

Scope and objectives

“Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance matters because it improves investee (IFU term ‘project’) companies’ performance and helps develop capital markets. Sound corporate governance reduces risk, adds value to investments, and avoids reputational risks for investors”.¹

The importance of good corporate governance to the success of individual enterprises and the sound development of the private sector economy is today a well-established fact. IFU’s experience as an active participant in the governance of our project companies demonstrates that careful and continuous attention to governance is essential to achieving our financial, sustainability and developmental goals.

As an investor in developing economies, which could be characterised by weak institutions and limited public and private sector capacity, IFU sees corporate governance as an integral part of Environmental, Social and Governance (ESG) due diligence and a means to promote the rule of law, reduce risks, foster a more robust private sector and contribute to a sustainable and profitable business environment attractive to investment and entrepreneurship.

IFU’s objectives in corporate governance of project companies are threefold:

- To ensure that the corporate governance framework of every IFU project company (whether a greenfield or brownfield investment) is fit-for-purpose and incorporates applicable best practices tailored to the enterprise’s size, industry, ownership structure and other characteristics;
- To promote continuous improvement in the structure and practice of governance in project companies via our roles as shareholders, Board member nominees and advisors; and
- To contribute to the development of a corporate governance culture in the developing countries in which IFU operates, through capacity-building, the introduction of best practices in project companies and the demonstration effect our companies serve in society and the broader economy.

Through support to good corporate governance IFU will not only strengthen global partnerships, but also contribute to the practical implementation of several Sustainable Development Goals².

Governance in IFU project companies

IFU requires that at a minimum, each project company complies with all applicable local legal requirements for a corporate entity of its type and has in place a workable internal framework for its Board and management, internal controls, transparency and shareholder rights.

We recognize that corporate governance is never a matter of “one size fits all”. Desirable corporate governance structures and practices vary depending on factors including the company’s size, industry and ownership pattern. The local business environment and relative sophistication of the private sector in the country in which the project company operates must also be considered.

Recognizing this, IFU together with our investment partners, designs and promotes corporate governance frameworks in our investments tailored to the particular internal and external circumstances of each project company.

¹ From the Corporate Governance Development Framework agreed by IFU and more than 30 other Development Finance Institutions. <http://cgdevelopmentframework.com/wp-content/uploads/2015/02/Corporate-Governance-Development-Framework.pdf>.

² IFU’s support to good corporate governance includes contributions primarily related to Responsible Consumption And Production (SDG 12) and Partnership For The Goals (SDG 17).

Contributing to corporate governance culture in developing countries

IFU strives to make our project companies leading examples of good governance in the markets in which they operate. We want the positive impact of our investments on the local business culture to last long after our exits. The solid operational performance of IFU project companies that have implemented best practices in corporate governance, and their success in attracting domestic and international capital provide an important demonstration effect for the broader economy. In addition, by insisting on and fostering professional Boards, internal controls and independent auditing, IFU promotes the development of the private sector infrastructure necessary to support well-governed companies.

The IFU Corporate Governance Toolkit

To achieve fit-for-purpose governance structures and practices in our project companies, IFU has developed a set of tools that investment teams are required to apply in the course of due diligence. The IFU CG Toolkit revolves around a detailed questionnaire to help project teams to determine if the proposed investment meets our minimum governance standards and to identify key governance-related challenges the project company faces or will face. As part of the appraisal process, project teams must assess the governance strengths and weaknesses of a potential project company and, with the help of the Toolkit, devise solutions to identified shortcomings. Where appropriate, these solutions may be formalized in a CG Action Plan providing for the implementation of identified governance improvements, which will become an integral part of IFU's investment commitment to a potential investment partner and a condition for IFU's participation in the investment.

IFU's active role in corporate governance

IFU strongly believes that we can best achieve our financial and developmental objectives by being an active investor. As a (minority) shareholder of our project companies, we must actively exercise our rights and responsibilities, including where appropriate through participation in the Board of Directors. IFU's Board member nominees must be empowered and encouraged to share and disseminate our extensive experience in hands-on governance.

IFU's staff and external Board member nominees have served on Boards of companies in a variety of countries, regions, industries and stages of development. This body of experience and expertise, and the support of the Toolkit, enables IFU's Board member nominees to provide guidance in the area of corporate governance specifically tuned to a project company's business priorities, available resources, local environment and level of maturity. IFU's Sustainability Unit supports project teams and Board member nominees in the use of the Toolkit and in the application of this policy to specific investments and circumstances.

IFU's development objectives are the same regardless of whether we provide financing in the form of equity or debt. For this reason, also when IFU is a lender only, we endeavour to contribute experience and expertise in corporate governance in a similar fashion as when IFU is a shareholder.

Measuring results

The implementation of targets set out in agreed CG Action Plans will be monitored on an on-going basis through IFU's Board member nominees and via direct engagement by project teams with the company's management and our investment partners. Reference to CG Action Plans will be included in IFU investment agreements and project companies will be required to provide periodic reports on progress made against the CG Action Plan targets.

Approved by IFU's Board of Directors on October 12, 2016.