

# Corporate Governance Progression Matrix for State-Owned Enterprises

## Instruction Sheet

Incoming Monthly





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## The Governance of State-Owned Enterprises

State-owned enterprises (SOEs) are often at the forefront of the corporate governance discussion precisely due to their ownership. Diverse countries approach state ownership differently. However, the degree of involvement of the state, as controlling shareholder, in strategy setting, oversight, controls and day-to-day operations, remains as a critical governance focus. In 2015, the Organization for Economic Cooperation and Development (OECD) updated its Guidelines on Corporate Governance of State-Owned Enterprises to further reinforce that SOEs, and their boards, should be afforded adequate autonomy from the state to appropriately balance commercial and policy objectives and minimize the risk of political influence. As SOEs are important contributors to the economy, their governance frameworks should foster efficiency, transparency and competitiveness. Following these Guidelines, and with the aim of strengthening the analysis of risks stemming from state ownership, IFC has revised its tools for analyzing the corporate governance framework and practices of SOEs.

### Using the SOE CG Tools

There are eight key Corporate Governance (CG) tools used for analyzing the governance of potential IFC investee companies. The Instruction Sheet, the SOE Progression Matrix, Document and Information Request Lists, and the Corporate Governance Review (CGR) Report Generator have been adapted to the specificities of SOEs. The Model Independent Director Definition, the Sample CGA or Investment Review Memorandum CG Section

and “Supervision Checklist”, and the explanatory note “Why Corporate Governance?” are applicable across all six paradigms, without any adaptations.

**1) Instruction Sheet—State-Owned Enterprises.** The purpose of this Instruction Sheet is to describe each of the key CG Tools, how they should be used, and who should be interviewed for either a Corporate Governance Assessment (CGA) or a Corporate Governance Review (CGR).

**2) Why Corporate Governance?** This note explains IFC’s approach as a value-add for clients. *This explanatory note should be given to the client at the earliest opportunity in the pre-appraisal.*

**3) Progression Matrix—State-Owned Enterprises.** The Progression Matrix relates the six areas of governance (Commitment to Good CG, the Board of Directors, Control Environment, Transparency and Disclosure, Shareholders Rights, and Governance of Stakeholder Engagement) to four levels of achievement. The matrix framework emphasizes the importance of ongoing improvements in the governance practices of clients, rather than trying to apply rigid and static minimum standards. In particular the Progression Matrix allows clients to assess the governance of their own company against a simple framework. *The Progression Matrix should be given to the client at the earliest opportunity in the pre-appraisal.*

**4) Document and Information Request—State-Owned Enterprises.** These combined questionnaires support information gathering necessary for a CGA of an IFC client. The Document and Informa-

tion Request is organized along the same template as the six areas of governance in the Progression Matrix. *For a CGA the Document and Information Request should be circulated to the company at least three weeks in advance of the onsite visit.* The company should identify a designated officer who will be charged with responding to the Document and Information Request by providing brief written answers of one or two paragraphs to each of the questions and delivering these to IFC prior to the onsite CGA. For the CGR, the investment officer must collect the required information from the documents or from interviews during the appraisal. If the investment officer elects to send a specially prepared CGR document and information request ahead of the site visit, an amended “questions only” version of the Report Generator should be sent to the client. Discussions relevant to IFC’s understanding of the governance of a company will arise throughout the appraisal and diligence process. Therefore, IFC Investment staff are encouraged to edit the document and information requests as necessary before sending it to the client to avoid duplication.

**5) Corporate Governance Report Generator:** This document is intended for use by Investment Officers (and CG Officers, in the case of detailed reviews) in conducting a CGR; preparing the corporate governance section of an Investment Review Memorandum; responding to questions from Director at the Investment Review Meeting; and in presenting any major issues to the IFC Board. The Corporate Governance Report Generator uses negative assertions to introduce each area of risk, then utilizes rhetorical questions to frame the risk issue and identify

and assess relevant practices and procedures. The aim is to help Investment Officers determine how much the SOE mitigates the risk. The Investment Officer is required to collect information about the SOE and report in the Decision Book CG section. The CG Report Generator aids Investment Officers in preparing this CG section as it indicates the data that must be collected from the client while providing guidance on how to collect this information by interviewing individuals at or contracted by the SOE, or by reviewing a specific legal document.

**6) Model Independent Director Definition.** Perhaps the most frequent governance recommendation is to increase the board's independence from both the management and the controlling shareholders. However, to achieve genuine board independence, it is crucial to carefully define what it means for directors to be "independent." This Model Independent Director Definition is often used during discussions with the client to clarify the assessment of the current board and its future needs.

**7) Sample CGA or CG Section (for CGRs) in Investment Review Memorandum:** The CGA and CGR always generate a written section for the

Investment Review Memorandum and sometimes this will include recommendations for improvements to be undertaken by the fund. The sample CGR Section provides a useful reference point for the Investment Officer's use, and a sample CGA provides a useful example for a CG Officer.

**8) Supervision Checklist.** The Supervision Checklist provides a list of key issues that should be considered by Investment staff while supervising IFC investee companies and especially those companies undertaking CGIPs.

### Corporate Governance Interviewees

To carry out a thorough a corporate governance analysis (CGA or CGR), IFC staff need to engage in direct discussions with those who play a variety of governance roles in the SOE. Following is a list of the people who would typically be interviewed. However, companies may differ significantly in how they apportion responsibilities in the titles that they use for various SOE positions, so it is critical that IFC staff meet with those who, as a practical matter, are responsible for the principal corporate governance functions, regardless of their job titles.

1. Representatives of controlling shareholders
2. Representatives of other holders of significant blocks of shares
3. Chair and members of the board of directors, including any state nominee directors, "independent" board members and the chairs of the audit and other special committees of the board (and where applicable, members of the inspection committee: the fiscal board, *commissaire*, audit commission, *comisario* or *revisor fiscal*)
4. Chief executive officer
5. Chief financial officer (or senior accounting officer)
6. General counsel (or senior lawyer)
7. Corporate secretary
8. Chief internal auditor
9. Chief risk officer
10. Chief of investor relations
11. Independent external auditors and/or state auditor
12. Sustainability officer







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