debt & equity, seniority and time conflicts).
- Handling of conflicts (avoid to the extent possible by nominating only external candidates or manage potential conflicts by mitigating risks).

Other key questions

- Should nominee director report or share information?
How?
 - confidential nature of discussions, fiduciary duty, local regulations
- Monitoring
 - How can the nominating shareholder judge the performance of the Board in general and its nominee in particular?
- Exit
 - When should the nominee director resign?
 - potential risks related to revoking a director's nomination.

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Nature of Corporate Board Seats

- Allowed in countries that are part of the OHADA treaty on the harmonization of business law in Africa but also France, Italy and Luxembourg
- Board member must be staff of DFI and is appointed as a permanent representative for the duration of institution's Board mandate.
- In practice, Board acts like shareholder assembly.
 - Advantage: more flexibility for info. sharing between nominee and DFI.
 - Disadvantage: nominee director may feel less responsible for his/her individual actions.

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Nature of nomination to Committees of PE Funds

- Fund partnership model – DFI, as an LP, engages the GP to achieve an investment purpose. DFI as a LP, is often entitled to send nominees to:
 - Advisory Board/Committee: Main function is to advise on conflicts and not make decisions. Committee member most frequently does not hold fiduciary duties present for BoD and can thus represent interest of the nominating LP institution in the AC.
 - Investment Board/Committee: In charge or reviewing investment decisions presented to Fund. Recommend to avoid nominating representative since LP should not be involved in operational issues (jeopardizes limited liability)

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Conclusions

- Guidebook offers contemplations/recommendations on how best to nominate directors to the boards of investee companies. In the end, the key is for the DFI to uphold the principle that nominees need to act in the best interest of investees.
- In the process of drafting this Guidebook, members of the Directorship Committee of the DFI CG WG exchanged several practices and ideas, and are happy to help any Signatories interested in obtaining support.



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Buzz Groups

- Corporate Positions – Laurent
- Internal (staff) vs external nominees – Rebeca
- Selection and internal processes – Anne
- Remuneration – Martin
- Sharing information – Yannick

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Tools & Resources available to CGDF signatories

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CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

Corporate Governance Transparency Index for State-Owned Enterprises in Latin America

Andres Oneto, CAF

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Conclusions

(in case you need to take an after lunch power nap)

- The CG Transparency Index for SOEs can give a proxy baseline assessment of CG of these entities.
- It is a Public Index to generate consciousness on where SOEs stand in relation to their peers in the region.
- However a number of challenges still remain:
 - SOES should offer pertinent and timely information that will allow stakeholders to monitor their management.
 - The process of selecting Board of Directors members, to increase its level of professionalism and independence, should be improved.
 - Promoting SOEs to access capital markets can be associated with improving transparency practices in SOE CG.

- 1. Background**
- 2. How to engage CG on SOEs**
- 3. CG Transparency Index for SOEs**
- 4. Conclusions and challenges ahead**

Importance of SOEs in Latin America and in the World



At a world level they concentrate:

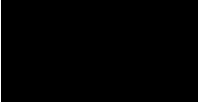
- 20% of total investment
- 5% of global employment
- 40% of the gross domestic product
- 10% of Forbes-2000 are SOEs (6% of global GDP)
- SOEs are heavily concentrated in developing countries

In the case of Latin America:

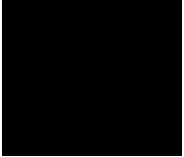
- Presence in strategic sectors
- 40 of the 500 most important companies are SOEs
- The top 3 places are SOEs (Petrobras, Pdvsa & Pemex)
- Their share in the local capital markets is significant whether through equity or debt issuance




Typical problems: Conflicts of interest and difficulties on SOE management



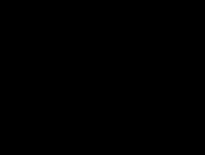
Triple role of the state: simultaneously operate as owner, regulator and consumer.



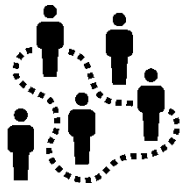
Agency problem: role of the state should be of an informed and active owner.



Proper operation of a professional Board of Directors: must be protected from political influence.



Regulatory framework with special conditions with respect to the private sector: avoid "soft constraints" (special legal regimes, financial bailouts)



Multiplicity of *stakeholders* with conflicting interests: long-term objectives of SOEs should be explicitly stated

1. Background
2. How to engage CG on SOEs
3. CG Transparency Index for SOEs
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CAF: How we engage CG on SOEs

GC is importance for SOEs:

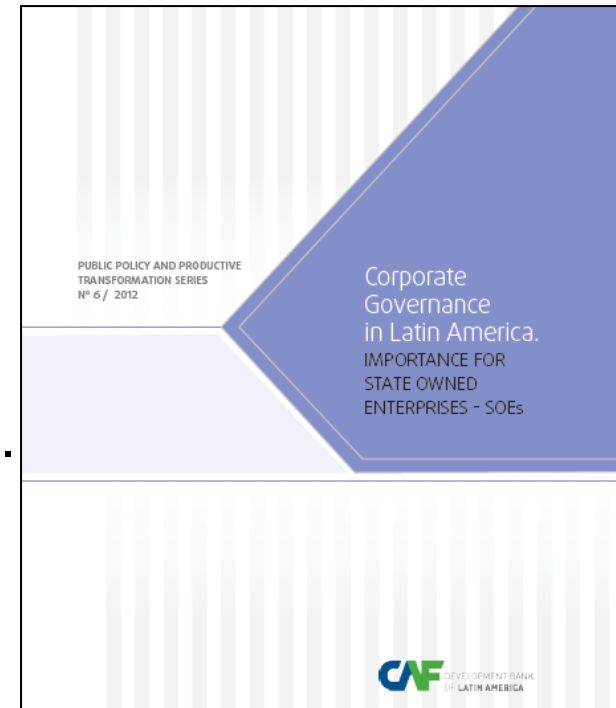
- **Helps Achieving Business Objectives:**

- (i) Clearer decision-making structures and processes.
- (ii) Greater transparency.
- (iii) Reduced conflicts-of-interest.
- (iv) Tighter risk controls.

- **Improves Capital Market Efficiency:** CG standards increase access to global capital and reduce the cost of capital.

Tools:

- Promotion of principles and practices.
- Technical assistance on effective implementations.
- Studies to generate impact on where SOEs stand on GC.





Latin American Network on CG of SOEs



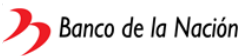
- Joint initiative with OECD, WB and local governments.
- Annual meeting (since 2011) as a high-level regional hub.
- Enhance SOE governance in Latin America through an ongoing exchange of experience and knowledge.
- The Network provides a forum to leverage the experience of a range of governments and other institutions.
- The Second Meeting (2012) involved the active participation of ADB.
- Next meeting: Mexico June 2016 – “Global Knowledge Sharing Roundtable on CG of SOEs”.

**CG
DF**

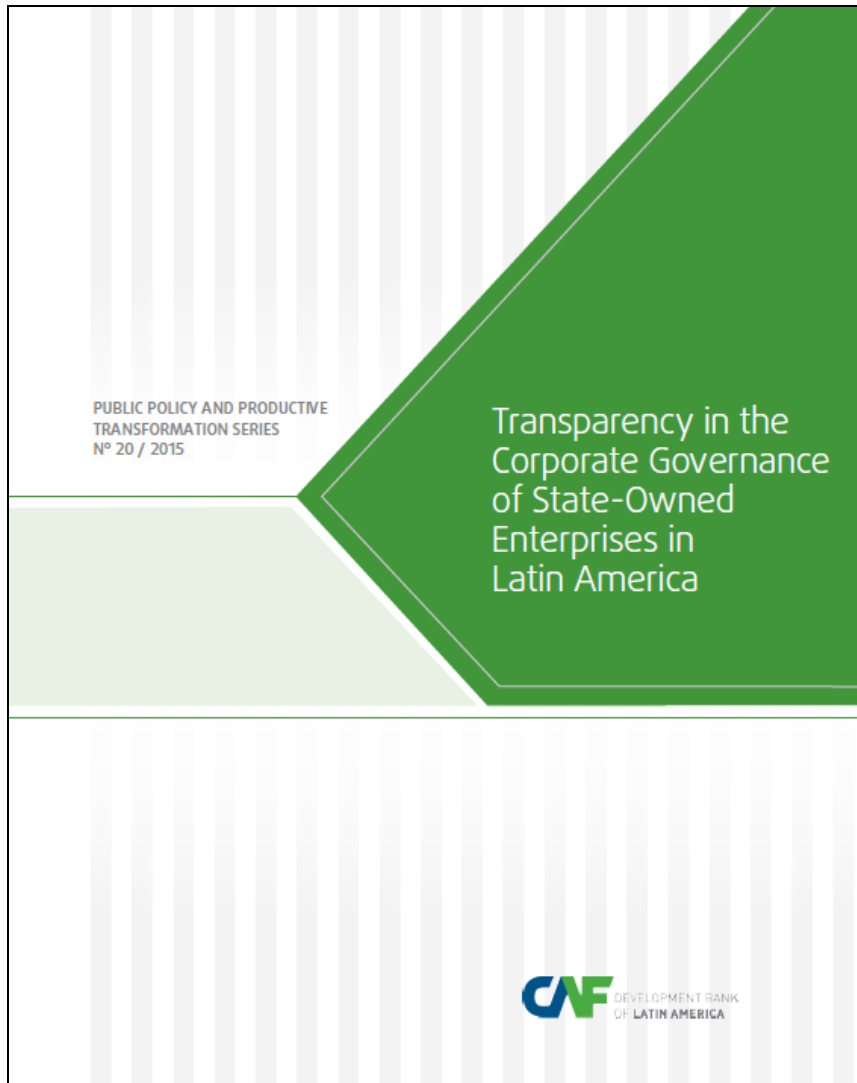
T.A: Effective Implementation of CG in SOEs

