IFC Advisory Services in East Asia and the Pacific

Corporate Governance in East Asia and the Pacific

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Assisting
Companies in implementing good corporate governance practices

Improving
Corporate governance regulatory frameworks

Strengthening
Training capacities of educational institutions

Raising
Public awareness of corporate governance issues

IFC International Finance Corporation
World Bank Group

Dear Reader,

Welcome to the our second Corporate Governance Newsletter. In our inaugural issue, we shared a snapshot on where corporate governance standards and awareness stood in China, Indonesia, Mongolia, and Vietnam, and highlighted how IFC was working to bring improvements to corporate practices across East Asia and the Pacific. In this issue, we move from the broad view to a more specific look at individual projects that are pushing business and regulatory improvements across the region.

In China, we are seeing progress in improving the CG practices in publicly listed companies, a growing roster of well-qualified CG trainers, and the reach of CG into Chinese rural banks. In Indonesia, we look at women in the board room and what can be done to improve their current board representation, while also advancing corporate governance curriculums in Indonesia's universities. In Mongolia, we are pleased to see companies and banks improving their competitiveness through better governance practices, and note the extended outreach of CG awareness to Darkhan, Mongolia's third largest city. Finally, in Vietnam we can already see the impact of new legislation on board CG behavior and practices. With two new circulars, the government and regulators are giving clear signs that the pace of corporate reform must be accelerated.

All of this progress is good news. But there is still plenty to do, both on the corporate and regulatory side. We applaud the gains in the regulatory environment, but also hope to see more initiative from the enterprises and their leaders. We see a correlation between how local and international companies choose to govern - the standards they vow to uphold not only with respect to boardroom practices but also their management processes - and the immediate and long-term impacts on the shareholders, stakeholders, and the economy at large. In this time of economic challenge and increased competition, corporate governance is no longer simply an advantage for companies, but rather an absolute imperative. We are confident that the corporate leaders across the region will continue to realize how good corporate governance can help deliver value to their companies.

Sincerely,

Chris Razook
IFC EAP Corporate Governance Lead

About IFC
IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, providing advisory services to businesses and governments, and mobilizing capital in the international financial markets. In fiscal 2011, amid economic uncertainty across the globe, we helped our clients create jobs, strengthen environmental performance, and contribute to their local communities—all while driving our investments to an all-time high of nearly $19 billion. For more information, visit www.ifc.org

Table of Contents

IFC ESTABLISHES PARTNERSHIP WITH CHINA ASSOCIATION FOR PUBLIC COMPANIES

IFC and the China Association for Public Companies (CAPCO) convened a meeting in Beijing to discuss ways the two organizations can work together to enhance the corporate governance practices of pubic listed companies in China.

During the meeting, Chris Razook, IFC EAP Corporate Governance Lead, introduced IFC's corporate governance advisory services and achievements both at a global level and in China. Mr. Chen Qingtai, Chairman of CAPCO, commended IFC's efforts and contributions in improving corporate governance standards and practices among Chinese companies. He said that after years of efforts, China's overall level of corporate governance practices has been improved, but a number of issues still remain, such as transparency, concentration of ownership, board effectiveness, family governance, and other items. "CAPCO is committed to improving the quality of listed companies, promoting sound corporate governance practices and culture, which is in line with the IFC's objective to enhance the global level of corporate governance. Therefore, the two parties have a good basis for cooperation." Mr. Chen Qiangtai said.

IFC and CAPCO reached a consensus in the meeting that the two entities will work together in the near future to update the China Corporate Governance Guidelines for Listed Companies, develop a White Paper on Corporate Governance in China, train board directors, supervisors and senior executives of Chinese listed companies, and research specific corporate governance issues.

CAPCO, a national self-regulatory organization and a non-profit social organization incorporated by public listed companies, was founded in Beijing in February 2012 with the purpose of being the spokesman and guardian of the common interests of public listed companies in China, enhancing their self-regulation and compliance, and improving the quality thereof. Generally, CAPCO is hoping their efforts will help strengthen the governance culture of Chinese listed companies.

