

# Private Sector & Development

PROPARCO'S MAGAZINE



## CORPORATE GOVERNANCE: A DRIVER FOR GROWTH

*Corporate governance**Independent directors**Best practices**Board of Directors**Succession Planning*

## PRIVATE SECTOR & DEVELOPMENT

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**Pierre Forestier**

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**G**ood corporate governance guidelines were developed in the 1990s and 2000s by international institutions and governments, but primarily by companies themselves as economic stakeholders gradually realised that organisation and balanced powers, transparency and management accountability were all key factors for securing a company's long-term future and adding value.

These principles, which were given theoretical form by the OECD, have been taken on board in all economies in developing and emerging countries alike. Indeed governance plays an essential role in economic development and sustainable business growth and, as you will discover in this issue, there is a direct correlation between good governance practices, financial performance and enhanced corporate social responsibility.

The benefits of good governance are legion. For example, it is an excellent means of limiting financial risk for both investors and lenders. It establishes a climate of trust as regards the management and control of the company's activities. Lastly, these best practices constitute a universally recognised corpus of rules and behaviour that make it much easier for those companies that apply them to become integrated within the global economic ecosystem.

So it is only natural that an institution like Proparco would want to use its magazine to focus on this issue. This provides an opportunity to analyse the risks in the event of a failure of corporate governance but also to highlight best practices, raise reader awareness, give a platform to entrepreneurs themselves and provide all economic stakeholders with a few pointers for the future.

Governance has now become an integral part of Proparco's customer support strategy and four years ago we set up a dedicated hub of expertise. As part of our business support team, this hub is tasked with providing Proparco clients with practical help in deploying good governance processes and this has undoubtedly become one of our key non-financial sources of value added.

## CONTRIBUTORS



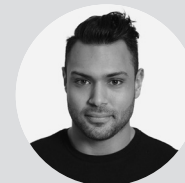
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# Good corporate governance practices: constantly developing

 Jean-Claude Chesnais, Governance project manager, Proparco

Corporate governance appeared in the 1970s and has become a core component of the functioning of the private sector. It is both a process and a conceptual and organizational framework and is based on a set of references (principles, codes, good practices, etc.) which a company decides to adopt. For example, it organizes the proper functioning of governance bodies and ensures that business ethics are taken into account.

“Corporate governance [...] first appeared in the 1970s, following a severe crisis of confidence between shareholders and business leaders.”

**C**orporate governance is both a concept and a set of practices. It is today part of the culture and functioning of the private sector. It is one of the few areas where the players themselves

define their guiding organizational principles. While good practices are generally discussed and compiled by professional employers' organizations, they are established by entrepreneurs on a non-binding basis<sup>1</sup> following the “comply or explain” principle.

Corporate governance – as a conceptual and operational framework – first appeared in the 1970s, following a severe crisis of confidence between shareholders and business leaders in the USA and UK. It experienced renewed interest following various scandals: Enron (2001), Andersen (2002) and WorldCom and Parmalat (2003).

## THE ORIGINS OF CORPORATE GOVERNANCE

The first publications concerning corporate governance were the result of reflection involving lawyers, companies, central banks (American and British), as well as market regulators. At the intersection of legal doctrine and positive law, the Corporate Director's Guidebook was

published by the American Bar Association in 1978, then the Principles of Corporate Governance by the American Law Institute in 1993. In the United Kingdom, the report led by Sir Adrian Cadbury was released in 1992 following research conducted by the entire economic world.

<sup>1</sup> In the banking sector – only addressed briefly in this article –, the normative and control frameworks are more stringent.

In France, the Vienot report, commissioned by AFEP and MEDEF<sup>2</sup>, was published in 1995. At the same time, South Africa took the initiative in emerging countries, with the publication of the first King Code in 1994. These founding texts already comprise most of the so-called “good practices” of corporate governance.

In the 2000s, international institutions, in particular the European Union and OECD, took up the subject. The publication by the OECD of the “Principles of Corporate Governance” in 2004 in some way formalized the global dimension of governance. At the same time, markets got organized, sometimes with support from international organizations and governments. Networks were built and the movement continually grew. The Asian Corporate Governance Network, established in 1999, today includes 112 organizations and companies; the Latin American Corporate Governance Roundtable was also set up in 1999. The African Corpo-

“The company defines its practice and the ethics on which it bases itself via an internal code of governance. It will at the minimum officially express its commitment to the principles of governance by referring to the national code, if there is one.”

rate Governance Network was established in 2013, at the initiative of Mauritian and South African players – the network includes over 20,000 directors from 19 countries.