- 3 Phases in the implementation: Due Diligence, Recommendations and Implementation of CG standards (Non Refundable T.A.).
- CAF has funded the implementation of CG principles in 24 SOEs in Latin America.

SOEs	Country
Fabrica Nacional de Cemento S.A.	Bolivia
EMAVERDE	Bolivia
Empresa Nacional de Electricidad - Ende	Bolivia
Aguas del Cesar	Colombia
Aguas del Magdalena	Colombia
EMCALI	Colombia
Empresa Eléctrica de Quito	Ecuador
Empresa Metropolitana de Asea - EMASEO	Ecuador
Empresa Metropolitana de Agua Potable – EMAAP	Ecuador
Empresa Metropolitana de Movilidad – EMMOP-Q	Ecuador
Empresa Pública Municipal de Desarrollo Económico – EDEC EP	Ecuador
Empresa Pública Municipal de Aseo de Cuenca – EMAC EP	Ecuador
Rocafuerte Seguros S.A.	Ecuador
Ferrocarriles del Ecuador Empresa Pública – FEEP	Ecuador
Petroperú	Perú
Sedapal	Perú
Banco de la Nación	Perú
Electroperú	Perú
Cajas Municipales de Ahorro y Crédito - CMAC PIURA	Perú
Cajas Municipales de Ahorro y Crédito - CMAC ICA	Perú
Fondo MIVIVIENDA S.A.	Perú
Agrobanco	Perú
Seguro Social de Salud del Perú - Essalud	Perú
Consejo Nacional de Empresas Públicas - CNEP	Paraguay



Transparency Index in the CG of SOEs in Latin America

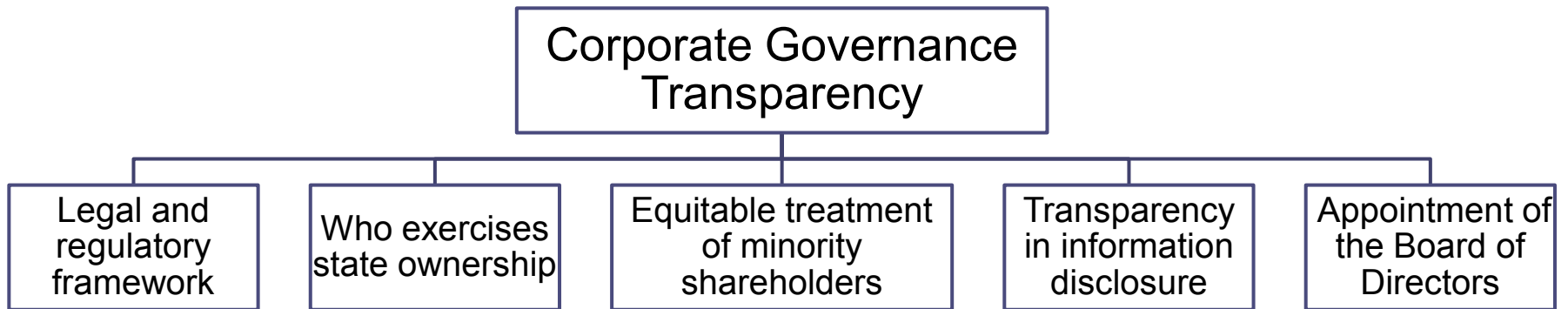


- Evaluate how SOEs companies report their CG practices.
- Public Index to generate consciousness on where SOEs stand in relation to their peers in the region.
- Base line for SOEs to improve how CG principles should be reported.
- Reference study that can be replicated in other regions.

1. Background
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Corporate Governance Transparency Index

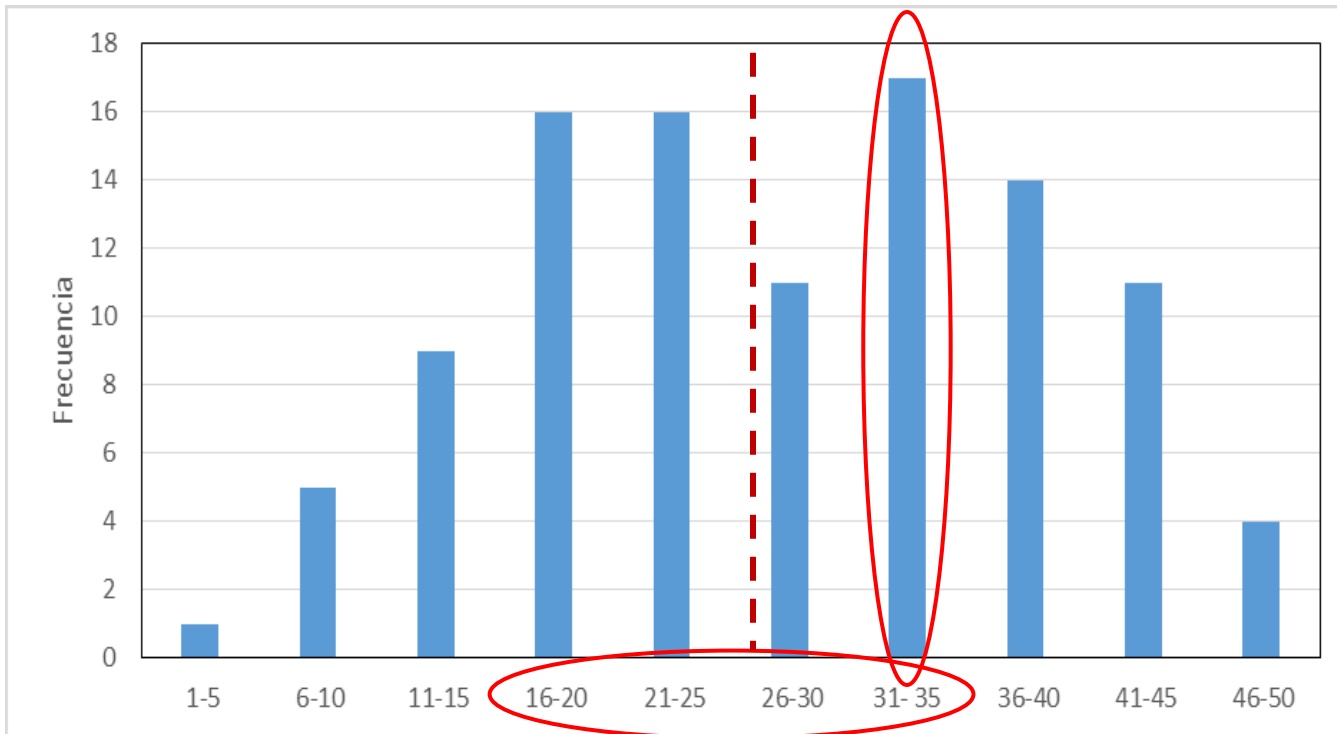
- **The index:** A 5 pillar CG Transparency Index: based on OECD and CAF CG guidelines for SOEs.



- **Sample:** Public information regarding 105 SOEs from 13 Latin American countries.
- **Evaluation:**
 - A total of 31 questions for all 5 pillars.
 - Results for each pillar is transformed into a 10 point base.
 - Standardized results of the index based on 50 points.
- **What measures:** It is not a GC index, but how transparent are SOES in terms of how CG practices are transmitted through public information.
- **Relevance:** Transparency and disclosure of public information are good proxies of the degree to which companies are in compliance with good CG practices.