IFC TRAINS CORPORATE GOVERNANCE TRAINERS IN CHINA

The China Corporate Governance Project has developed the Corporate Governance Training Curriculum to serve the growing need for teaching methodologies relevant to professional institutions and educational establishments. IFC utilized the new curriculum during a three-day train-the-trainer (ToT) workshop to build capacity of the existing and potential corporate governance trainers. The aim was to further enhance their knowledge, understanding and teaching techniques around corporate governance topics. A select group of 24 participants, including directors, academics and practitioners from Shenzhen Stock Exchange, Shanghai Stock Exchange, commercial banks, universities and training firms in China attended the ToT workshop in Chengdu, China. The faculty members, led by Juan Carlos Fernandez Zara, Min Liu and Zhaowen Lin from the IFC team, provided the participants with lectures, case studies, and exercises to help them become familiar with the Corporate Governance Training Curriculum, and learn how to use these resources and methods with adult learning techniques.

"What I gained from the 3-day workshop is not only a very comprehensive corporate governance training curriculum which I could use for my training to MBA/EMBA students in the near future, but also the useful training skills to improve my personal training capacity", said Mr. Yan Jinjiang, director of the MBA School of Sichuan University.

Another participant, Mr. Xu Chongjiu from Wanlong International Consulting Group, said: "This training is very timely for me. Next month I will deliver an in-house training to the board members and senior executives for one of my client companies. I will definitely adopt what I learned from the workshop."

A letter was signed by the 24 trained participants to express their commitment in adopting the CG Curriculum. A survey has demonstrated the initial impact of this effort. Thus far, the trained participants have utilized the curriculum to teach 160 participants on corporate governance. As time goes by, more and more trained institutions are expected to establish and improve CG training curriculums in their institutions in the coming two years.

CHINESE RURAL COMMERCIAL BANKS RECEIVE CG TRAINING

There are more than 200 rural commercial banks ("RCBs") in China. RCBs have grown 48 percent in terms of total asset from 2009 to 2010. Despite particularly high growth rates, the corporate governance challenges still remain with RCBs.

Over the past few years, the RCBs have undertaken dramatic transformation efforts from rural mutual credit cooperatives to rural commercial banks. Through shareholding reforms, the proportions of shares owned by employees and outside investors were clarified and disclosed, thereby addressing a fundamental governance issue in these organizations. Although most RCBs have begun to address their governance issues, their corporate governance practices are still in the early stage. For example, further improvements are necessary to clarify to the authorities between shareholder rights and the supervisory power exercised the Credit Unions at the province level (part of government authority). Further, these organizations need to make strides in clarifying the roles of the board, strengthening director duties, and improving their general risk management and control frameworks.

To help RCBs strengthen corporate governance practices, IFC recently provided in-depth corporate governance training to two rural commercial banks in China – Maanshan Rural Commercial Bank ("MRCB") and Chengdu Rural Commercial Bank ("CRCB"). The trainers at the workshop included John Law, former principal banking specialist from IFC, Zhaowen Lin and Min Liu from IFC's corporate governance team in China. The training is on board effectiveness and its role in risk management as an enabler of long-term growth and profitability. Board members, supervisors, senior executives and shareholder representatives of the RCBs attended the training and discussed how the banks can improve corporate governance and sustainable development.

"IFC's training is helping MRCB develop the means to improve corporate governance practices which will enable MRCB to grow more sustainably and support the development of micro, small and medium-size enterprises (MSMEs)", said Mr. Sun Xiao, board chairman of MRCB.

MRCB was founded and started operations in 2009 through restructuring the Maanshan Rural Cooperative Bank, the first rural cooperative bank in China formed in 2005. The Bank operates in Maanshan, a prefecture in Anhui province with a population of 1.27 million. Anhui is a frontier region and one of the poorest provinces in central China with GDP per capita ranked #26 out of 31 mainland administrative regions of China. The city also has 43,800 household businesses and 9,300 small and medium enterprises ("SMEs"). The Bank focuses on serving "agriculture, rural areas and farmers" to support rural economy and the development of MSMEs.

Breaking through the Glass Ceiling

In Asia, women are still under represented in senior positions, at executive as well as board levels. Although women represent more than 50% of the graduates in the region, their presence tend to decrease moving along the ladder to top positions. In Indonesia, less than 10% of board seats are held by women.