Today, employers’ organizations, companies, non-profit organizations, researchers and stakeholders contribute to the dissemination of good governance practices by publishing guidelines, codes of good governance, and also by implementing training and disseminating information.

## GOOD PRACTICES AND COMMITMENT

As governance is constantly developing, one of the very first “good practices” for a company is to ensure that it is operational in order to... develop it. The company defines its practice and the ethics on which it bases itself *via* an internal code of governance. It will at the minimum officially express its commitment to the principles of governance by referring to the national code, if there is one. Furthermore, the company will appoint a focal point director on its Board of Directors, who will ensure that practices in this area are maintained or improved.

For family businesses, it is especially necessary to ensure that a charter gives priority to competences during recruitments and organizes training for family members called on to take

up key positions (Board of Directors or management). It does not mean prohibiting a family member from taking on responsibilities, but ensuring that competence takes precedence, in order to ensure the quality of work, the serenity of the entire staff and the sustainability of the company. In addition, the manager will take care of organizing his succession in advance, or at least the succession process. Finally, the family can organize itself as a “council” or a “family assembly” to clearly make a difference between what concerns the operations of the company (and which the Board of Directors is responsible for) and the management of family matters. This avoids any questioning over the role of governance and tackles nepotism. →

2 • French Association of Private Companies (AFEP) and Movement of French Enterprises (MEDEF).



## BOARD OF DIRECTORS: THE CENTRAL BODY

The Board of Directors is central to the governance system. It does not directly manage the company, but it appoints its managers. Its operational role is to discuss, compare, validate and approve the strategy and the main decisions made by the managers. It is the statutes of the company, sometimes the shareholders' agreement pact, which define the functions of the Board with regard to the general meeting and senior executives. However, the adoption of specific rules of procedure for the Board and the specialized committees where its members hold a seat is an asset in terms of corporate governance.

The competence of Board directors, freedom of speech and the interest of the company are always given priority: these principles result in "good practices" related to the composition of Boards. Furthermore, as a Board is a collegial body, it is necessary to ensure that its members are not too few in number (less than five directors) and that there are not too many (over 16 directors). It will also comprise independent directors (a minimum of three in the USA), who do not have connections with shareholders

or the management and are therefore better equipped to defend the company's interests. They must be able to question managers about their decisions. They moderate the discussions and form a neutral and mediating force in the event of a non-alignment with shareholders' interests.

A good Board of Directors comprises all the competences required by a supervisory body: technical, financial, social, market knowledge, etc. It is up to the company to define its needs. There are techniques to ensure this: the skills matrix, for example, an instrument which the Board and managers can use to analyze needs, or the regular evaluation of the Board (external or self-evaluation), which allows it to regularly question its composition and operating method.

A number of codes of good governance also partly devote their instructions to the remuneration of managers, Board directors and members of senior management. Good practices consider that the remunerations must be transparent and proportional to the work done (although they may comprise an incentive-based portion).

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## DEVELOPMENTS IN CORPORATE GOVERNANCE: A SENSE OF HISTORY

In June 2018, AFEP and MEDEF published an update of their Corporate Governance Code and the UK Corporate Governance Code was published in July. The updating of these tools is particularly interesting, as it provides an understanding of the latest developments in the notion and practice of corporate governance.

The new AFEP-MEDEF code focuses on environmental and social concerns. For example, it proposes to take into account one or several Corporate Social Responsibility criteria in the variable remuneration of managers. It advises including directors representing employees on Boards of Directors. This body will also need to ensure that it has a balanced representation of men and women and that this is also the case in the company, but also in the committees and senior management. In terms of the remuneration of managers, the code provides more guidance for the provisions relating to the retirement of managers. Furthermore, the general meeting will be informed about the selection process which leads managers to propose the appointment of such or such a director. Finally, the ethics of directors have been strengthened and, in particular, address more in detail conflicts of interest and the actual participation in the Board's work.

The British code shows similar concerns: it emphasizes the relations between stakeholders – especially with the general meeting – and in particular calls for greater account to be taken of minority motions. It recommends

“The recent developments in corporate governance highlight the importance that values concerning ethics and social and societal spheres take on for players. They tend to place the company at the center, or at least in tune with developments in our societies.”

that the Board of Directors ensures there is a quality dialogue with employees (possibly by appointing one of their representatives to the Board) and that women are represented in the company. It also focuses on the ethics aspect of the role of directors: number of mandates, duration of mandates (maximum of nine years), etc. It formalizes “good practices” concerning the operation of the company: external evaluation of Boards of Directors, role of the Appointments and Remunerations Committee, etc.