Distribution of Results of the SOE CG Transparency Index



Ecopetrol:
47.17 points
(Colombia)



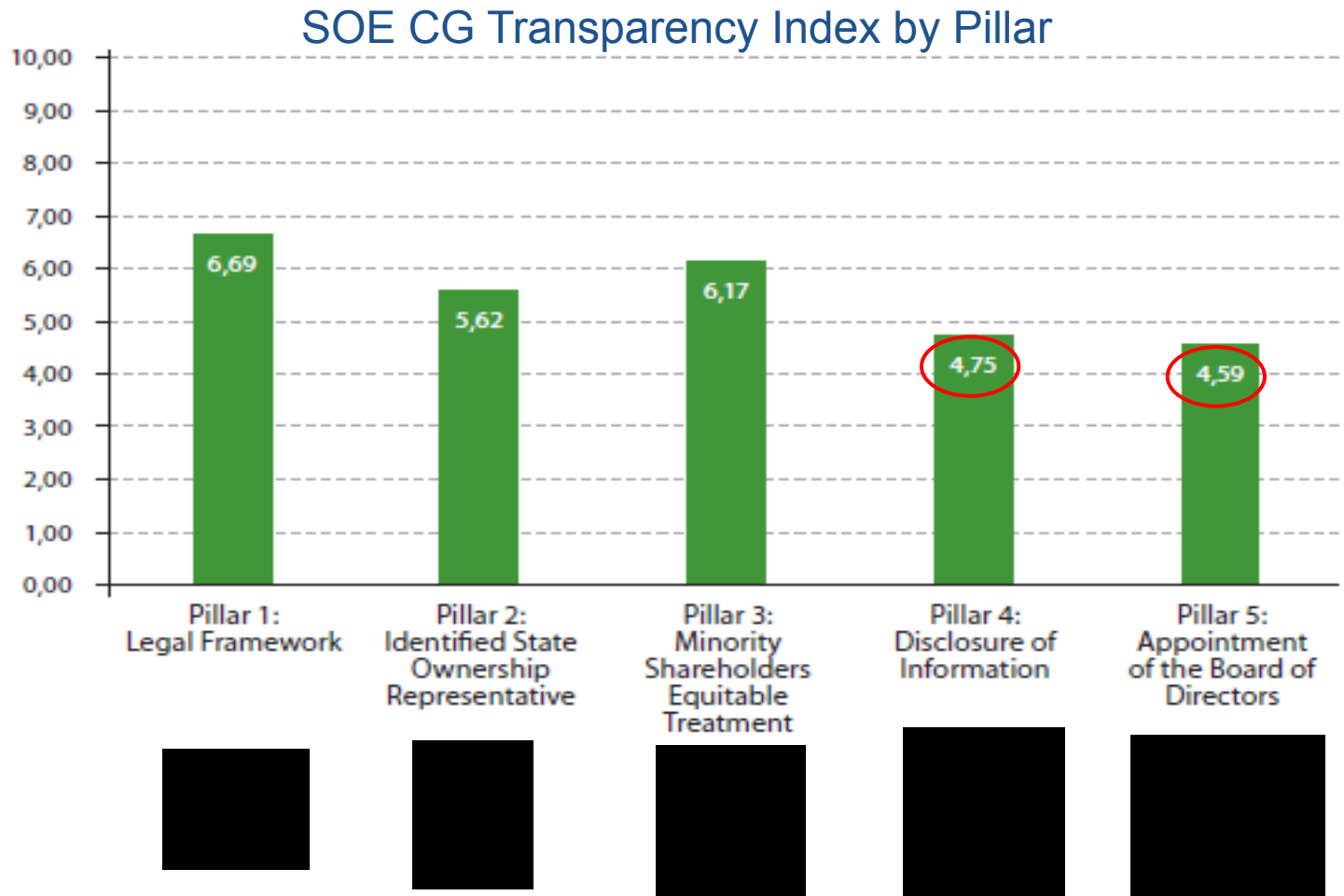
Average:
25.94 points



ASSE:
3.33 points
(Uruguay)

- Results vary within a wide range: between 3.33 & 47.17 points.
- Distribution of the results resembles a normal distribution.
- On average, SOEs comply only with 50% of the index requirements.

SOE CG Transparency Index by Pillar



SOEs in the sample show deficiencies in all aspects of their CG reporting, specially in relation to **Disclosure of Information** and **Appointment of the Boards**.

Pillar 1: Legal Framework

Score Summary



Average: 6.7

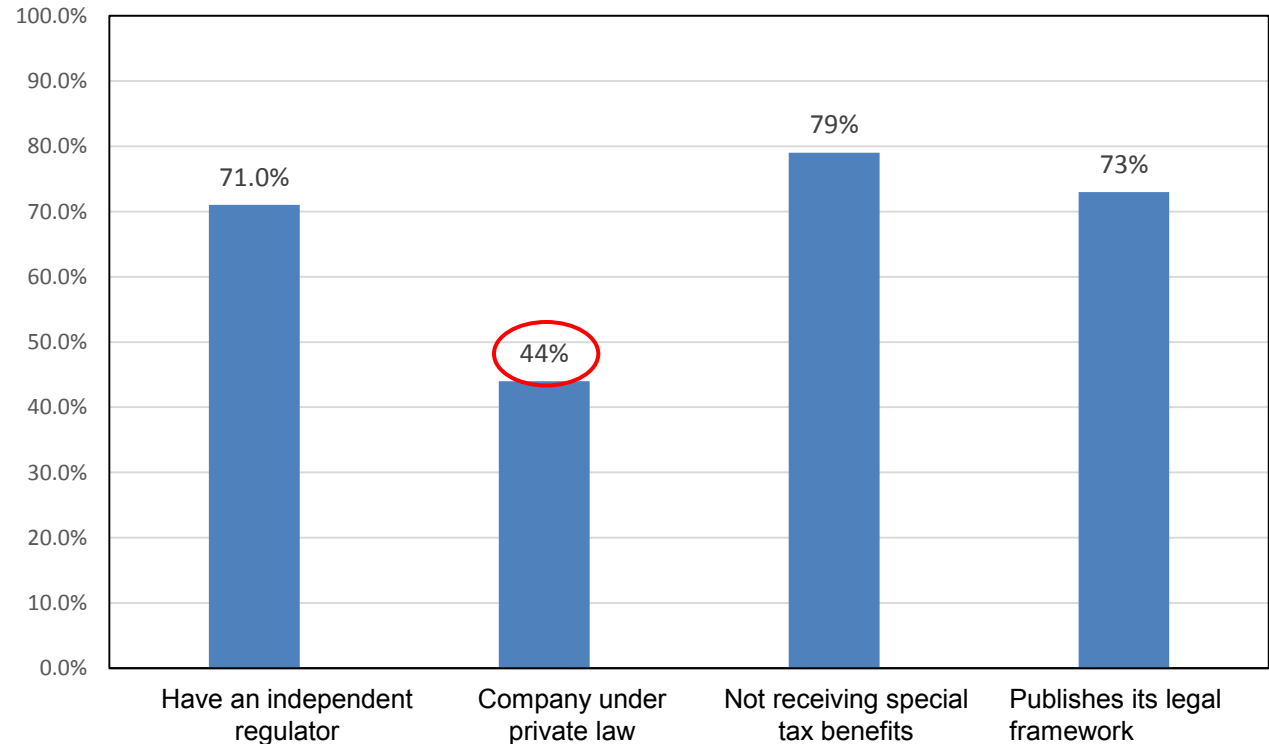


Best: 10 (32 SOEs)



Worse: 0 (6 SOEs)

Pillar 1. Legal Framework



Main problem: fewer than half of SOEs (44%) are subject to private law; 56% enjoy special legal regimes.