In the past, the advocacy for more women in top positions was that of promoting gender equality. More recently, a new paradigm surfaced, putting the emphasis on performance and the role of diversity in fostering the same. In fact, a growing number of research shows that gender diversity within boards translates into improved financial performance and shareholder value. What is more, an increased representation of women on boards, enhances responsiveness to markets and stakeholders and strengthens reputation, while making it possible for companies to attract and retain talents, especially, female talents given the role model that incumbent female board members play for the latter.

Taking stock from these trends, a new initiative has been designed in the frame of the Indonesia Corporate Governance project. The initiative aims to understand the challenges in terms of women participation in corporate boards and promote a greater female representation. This should help foster stronger corporate governance practices and lead to greater firm performance.

To this end, the Indonesia Corporate Governance Project identified the Women Corporate Directors association, the Center for the Study of Governance and IMPI Business School as potential partners and organized the first round table discussion on the role of women on boards on March 6, 2013. The event addressed the cultural, social and economic burdens preventing women from getting higher access to the boardroom in Indonesia. Given the important gaps existing in this area in Indonesia, the event was aimed to launch a series of capacity building initiatives to be organized with IFC's partners in the future.

The targeted capacity building initiatives will rely and use concepts and methodologies tailored in other regions and countries where IFC CG teams delivered a similar approach on the Role of Women on Boards. For instance, in Jordan, IFC developed a comprehensive training module on "The Benefits of Gender Diversified Boards" and it is being used extensively across the Middle East and North Africa Region.

Also, in the frame of its ongoing cooperation with corporate governance institutions in Indonesia, promoting gender diversity at the board level through the regulatory engagement could constitute a strong support to this focus area. For instance, gender diversity could be promoted as one of the important aspects of board compositions by including specific provisions in the national codes on good corporate governance which might be amended in the near future.

Indonesia's Universities to Increase CG Coursework for Future Leaders

Working with universities has always been a major pillar of any corporate governance project run by IFC. As a major focus area today in most societies, corporate governance is also increasingly taught in Indonesian universities, especially in faculties of business and economics. However, as the subject evolves and gains increased complexity based on experiences from business practices and corporate failures, its teaching needs to evolve as well, covering not only the basic principles, but also learning from case studies, countries benchmarks, best practices or corporate governance implementation concepts and methodologies.

The Indonesia Corporate Governance Project has approached two prominent universities: the leading, and public, University of Indonesia, with 13 faculties and more than 30,000 students, as well as Atma Jaya Catholic University, one of the leading private universities in Indonesia with eight faculties, 7 programs for undergraduate/bachelor degree, six programs for graduate programs, and one program for postgraduate/doctoral program.

The objective of the cooperation between IFC and UI is to provide a series of corporate governance related conferences and lectures to the students of the faculty of economics at the bachelor level and above focusing on international developments and the challenges to improving corporate governance practices in Indonesia.

The first conference was held on March 25 for about 100 students from the faculty of economics. This conference was followed by a series of three lectures to students from two classes of the faculty during the month of May. The last lecture was used as an opportunity to provide the students with a venue to deliver their own presentations on specific case studies from their choice.

The cooperation will be pursued with University of Indonesia with a longer series of lectures and discussions are currently held with the management of the faculty to define the form and extent of this future cooperation.

IFC also signed a Cooperation Agreement with Atma Jaya Catholic University of Indonesia (AJCUI) in March 2013. The purpose of this agreement is to jointly develop a corporate governance, ethics and citizenship training curriculum for students of the graduate program and conduct a training of lecturers and a series of corporate governance-related awareness raising initiatives within the University's premises.

The collaboration will run up to September 2013, and be implemented by the University through its Faculty of Economics. So as to widen the reach of this cooperation, the project may also be later on introduced to graduate programs of other faculties of the University. The success of the project hinges on how well the lecturers of the University understand the new modules and ready to deliver them to the students in a very compelling and convincing way. Therefore, a Training of Trainers (ToT) for lecturers who will eventually deliver the new modules will also be organized in September.

An Introductory Seminar on Corporate Governance as a venue to formally launch the Cooperation was organized in March in the campus of the University of Atma Jaya. Around 100 participants, including students, lecturers and the senior management officers of the University, attended the event. Feedback was very positive and there was an atmosphere of excitement among participants to have the new curriculum on CG incorporated in the next school year.