Consequently, the recent developments in corporate governance highlight the importance that values concerning ethics and social and societal spheres take on for players. They tend to place the company at the center, or at least in tune with developments in our societies, strengthening the link between civic responsibility and the environmental, social and ethical responsibility of the company. ■



# *Corporate governance: how does it affect the value of a company?*

 **Georg Wernicke**, Assistant Professor, HEC Paris

Research has consistently shown that strong corporate governance positively affects firm value. This article gives a short introduction into the topic of corporate governance, briefly introduces some pivotal governance components and summarizes the most important research findings.

## FOCUS HEC

The Ecole des hautes études commerciales de Paris (HEC) is a world-leading business school established in 1881 and located in Jouy-en-Josas, France. HEC is renowned for the quality of its degrees, faculty, and research.

**D**oes good corporate governance positively affect firm value? A popular answer to this question is that corporate governance matters little when it works well but when it fails, it has severe consequences. Indeed, beyond extreme cases of governance failures, providing an answer to this question is challenging.

“Governance also affects firms in some industries more than in others, is more important in some periods than in others.”

The body of academic literature on this topic is vast, definitions of governance vary widely in their scope, impacts of corporate governance are difficult to measure, and exact linkages to firm value are not often easy to pin down. Governance also affects firms in some industries more than in others, is more important in some periods than in others and its impact depends on the stage of the life cycle firms are in and the institutional characteristics of a firms' home country and the country where firms are listed on the stock market. But despite these qualifications, the answer to the question of whether good corporate governance positively affects a firm's value is YES it does.

## COMPLEMENTARY GOVERNANCE COMPONENTS

Given the multitude of theoretical perspectives available and the diversity in corporate governance practices around the world, giving a clear and universally applicable definition of corporate governance is challenging. A comparably broad definition is provided by the Organization of Economic Co-operation (OECD) which defines corporate governance as “the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions of corporate affairs. [...]”. Definition such as the one by the OECD go beyond a relatively narrow focus on how suppliers of finance assure themselves of getting a return on their investment to also include activities that are typically subsumed under the term corporate social responsibility (CSR) as part of the corporate governance of a firm.

Two widely cited research papers are informative for the question of whether good corporate governance affects firm value. First, based on an index that includes 24 governance rules reflecting shareholders rights in large public firms in the U.S. in the 90s, Gompers, Ishii, and Metrick (2003) estimate that a portfolio of firms with the highest scores on the index outperforms the return on a portfolio of firms with the weakest shareholder rights by 8.5 percent per year during the sample period. Similar effects were found for firm value by Bebchuk, Cohen, and Ferrell (2009) with a refined and reduced index.

“Firms’ governance significantly affects their share prices and firm value. [...] Not all governance provisions and rules always matter equally.”

There are two main take-aways from these two studies. First, firms’ governance significantly affects their share prices and firm value. Second, given that the two studies came to the same conclusion despite using differently sized indexes suggests that not all governance provisions and rules always matter equally. In fact, some governance components are complementary to one another while others are substitutes. For example, in firms with concentrated ownership, where one or very few shareholders hold large amounts of shares in the firm, boards of directors tend to matter less than in firms with a large number of shareholders who all only hold very small stakes in the firm. Similarly, in legal environments in which hostile takeovers of firms are comparably hard and costly, anti-takeover provisions at the level of an individual firm matter little. This is important as shareholder advisory firms have developed large, similar indexes to the two studies mentioned above and oftentimes advise shareholders to vote in favor of proposals that would improve rankings. ➔



## THE IMPORTANT ROLE OF THE BOARD OF DIRECTORS

In general, research provides strong evidence that a stronger protection of the rights of shareholders, especially for shareholders who hold only very small stakes, and laws that make it easier for firms to take over one another results in higher firm value.

There are also governance institutions inside the firms, for example the board of directors, that research has shown to affect firm value. While the board of directors has multiple functions within a firm, for example to monitor managers but also to provide advice to executives and resources, research has found that firms with smaller boards have higher firm value (Yermack, 1996), mainly through better monitoring of managers. Similarly, firms with a higher share of independent directors, broadly defined as

not having any material relationship with the firm other than serving on its board, are usually associated with higher value.

Boards are also tasked with appointing the most suitable individual as CEO. CEOs significantly affect firms' performance and value as well as their CSR performance (Sajko, Boone, & Wernicke, 2017). The character of the CEO also matters for firms' governance directly. For example, CEOs with more narcissistic personality traits have been found to increase the likelihood that a firm is implicated in instances of financial fraud (Rijsenbilt & Commandeur, 2013). Conversely, Koch and Wernicke (2018) provide evidence that CEOs with character traits that make individuals more likely to adhere to rules and regulations are less likely to be implicated in financial fraud.