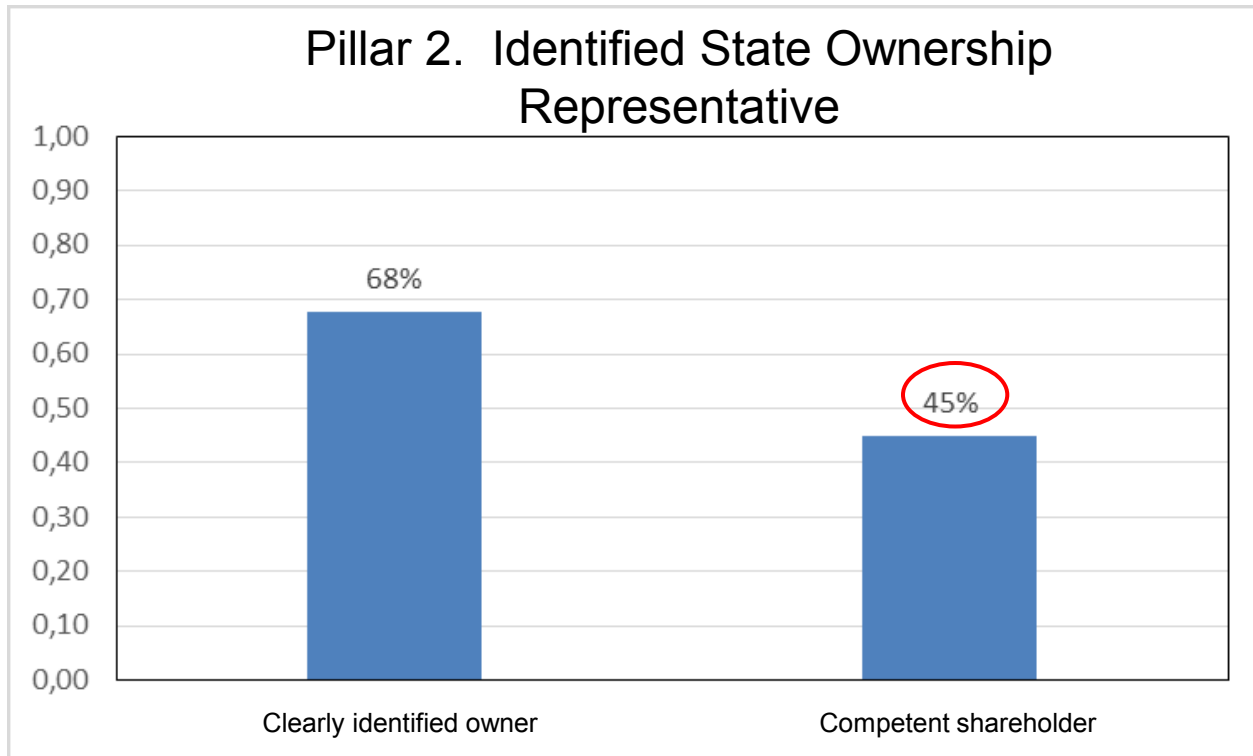
Pillar 2: Identified State Ownership Representative

Score Summary

Average: 5.6

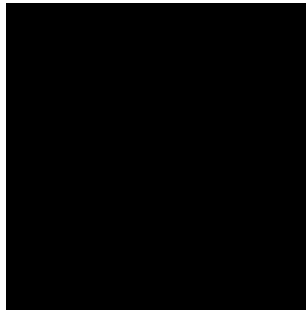
Best: 10 (47 SOEs)

Worse: 0 (35 SOEs)



Main problems:

- Ownership is ambiguously defined as resting in “the state”.
- No specific administrative body is clearly identified for carrying out the actions that correspond to the owner.



Score Summary



Average: 6.2

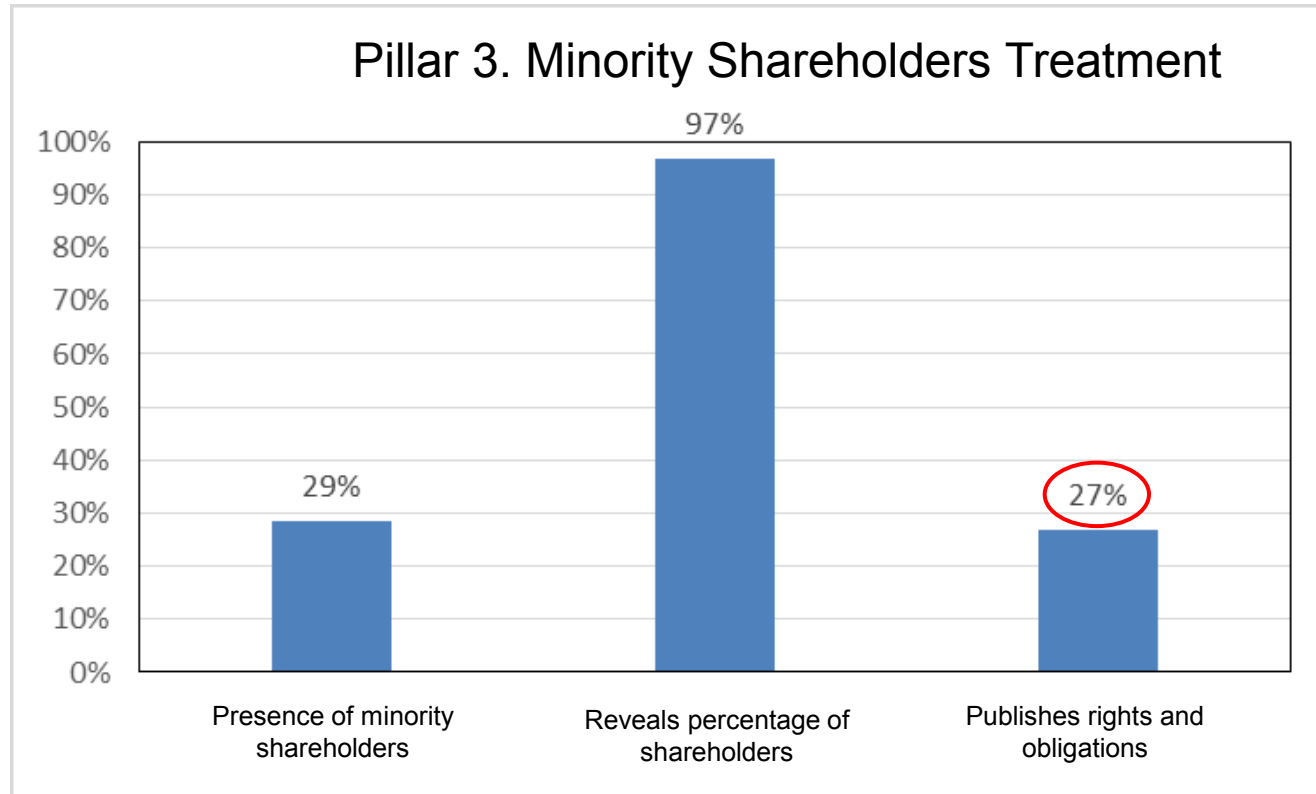


Best: 10 (8 SOEs)



Worse: 0 (1 SOE)

Pillar 3: Minority Shareholders Treatment



Main problem: only 8 out of 30 SOEs publish the rights and obligations of their minority shareholders.

Observation: Pillar calculated only for 30 SOEs of the sample, which had minority shareholders.

Pillar 4: Disclosure of Information



Score Summary



Average: 4.8

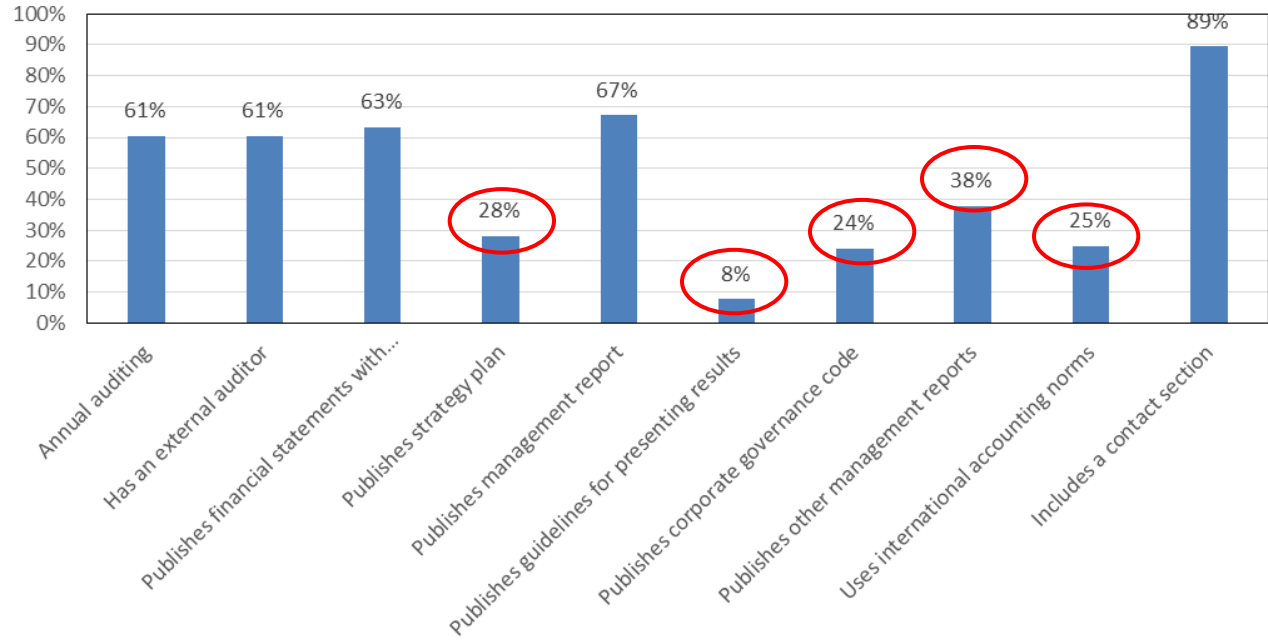


Best: 10 (1 SOE)



Worse : 0 (3 SOEs)

Pillar 4. Disclosure of Information



Main problems:

- On average SOEs comply with fewer than half of the conditions evaluated under this pillar.
- Most relevant topics to improve: Publish strategy plan, guidelines for presenting results, CG code, management reports & use of international accounting norms.