The University Rector, Prof. Dr. Ir. M.M. Lanny W. Pandjaitan, M.T., who opened the Seminar specifically mentioned that "This is an important initiative for Atma Jaya University as a pioneer within the educational community in Indonesia to help promote good corporate governance through a university curriculum. We need to produce many more future managers and corporate leaders who understand well corporate governance and apply good corporate governance practices in companies they will work for. We need a new generation of corporate leaders with a strong ethical principle and who are socially responsible citizens. It is the responsibility of universities to meet this challenge."

A joint team of IFC and Atma Jaya is currently in the process of developing the curriculum. So far, all the four modules consisting of issues related to the legal view of a corporation, corporate governance, business ethics and corporate social responsibility have been finalized. The team is now in the process of translating the modules into Bahasa Indonesia.

The modules shall be ready for trial classes in August and the first ToT for lecturers of the University in early September 2013. The new curriculum will eventually be officially introduced in the new school year of 2014. Eventually, the new modules shall also be ready to be offered to other universities in Indonesia that are interested to adapt them into their curriculum. The plan is that in 2015, Atma Jaya will offer the program to other Catholic universities of its network all over Indonesia.

Mongolian Companies Improve their Corporate Governance

Companies with good governance typically make better decisions, perform better, and find it easier to attract investment. In Mongolia, a sparsely populated nation with 3.2 million people, private businesses are increasingly adopting better corporate governance standards to boost their institutional capacity and cope with the fast-growing economy.

Capital Bank, the first commercial bank in Mongolia with 61 branches, approached IFC with a request to improve its corporate governance. "Good governance will increase Capital Bank's operational efficacy and transparency," said Ariunbold Agvaanjamba, the bank's executive director. "We are committed to bringing our corporate governance practices to the next level to support Bishrelt's and our future growth."

Another client, Max Group recently improved its governance by hiring the Big Four accounting firm Ernst & Young to be its external auditor and launched reforms to switch to a holding company structure. The family-run business has 13 affiliated companies in various industries including agribusiness, construction, retail, and mining. "A proper corporate structure will further increase Max Group's efficiency and pave the way for our long-term growth," said Ganbaatar Dagvadorj, president of Max Group. "Our new collaboration with IFC will send a positive signal to potential investors in the market."

IFC is assessing the existing corporate governance practices of these companies and help align them with international best practices. IFC will also advise and train directors, managers, and major shareholders in the key areas of board functions, internal control and disclosure. Capital Bank and Max Group LLC have joined IFC's Mongolia Corporate Governance Project, following XacBank and Khan Bank. Up do date, the Project's clients reported US$ 27million as investment facilitated due to the improved corporate governance practices.

Mongolian Banks Improve their Competitiveness

On May 24, IFC and Mongolia's Corporate Governance Development Center held the sixth annual National Corporate Governance Forum in Ulaanbaatar to discuss ways to enhance the performance and competitiveness of Mongolian banks.

More than 190 bank directors, managers, and government officials gathered at the forum to discuss good governance practices and international trends in the banking sector as well as specific challenges faced by Mongolian banks in managing their rapid growth and related risks.

"Banks play a very important role in Mongolia's economic development," said Bold Javkhlan, First Deputy Governor, Bank of Mongolia. "Better corporate governance practices could help Mongolian banks increase efficiency, protect shareholder rights and improve their access to international capital markets."

With IFC's help, the Mongolian parliament adopted a new company law in 2011 to strengthen the country's corporate governance regulations and improve transparency. IFC has been making substantial investments in Mongolia's banking sector since 2002 when it first provided a loan to XacBank. Earlier this year, IFC provided $20 million to Khan Bank LLC to boost its small and medium enterprise lending.

"IFC is committed to the sustainable development of Mongolia's banking sector. We offer much-needed capital and advice at different stages of the industry's development," said Hyun-Chan Cho, IFC's country manager for China, Mongolia and Korea. "By partnering with the banks, we hope to introduce transparent and accountable business models for more Mongolian businesses to follow."

In partnership with Japan and the Netherlands, IFC's Mongolia Corporate Governance Program has organized training and consultations for more than 300 joint-stock companies and banks since 2009. IFC has been advising three Mongolian banks – Khan Bank, XacBank, and Capital Bank – on their corporate governance practices.

