

IFC Corporate Governance Progression Matrix for Family or Founder-Owned Unlisted Companies

(Integrating Environmental, Social, and Governance Issues)



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IFC Corporate Governance Progression Matrix for Founder or Family-Owned Unlisted Companies (Integrating Environmental, Social, and Governance Issues)



Basic Practices: Understanding the need to professionalize the Company



Intermediate Practices: Steps Toward Best Practices



Good International Practices: Implementation of Good Practices



Leadership

A. Commitment to Corporate Governance

1. The basic formalities of *corporate governance* are in place including:
 - a. Board of directors;
 - b. Annual shareholders' meeting;
 - c. Shareholders and shareowners identified and recorded.

1. Written policies established addressing key elements in family-firm governance:
 - a. Succession planning;
 - b. family-member share ownership; and family-member employment.
2. Board member or high-level company executive charged with improving corporate governance practices.

1. Corporate governance policy covers the role of board vis-à-vis management.
2. The company has a written code of Ethics, approved by the board that is included in employee onboarding/training.
3. Designated/dedicated company officer serves as corporate secretary.

1. Company fully complies or explains any deviations from all applicable provisions of voluntary code of best practices of the country.
2. Written policies that address, at a minimum, compliance with E&S law and regulation.

B. Structure And Functioning of The Board Of Directors

1. Board of directors established and meets periodically.

1. Board Meetings held according to a regular schedule, agenda prepared in advance, minutes prepared and approved.
2. Non-family members appointed to the Board and core competency (skill mix) review of board conducted.
3. Advisory board of independent professionals established and consulted on a regular basis.

1. Board meets quarterly and is charged with approving strategy and objectively overseeing management.
2. Board composition (competencies/skill mix) adequate to oversight duties.
3. Audit Committee of non- Executive Directors established.
4. Directors independent of management and owners nominated to the Board.
5. Annual evaluation conducted.
6. Periodic Board training conducted.

1. Role of board chair and CEO separate.
2. Audit committee membership 100% independent.
3. Specialized committees address special topics, as needed (e.g., nominations, compensation, technology/cybersecurity, E&S/sustainability, risk management, etc.).
4. Formal performance evaluation of management conducted annually.
5. Board ensures that management systems in place to identify and manage Environmental and Social (E&S) risks and impacts.
6. Board trained on industry E&S risk issues, which are a periodic agenda item.¹

¹ In sensitive industries, at least one director has E&S experience. Examples of "sensitive industries" include: oil, gas, mining, heavy industry (steel, cement), and chemical manufacturers, and large agro-commodity production or processing."

Basic Practices: Understanding the need to professionalize the Company



Intermediate Practices: Steps Toward Best Practices



Good International Practices: Implementation of Good Practices



Leadership

C. Control Environment²

1. Adequate internal control systems are in place and are periodically reviewed by independent external auditors.

1. Internal audit established and functioning.
2. CFO adequate to perform requisite functions.
3. Written Management Letters provided by external auditor.

1. Audit committee ensures corrective actions on control deficiencies identified in Management Letters.
2. Board approves risk appetite.
3. Comprehensive compliance program annually reviewed, with mechanisms to report wrongdoing and misconduct.
4. Designated Compliance Officer.

1. "Three lines of defense" model of risk management, internal control and internal audit has been adopted.³
2. Control environment in accordance with highest international standards, including but not limited to IIA, COSO, ISO 31000, 19600, 37001, and 27001.
3. Head of internal audit reports to audit committee and administratively to management.
4. Internal audit function adequately staffed and is independent, objective, risk-based, and has unlimited scope of activity.
5. Company has established industry practices in its E&S risk-management practices.
6. Board routinely monitors risk management and compliance with policies and procedures.
7. Audit committee owns relationship with external auditor.
8. If the Company is a group of companies, it has policies and procedures to control the creation and dissolution of subsidiaries.

² Control Environment includes: Internal Control System, Internal Audit Function, Risk Governance and Compliance.

³ Namely, management is the first line of defense, risk management and compliance function are the second line of defense, and internal and external audit as independent assurance providers are the third line of defense.