Pillar 5. Appointment of the Board of Directors



Score Summary



Average: 4.6

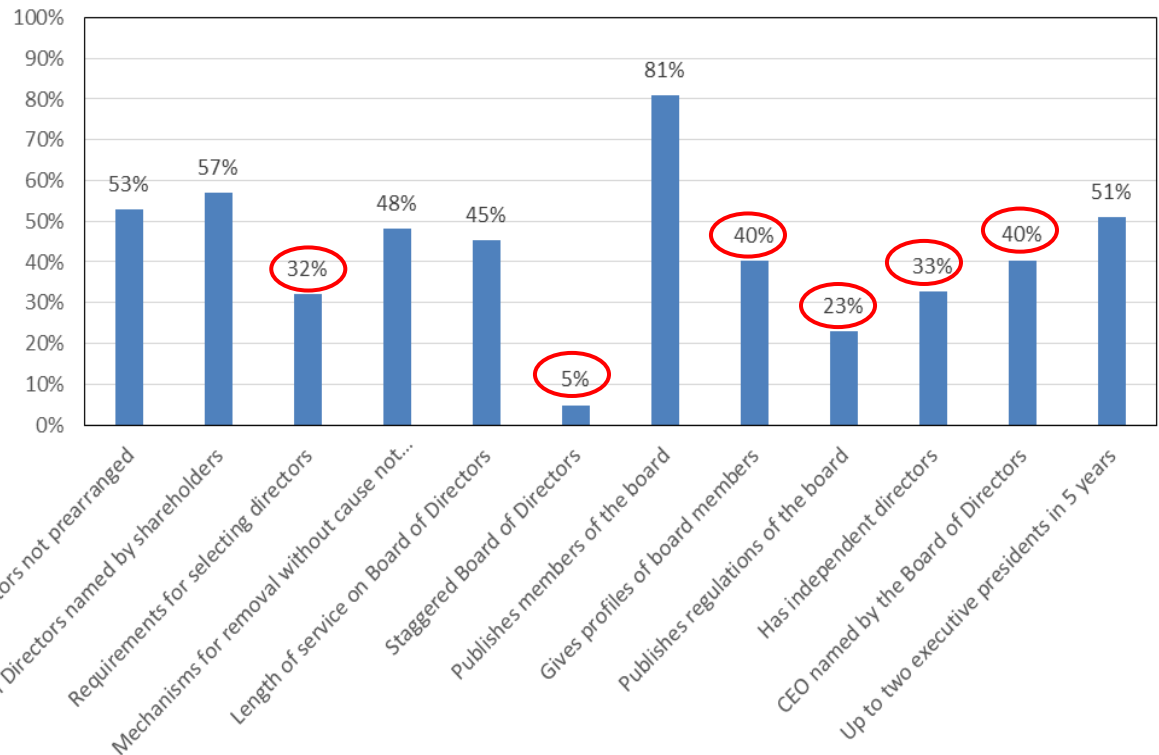


Best: 9.58 (1 SOE)



Worse : 0 (7 SOEs)

Pillar 5. Appointment of the Board of Directors



Main problems: no specific requirements for selecting directors, no staggered appointment, no public profiles of members; regulations of the board are not public, no independent directors and CEO not appointed by the Board.

1. Background
2. How to engage CG on SOEs
3. CG Transparency Index for SOEs
4. Conclusions and challenges ahead

Conclusions and challenges ahead

- Changes on how SOEs report publicly information will improve their position.
- The CG Transparency Index for SOEs gives a proxy baseline assessment of CG of these entities and how relevant is for them to make public their information; **however a number of challenges still remain:**

SOES should offer pertinent, up-to-date, timely information that will make it possible for investors, users, citizens and other stakeholders to monitor their management.

The process of selecting Board of Directors members, to fully empower this body and increase its level of professionalism and independence should be improved.

Listing equity (minority shares) or issuing bonds on local or international stock markets is associated with better transparency practices in SOE CG.

- Next study: **Efficiency of SOE's Board of Directors**; a survey on selected Latin American SOEs, how Boards are operating and present recommendations of best practices in order to improve their performance.



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CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

IFC Funds & SME toolkit

Chuck Canfield, IFC

hosted by



ISLAMIC DEVELOPMENT BANK



FUND & SME GOVERNANCE



Chuck Canfield
Principal Corporate Governance Officer
April 7, 2016

SME Venture Funds & Investees

- Genesis of Fund and SME Tools
- Complex needs of PE and SME sectors
- Presentation of Tools

GENESIS OF TOOLS: SME VENTURES & CORPORATE GOVERNANCE

Issues encountered with governance:

1. Fund Managers have lack of understanding of the importance of CG best practice at the operational level including AC, IC and role as a shareholder
2. SMEs also lack understanding of CG, require training and handholding

UNIQUE COMBINATION OF RISK CAPITAL AND ADVICE FOR SMEs IN FRONTIER / FCS

IFC Role
 Bring financial innovation and growth to the frontier

IFC Reach (so far)
 Sierra Leone, Liberia, DRC, CAR, Nepal, Bangladesh

Macro	Intermediary	SME
<p>Investment</p> <p>IFC investment in funds Loans, quasi-equity, and equity for SMEs (\$500k max)</p>		<p>Advisory</p> <p>IC, Governance, E&S, fund manager capacity building, SME training</p>

DEVELOPMENT IMPACT: KEY RESULTS

- **Demonstration effect:** \$57m of IFC/SME Ventures investments has paved way for several other funds; allows IFC to create and grow fund industry
 - In Nepal, PE firm registration process was reduced from 3 yrs. to 6 mos.
- **Development mandate: builds economies** “from the ground up”
 - Bread, bottled water, logistics, health care, education, etc.
- **Building local capacity:** CASF fund manager now fundraising for follow-on fund
- **Job creation** particularly critical for FCS

Job creation figures for SME Ventures funds (as of March 2015)			
Fund	Direct Jobs	Indirect Jobs	Total jobs
BO2 (Nepal)	N/A	N/A	N/A
CASF (CAR, DRC)	428	3,444	2,568
SEAF Bangladesh	347	2,528	4,305
WAVF (Liberia, S Leone)	204	1,008	1,212
Total	1,017	6,980	8,085

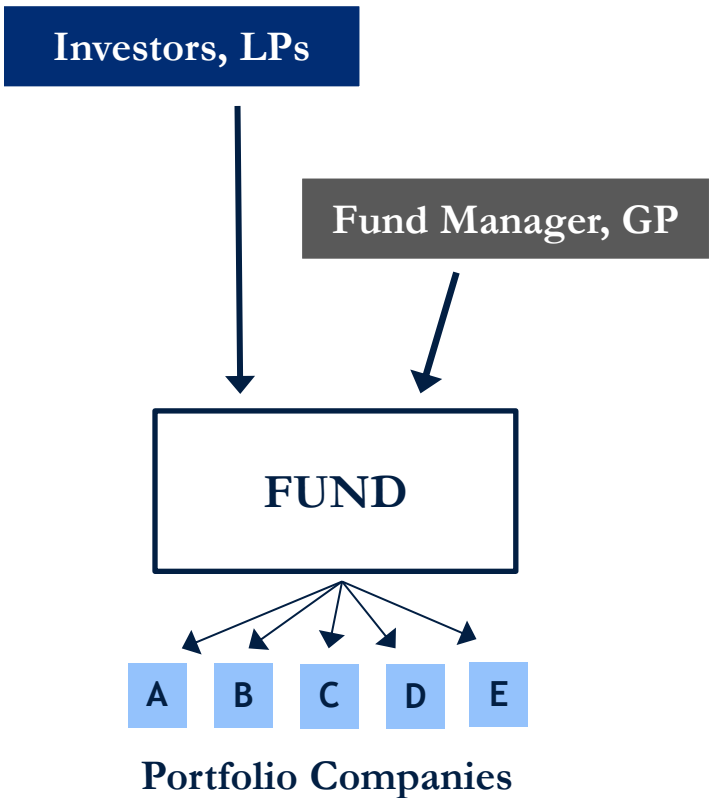
Fund Governance

- Fund Characteristics
- Governing Bodies
- Fund Governance Tools

DIFFERENTIATING FEATURES OF FUNDS vs OTHER FIRMS

- **Pooled investment vehicles** that make investments by either taking controlling stake or minority with control-like rights over a defined term (typically 10+2 years)
- **Domiciled offshore** (often) for structuring and other reasons and **formed as limited partnerships** (incorporated in certain jurisdictions e.g. Mauritius, Cayman).
- **Fund Manager** invests in small number of companies (6-12) to which it adds value to achieve an exit (trade-sale or IPO) within 3-6 years and return for investors.
- **Investors, as Limited Partners**, cannot participate in management or control of the Fund without losing their limitation of liability and incurring fiduciary & regulatory obligations.
- **Alignment of interest** between Fund Manager and Investors through balance of incentives (Manager carry, Investor return, etc.) is key to partnership success.