Media Workshop to Improve CG Reporting

In April 2013, the IFC Mongolia Corporate Governance Project, jointly with Mongolian Press Institute, organized a two-day interactive media training for local journalists. Twenty-two journalists from leading Mongolian TV, print and web-based media outlets gathered to learn about good corporate governance practices and the role of media in covering those issues. The design of the program anticipates building capacities among journalists in reporting on issues related to corporate governance.

The journalists from leading Mongolian media outlets met to learn about the best corporate governance practices and answer the question as to why it is important to cover corporate governance related stories, and shared their experience with each other as well as invited international experts. The overall objective of the training was to draw on journalists' unique ability to disseminate information on corporate governance to the business community and to the broader public, and to make readers aware of company activities that can have significant impact on the society in general.

Along with the training, Mongolian printed copies of IFC Media Guide focusing on corporate governance reporting were translated and provided to journalists. This seminar is also part of the global media training program that IFC has been doing. Similar seminars were recently organized in Vietnam, Bangladesh and Pakistan.

CG Awareness Expands beyond Ulaanbaatar to Mongolia's outer regions

IFC Mongolia Corporate Governance Project together with the Mongolian Federation of Employers held a full day seminar on Corporate Governance and its Importance on May 2 in Darkhan, the third largest city of Mongolia. The seminar was attended by 31 shareholders, members of boards of directors and senior management from 30 companies.

During the seminar, participants were informed about benefits and costs of implementing good corporate governance principles, protection of shareholders' rights, transparency and disclosure practices and roles and responsibilities of board of directors.

The Corporate Governance Project's goal in holding this kind of seminars in cities outside of Ulaanbaatar is to spread good corporate governance practices across Mongolia and give equal opportunities to all Mongolian companies to attract investment and improve their performance. The Project considers the needs of companies in each region while preparing the seminars' agendas and materials. Taking this into account, each delivered seminar will be unique in its scope and scale. This seminar is the first one in the series of regional seminars planned in the framework of the Mongolian Corporate Governance Project.

Vietnam's New Circular Changing Board Behavior

In May, more than 70 board members and senior executives of state owned companies participated in Vietnam's first corporate governance workshop targeting large scale public and listed companies. The participants all represented companies linked to Vietnam's State Capital Investment Corporation (SCIC), a co-organizer of the workshop along with IFC's Vietnam Corporate Governance Project. The SCIC was created in 2005 as part of a critical push for economic and SOE reform with the mandate to improve the use of state capital in key sectors. It currently manages a portfolio of over 500 enterprises.

Last July, the Ministry of Finance introduced Circular 121 with the goal of raising corporate governance practices in Vietnam's public companies to international standards and practices. The push for better governance was both a reaction to the increasingly competitive global investment climate and a tacit recognition of the sub-standard performance of the 100 largest listed companies surveyed in the 2012 Vietnam Corporate Governance Scorecard. The Circular carried the message that there is clear room for improvement and that the government and regulatory agencies would set a faster reform pace for companies to follow. The companies appear to be following suit.

The workshop sought to clarify issues stemming from the introduction of the Circular, such as composition of the Board of Directors, Supervisory Board and Audit Committee, conflicts of interest, related party transactions, and governance issues in State-Owned Enterprises. "These are key corporate governance issues and top concerns for board members in SCIC-linked companies, especially the large scale public and listed companies", said Mr. Le Song Lai, Deputy Director of SCIC. "Currently, most directors need more training and guidance to each specific CG issue for adoption to comply with the new regulations."

While the Circular goes far in pushing for greater independence in board composition by requiring that at least one-third of board membership be independent, it does not specify qualifications for membership or designate ethical business behavior for independent directors (i.e. conflicts of interest), and thus creates significant room for discussion on what is a completely new topic for Vietnam. "In revising Vinamilk's board regulations to comply with Circular 121, the board looked at IFC's definition of an independent director as provided in its CG manual. In order to comply with international best practices, Vinamilk decided to apply higher requirements for our independent director position than what is recommended in the Circular," said Ms Nguyen Nguyet Anh, Project Officer for the Vietnam Corporate Governance Project.

The hope is that such dialogue around corporate governance issues similar to what took place during the SCIC-IFC workshop will continue to occur across the market, thereby strengthening the governance practices of Vietnamese companies on an ongoing basis.

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