Basic Practices: Understanding the need to professionalize the Company



Intermediate Practices: Steps Toward Best Practices



Good International Practices: Implementation of Good Practices



Leadership

D. Disclosure and Transparency

1. Adequate accounting and auditing systems in place including:
 - a. periodic financial reports prepared by internal accounting and approved by the board;
 - b. Annual financial statements audited by independent external auditors and approved by Shareholders' Meeting.
2. Accounting and reporting are performed in accordance with national standards.
3. The annual audit is performed by a recognized, independent and external auditing firm in accordance with national standards.

1. Financial statements prepared in accordance with International Financial Reporting Standards (IFRS) or equivalent.
2. Financial statements are audited in accordance with International Standards on Auditing (ISA).

1. Environment, Social and Governance (ESG)/sustainability reporting, if any, follows minimum national requirements.

1. Audit committee oversees financial and nonfinancial reporting and audit.
2. Disclosure policy in place.
3. Company discloses its risk appetite.
4. Annual report includes ESG information.

E. Shareholders

1. All shareholders kept informed of company policy, strategy, and results of operations.
2. Annual shareholders' meetings held.

1. Shareholders are provided with all material information and detailed agenda in advance of shareholders' meetings.
2. Periodic family meetings/assemblies held to inform and discuss family business matters.

1. Family council established (if number of family members is substantial or substantial portion are not working for the company).

1. Well-understood policy and practice of full and timely disclosure to shareholders of all material related-party transactions and shareholder agreements.
2. Investor relations function is established.
3. Dividend policy established.
4. Related Party Transaction policy established.

Basic Practices: Understanding the need to professionalize the Company



Intermediate Practices: Steps Toward Best Practices



Good International Practices: Implementation of Good Practices



Leadership

F. Governance of Stakeholder Engagement⁴

1. Ad hoc stakeholder-identification, including workers, customers, regulators, and the locally Affected Community.
2. Human resources policy and procedures for worker engagement in place.
3. Informal response to stakeholder requests and concerns.

1. Key stakeholders identified also include local nongovernmental organizations (NGOs) and civil society organizations (CSOs).
2. Established Stakeholder Engagement (SE) policy and procedures.⁵
3. Basic grievance mechanism for workers.
4. External Communications Mechanism for stakeholder questions and complaints, and if there are Affected Communities, a grievance mechanism is established.

1. Formal stakeholder-mapping process and expanded definition of stakeholders includes contracted workers, primary-supply-chain workers, neighboring projects, and international NGOs and CSOs.
2. SE policy and strategy includes procedures with stakeholder analysis.
3. Management responds to grievances from workers and contracted workers on a regular basis.
4. External and publicly accessible communication procedure.⁶
5. Grievance mechanism facilitates the resolution of concerns from Affected Communities.
6. Designated Affected Communities engagement personnel have clearly defined responsibilities, training, and reporting lines to senior management and the board.
7. SE practices incorporated into requirements for contractors.
8. Unresolved stakeholder issues require a management action plan.

1. Commitment to SE visible to staff, contractors, suppliers, and collaborators via codes of conduct setting out expectations for stakeholder interactions and human rights.
2. SE practices incorporated into requirements for primary suppliers.
3. SE activities and outcomes included in board decision making and external reporting procedures.
4. The board is informed about grievance outcomes and trends on a regular basis.
5. Senior management participates actively in international industry discussions on related topics.
6. SE and reporting consistent with international standards (AA 1000 Standards on Stakeholder Engagement and Accountability Principles and ISO 26000).

⁴ This section should not be completed without consulting with the assigned E&S Specialist. If assigned E&S Specialist is not a Social Specialist, consult with Social Specialist.

⁵ Consult with Social Specialist to determine quality of SE policy, strategy, and procedures, if applicable.

⁶ Consult with Social Specialist to determine whether communication procedure is adequate to (a) receive and register external communication from the public; (b) assess issues raised and determine response; (c) provide and document responses, if any; and (d) adjust the management program, as appropriate and if applicable.

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