TWO LEVELS OF FUND GOVERNANCE



1. FUND LEVEL

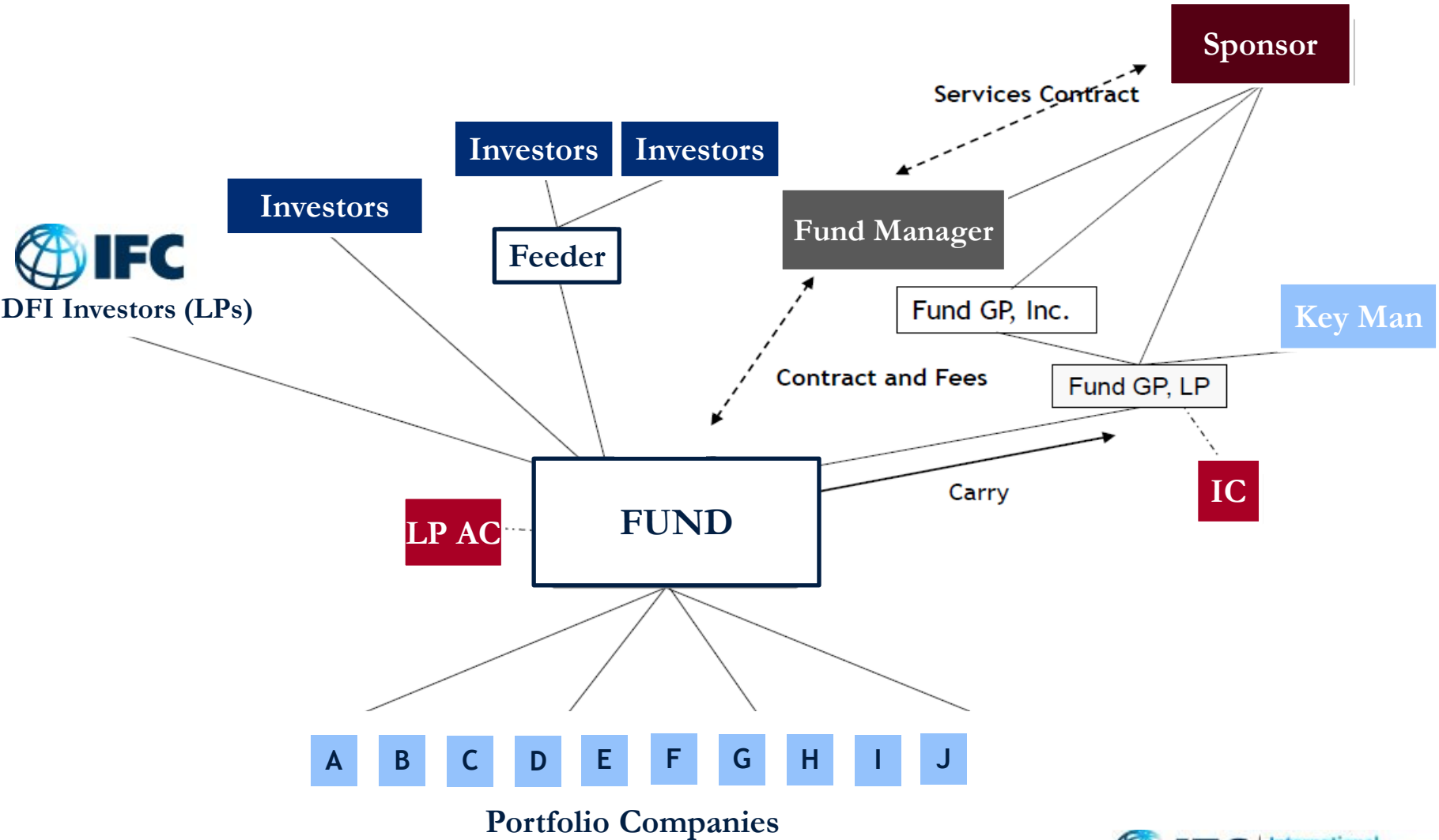
Relationship between the Investor(s) i.e. the Limited Partner(s) (LPs) and their appointed Fund Manager (GP).

Fund Governance relies on explicit contractual relationships between LP(s) and the GP on how the Fund will invest capital.

2. PORTFOLIO LEVEL

Governance of, and the Fund Manager's influence on, the Fund's target and portfolio investee companies.

A MORE LIKELY FUND STRUCTURE FOR DFI INVESTORS



MAIN GOVERNING BODIES IN FUNDS

Committees with advisory or investment decision making roles with nature & duties established by contract / agreement.

Type	Functions
LP Advisory Committee (LPAC)	<ul style="list-style-type: none">• Forum to represent investor interests and to communicate with manager.• Composed of LP investors.• Reviews valuation methodology, conflicts of interest, deviations in policy.• Provides advice to manager, with no fiduciary or managerial role for LPs.• Important decisions implicating all investors reserved to LP vote.• Decides on extension of fund term.• May take on enhanced role in crisis situations.
Investment Committee (IC)	<ul style="list-style-type: none">• Approves investments and divestments.• LPs guide but cannot dictate composition of IC.
Other Committees	<ul style="list-style-type: none">• Committees of LP AC performing advisory roles specific to topic, e.g. Ethics, Conflicts of Interest, Valuation...
Boards of Directors	<ul style="list-style-type: none">• Incorporated Funds subject to standard jurisdictional requirements.

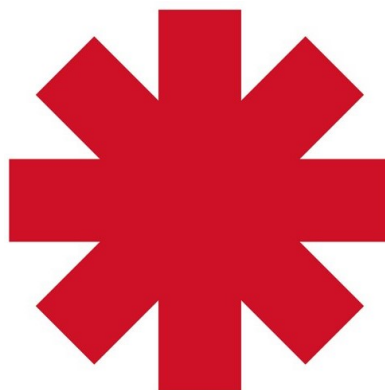
IFC FUND GOVERNANCE PARAMETERS

II. Structure & Functioning of Governing Bodies, Fund Mgr., GP, AS and IS

- Fund Mgr. exercises fiduciary duties
- AC adequately oversees Fund Mgr.
- COI Policy
- Supermajority req. to change Fund's terms
- IC has element of independence

I. Commitment to Good FG

- Fund follows ILPA, ICGN, CFA, etc.
- Written code of Conduct
- Fund assesses ESG Risk of Investees



III. Control Environment

- Internal Audit Function
- Internal Control System
- Risk Management
- Compliance Function

V. Treatment of LPs, Asset Owners, Investors

- Alignment of interests favor investor (mgmt. fees, carry, clawbacks)
- Investors' meetings & voting
- Representation & Fair treatment
- Access to information

IV. Transparency & Disclosure

- Financial reporting
- Information disclosure

Paradigm excerpts:

STRUCTURE & FUNCTIONING OF GOVERNING BODIES; FUND MANAGER, GP, AS AND IS

B. STRUCTURE AND FUNCTIONING OF THE FUND GOVERNING BODIES FUND MANAGER/GENERAL PARTNER, ADVISORY COMMITTEE AND INVESTMENT COMMITTEE¹

1. The fund manager acknowledges that it acts as a fiduciary on behalf of the investors, and exercises and/or is contracted to exercise a duty of care (reasonable skill and care and monitoring counterparties on an ongoing basis) and duty of loyalty (act in good faith).

2. The fund manager has established and maintains a conflicts of interest (COI) policy which the fund manager periodically reviews and attests to the investors its sufficiency.

3. Any changes to the fund's terms or investment agreements (e.g. Partnership Agreements) require the approval of a super-majority of the investors.

4. The fund manager has formed an investment committee to review and approve all investment proposals that is comprised of staff from the fund manager and/or General Partner.

1. Same, and key man provisions of relevant fund documents allow investors to suspend the investment period upon its triggering cause and any changes to key man provisions are only valid upon approval of the Limited Partners Advisory Committee (LPAC) or a majority of the limited partners (LPs).

2. Same, and the fund manager presents COI to the LPAC or LPs, and discloses the identity of any investors for which they may have a potential COI and seek prior approval (from the LPAC) for any conflicted transactions. In case of such transactions, conflicted investors are recused from voting on the concerned investment.

3. Same, and any suspension or termination of the commitment period requires a super-majority vote of 2/3 and any removal of the fund manager or dissolution of the fund requires a 3/4 vote.

4. Same, and each core investor has the right to designate the composition of the investment committee, but NOT appoint representatives.

1. Same, and each LP has veto rights to change in key man provisions.

2. Same, and the LPAC establishes a special committee to review COI issues.

3. Same.

4. Same, and Investment Committee has at least one independent member, and members of the investment committee are explicitly indemnified and held harmless, to the

1. Same.

2. Same.

3. Same.

4. Same.

Paradigm excerpts:

TREATMENT OF LIMITED PARTNERS, ASSET OWNERS, INVESTORS

<p>E. TREATMENT OF LIMITED PARTNERS/ASSET OWNERS/INVESTORS</p>	<p>1. All investors are provided with adequate notice and agenda of all investors meetings, and permitted to participate and vote at the meetings and any changes to the investment agreement, e.g., Limited Partnership Agreement, require a supermajority of 3/4.</p> <p>2. The alignment of interests between the investors and the fund manager is adjusted in favor of the investor vis-à-vis the management fees, operational costs, placement fees, transaction fees, catch-up arrangements, etc. Investors are provided with accurate and timely information regarding the number of shares of all classes held by controllers and affiliates (ownership concentration)</p>	<p>1. Same, and at the annual meeting investors are afforded the right to review annual accounts, appoint the auditor and any 'key man' appointments to the LPAC.</p> <p>2. Same, and (a) carried interest is calculated on the base of net profits and on an after tax basis; (b) any clawbacks are fully and timely repaid; (c) management fees are based on reasonable operating expenses and salaries; and (d) the fund manager has a substantial equity interest in the fund and it is contributed in cash as opposed to through the waiver of management fees.</p>	<p>1. Same.</p> <p>2. Same, and (a) no carry is taken on current income or recapitalizations until the full amount of invested capital is realized on the investment; (b) the clawback period extends beyond the term of the fund, including liquidation and any provision for investor giveback of distributions; (c) during the formation of the fund, the investors are given a fee model used as a guide to analyze and set fees, and the management fee encompasses all normal operations to include, at a minimum, overhead, compensation, travel, deal sourcing and other G & A expenses (and any placement agent fees are borne entirely by the fund manager); (d) the fund manager is restricted from transferring its real or economic interest in the fund and the fund manager is not allowed to co-invest in underlying deals unless such investments are made</p>	<p>1. Same, and investor voting is done by the investor or its designated agent and the annual investor meeting is conducted in accordance with best practices. For instance, it is preferred that the investor or its designated client exercises the voting rights. Less preferred methods are the fund manager may (a) exercise of any voting rights in accordance with the investor's expressed voting guidelines; or (b) procure the exercise of all voting rights on the investor's behalf, in accordance with guidelines approved by the investor, so long as (i) the investor reserves the right to rescind the authority upon reasonable notice, and (ii) the fund manager has in place adequate policies to manage any conflicts of interest in relation to voting matters and reports at least quarterly on all votes.</p> <p>2. Same.</p>
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SME Governance

- Evolution of SMEs
- Governing Bodies
- SME Governance Tools

EVOLUTION OF SME GOVERNANCE

	Stage 1 START-UP	Stage 2 ACTIVE GROWTH	Stage 3 ORGANIZATIONAL DEVELOPMENT	Stage 4 BUSINESS EXPANSION
Focus of the enterprise	Starting the business – developing products, testing the market Stage 1	Sales and growth, increasing variety of products, creating solid client base Stage 2	Rationalizing own structure/processes after growth Stage 3	Further growth, with flexible and adaptable structures and good controls Stage 4
Team/functions/ processes	The team is small, everyone is multitasking and doing everything Few systems established - designed “on the go”	Team is growing – different functions crystalize Simple systems to enable functions to collaborate	Increasing specialized expertise, more functions evolve	Core and Secondary functions are developed
Decision making	Centralized – founders personally control every aspect of business operations	Centralized, with input from managers Founders start spending some time discussing long-term strategy	Separation of operational and strategic decision making Operational decision making is done by a group of executives Professional managers are hired	Board of Directors is performing its classic function of strategic oversight and management control Fully functioning Executive Committee
Checks and balances	Founders are fully involved in operations – no need for checks and balances	Limited delegation to management - emerging internal controls	Systems are formalized, third party assurance is provided (auditors)	Proper internal control and risk management is in place
Communication	Everyone knows everything	Silos – good, between silos - challenging Basic external business-related	Cross-organizational internal External – business and governance	Internal management, board and shareholders External - stakeholders
Shareholders	Founders	Founders, PE investors possible	Founders, PE and other investors	Founders, PE and other investors
Management style	Individualistic	Consultative	Collaborative	Institutional

STAGE 1: SME NEEDS, RISKS & MITIGANTS

Parameters	Main characteristics of the Stage	Risks for the enterprise	Risks for investors	Mitigants in the Matrix
Team/functions /processes	The team is small, everyone is multitasking and doing everything Few systems established - designed "on the go"	Premature rules, systems, procedures (will slow down the product development)	No intention to develop structures No systems and policies in place	Identification of core functions (to help multitasking team)
Decision making	Centralized – founders personally control every aspect of business operations	Premature delegation (may lead to a Founder's loss of control) Dictatorship (another extreme)	No attempts to delegation, concentrated decision making No third party advice on strategy Key man risk	Consultations with mgmt. (prepare for delegation) Authority limits (minimal delegation)
Checks and balances	Founders are fully involved in operations – no need for checks and balances	Short term financing for long term investments (will lead to cash and resource stretch and uncertainty)	Owner mixes family and business Finance is not clear	Separation from owners accounts Cash flow management to help control resources
Communication	Everyone knows everything	Not communicating founder (information gaps in the team)	Unreliable or biased information on the business performance	Basic financial accounts, regulatory requirements Same financial data used for all purposes
Shareholders	Founders	Dysfunctional leadership	Not ready for others as shareholders	Founder's role is central – should be clear

Starting the business - developing products, testing the markets

Needs: Longer-term strategies discussed, simple systems, support for team members-multitaskers

Paradigm summary:

SME GOVERNANCE MATRIX

	Stage 1 START-UP	Stage 2 ACTIVE GROWTH	Stage 3 ORGANIZATIONAL DEVELOPMENT	Stage 4 BUSINESS EXPANSION
Commitment to good governance	Core functions identified, Articles of Association adopted	Core positions qualified Org. chart and statement of business principles in place	Specific person responsible for SME governance Core processes are documented Calendar of corporate meetings	Action plan developed Code of Ethics or similar in place
Decision making and strategic oversight	Ext advisors on strategy involved Founders ask other executives before making decisions	Ext advisors on strategy formalized ExCom or similar created Delegation of authority	Continuous and structured outside advise is received (e.g. Advisory Board, meetings of advisors, etc.) Executive committee, or similar, meets periodically and has TOR	Working Board with clear role Work procedures of the Board are reviewed and documented
Control Environment	Basic bookkeeping, cash flow management, tax planning Cash sources, bank accounts are separate from those of the founder(s)	Accounting policies Basic system to record and track sales and accounts Financial statements audited by external auditor	Business units established Basic internal audit-type of activities are being performed, and reported Effective and professional CFO Basic IAF	Effective ICs in place, External Auditors report on IC deficiencies, adequate systems (IT) established
Transparency and Disclosure	Basic financial accounts prepared Same financial data are used for all purposes	Monthly bank account reconciliation given to all founders Profile of the enterprise is developed (for marketing)	Financial Statements according to national GAAP, audited by a recognized external auditor Key non-financial information disclosed to the public	Financial reporting is according to the IFRS or US GAAP Quarterly financial statements and comprehensive performance reports An annual report (or equivalent components) is published
Founders/ Shareholders/ Family	Role and responsibilities of the founder(s) are clear Basic understanding of roles of all family members established	Annual shareholders' meetings held for regulatory purposes Awareness of family succession	Family members moving away from assuming multiple roles and responsibilities Annual shareholders' meetings also discuss key/major decisions made, dividends, future plans	In between shareholders' meetings, all shareholders kept informed of company's matters Dispute resolution mechanism for shareholder-related disputes is articulated

Corporate Governance

Corporate Governance > Investment Services > Tools

































Corporate Governance

- Overview
- CG Development Framework
- Investment Services**
 - Methodology
 - Tools**
 - Nominee Directorships
 - CG Services for IFC Clients
- Regional Advisory Programs
- Topics
- Publications
- News and Multimedia
- Contacts

Corporate Governance Tools

The CG Methodology includes a set of tools – matrices, checklists and others – tailored for each of these models. These tools help examine structural features based on five key elements or risks areas of CG.

CG Mainstreaming requires that the CG issues are considered in a structured manner in each investment transaction. IFC's CG Methodology recognizes that there is no "one-size-fits-all" CG solution for our clients. We customized the CG analysis with tools that address unique challenges faced by different companies/ownership types. Click on each PDF icon to learn more.

Documents	Instruction Sheet	Progression Matrix	Document Request List	Information Request List
 Listed Companies				
 Family or Founder Owned				
 Financial Institutions				
 Privatized Transition Economies			N/A	
 State-Owned Enterprises				
 Funds			N/A	
 Small and Medium Enterprises (SMEs)			N/A	

www.ifc.org/corporategovernance

- IFC website houses CG questionnaires, progression matrices, and supporting materials on Funds and SMEs.
- 7 CG Paradigms:
 1. Listed Companies
 2. Family or Founder Owned
 3. Financial Institutions
 4. Privatized Transition Companies
 5. State-Owned Companies
 6. Funds
 7. SMEs



CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

Tools & Resources available to CGDF signatories

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CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK

CGDF Website

Shirley Payet-Jacob, CDC

Ababacar Gaye, IsDB

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Presentation Outline

1. Background & Objectives of the CGDF Website
2. A tour of the DFI CGDF website
3. Overview of the CGDF website statistics
4. Avenues for improvement
5. Q & A

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Background & Objectives of the CGDF Website

- Background of the website
- Idea: 5th Conference in Jeddah
- Restructuring Idea: Knowledge Sharing and Training sub-committee: Manilla:
- Bidding process
- April 2015: launch of the new website
- Traffic Statistical analysis commenced August 2015
- Objectives of the website
- repository of essential knowledge and information related to CG
- permanent, dynamic and continuous cooperation and knowledge sharing tool amongst Signatories
- the principal communication vehicle for the promotion of the CG Development Framework and its implementation

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A tour of the DFI CGDF website

Quick Website Tour

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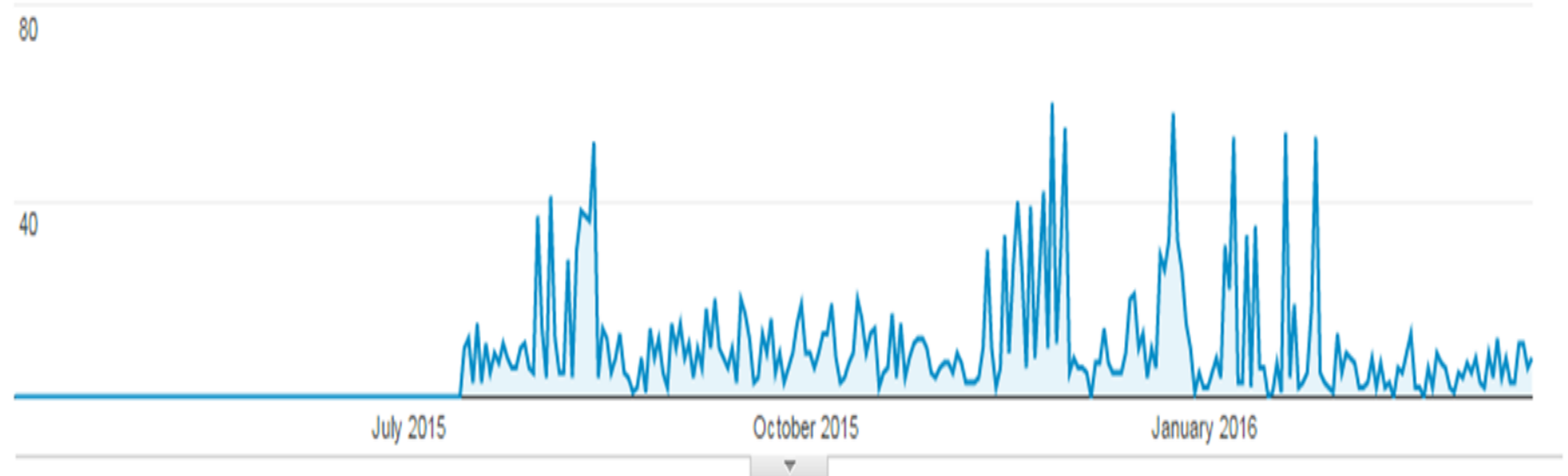
Overview of the CGDF website statistics

Overview

Sessions ▾ vs. [Select a metric](#)

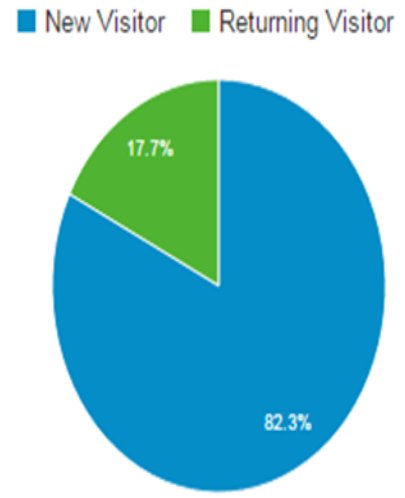
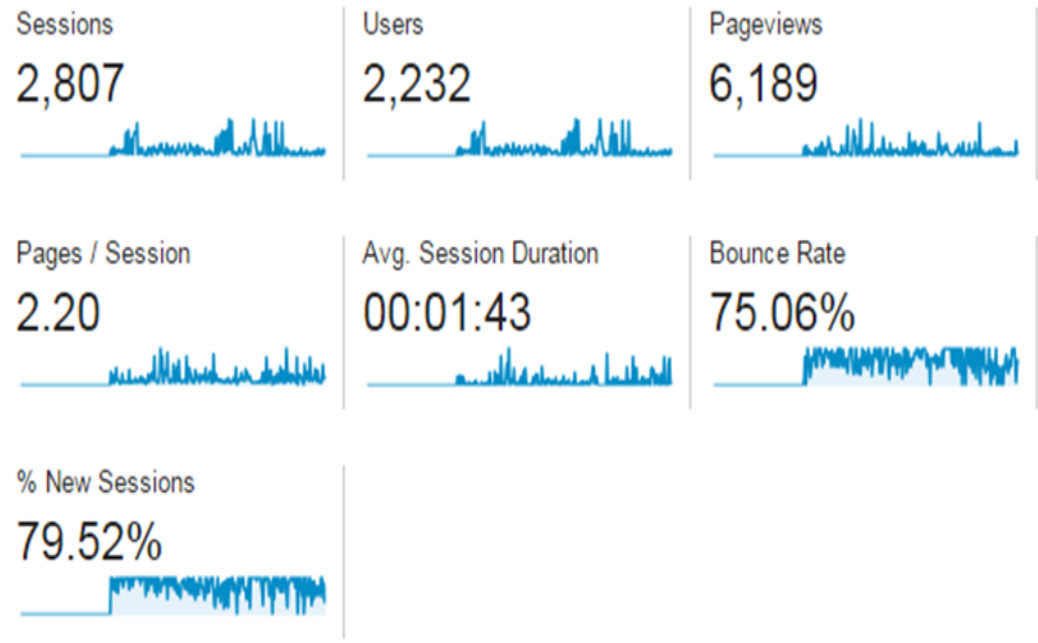
Hourly Day Week Month

● Sessions





Overview of CGDF website statistics



Avenues for improvement

- Increasing visibility
- Identifying key words and phrases in CG related searches
- Optimizing PDF documents
- Referrals (HBR accepted)
- Search marketing firms
- Signatories contributions
- Populate the Resources page
 - Video testimonials from Signatories management (Once a month)
 - Signatories Success Stories (Once a month)
 - Experience on Framework Implementation (warnings, tips of the month etc.)
 - Share toolkits
 - Signatories websites
- Share training events

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