“In general, research provide strong evidence that a stronger protection of the rights of shareholders, especially for shareholders who hold only very small stakes, and laws that make it easier for firms to take over one another results in higher firm value.”

## CORPORATE GOVERNANCE AND CSR, CLOSE LINKS

As for the relationship between a firm's CSR and financial performance, recent scholarship has provided compelling evidence for positive connection between the two measures. Research in this domain has found that CSR affects firms' value through improving the access to finance, by counteracting downward pressure on share prices exerted by short sellers and media evaluations of CEO compensation (Vergne, Wernicke, & Brenner, 2018). A recent trend in executive compensation is to include CSR criteria in the compensation paid to executives and firms that do so were found to have higher value.

Corporate governance does not always matter equally. For example, the level of competition in an industry plays an important role. The stron-

ger the competition, the stronger the pressure on managers to use resources efficiently and the potentially less important are firm level governance institutions. Similarly, the current work by Horstmeyer and Wells (2017) suggests that the effects of good governance also depend on the economic conditions in an industry. Shareholder rights are most valuable during times when an industry prospers yet matter little in times when industry conditions are poor. Also, the stage of a firm's life cycle is also important. For example, mature listed firms have a greater need for monitoring and smaller boards of directors have been found most suitable, whereas younger firms might benefit more from advice from board members and larger boards are better suited in this case.



To conclude, while firm value deteriorates strongly in cases of severe governance failures, a large body of research suggests that corporate governance matters generally for firm value. ■

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# Good governance: accelerating growth and sustainable development

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Good governance principles and a management infrastructure are vital to reflection on sustainable development requirements and to ensuring they are properly applied. It is the very essence of a participatory system, through its requirements for consultation, cooperation, collaboration and partnership between the various stakeholders. In addition to regulatory requirements, the governance system established by CIEL Group provides a framework for the implementation of its strategy and is crucial to the achievement of its environmental and social objectives.

**A**s with any company partly governed by a certain legal framework, CIEL is composed of a Board of Directors. The Board is responsible for the good governance of the company and supervises its conduct and its business, with the aim of creating sustainable value for stakeholders. It takes responsibility for running the business, ensuring that the strategic guidelines and management structures are in place to comply with legal and regulatory requirements. In this respect, several committees have been set up as subcommittees of the Board of Directors: Audit & Risk Committee; Strategic & Advisory Committee; Corporate Governance, Ethics, Nomination & Remuneration Committee; Corporate Sustainability Committee.

## A STRUCTURE WORKING FOR SUSTAINABLE DEVELOPMENT

In its operation, the Board of Directors delegates certain roles and responsibilities to these subcommittees. While the Board maintains overall responsibility, the subcommittees examine certain subjects in detail, then report on the questions discussed, decisions taken, and, as and when necessary, make recommendations to the Board on subjects requiring its approval. Minutes are drawn up of the meetings of the Board and subcommittees and the Chairpersons of each subcommittee report to the Board of Directors on their activities.

CIEL Group has decided to go beyond legal and regulatory requirements by creating an Environmental and Social Subcommittee with many responsibilities. They include the definition and validation of the Group's environmental and social policies; the definition and validation of the ESG system; the supervision and implementation of environmental and social action plans; the identification and management of the environmental and social risks of each of the main subsidiaries and companies in the portfolio; the definition of the actions

### FOCUS CIEL GROUP

CIEL Group is an investment company based in Mauritius with a history dating back over a hundred years. The Group has strong family values, with regional development and ambitions in 5 strategic sectoral clusters: agro & property, textile, hotels and resorts, finance and healthcare. Through its various subsidiaries and holdings, CIEL has over 35,000 employees in Mauritius, Africa and Asia.



required in terms of environmental and social objectives; the report on the environmental and social performance of the company and relevant subsidiaries.

This Subcommittee is composed of its Chairperson, the Group Chief Executive, senior executives from headquarters, a representative from PROPARCO, and a representative from each of the Group's five strategic clusters (agro & property, textile, hotels and resorts, finance and healthcare). This allows the entire company to be involved in the process.

To strengthen the system, this institutional framework has been complemented by the creation of environmental and social committees in each strategic cluster. This anchors

sustainable development in the management practices of the entire Group and ensures that

“Several committees have been set up as subcommittees of the Board of Directors: Audit & Risk Committee; Strategic & Advisory Committee; Corporate Governance, Ethics, Nomination & Remuneration Committee; Corporate Sustainability Committee.”

the issues, problems and processes related to sustainable development are taken into account at the highest level.

## INVOLVING THE VARIOUS ACTORS

The approach deployed by CIEL Group, and supported by PROPARCO, has played a major role in the implementation of this governance structure. On the basis of three key principles (ownership, pragmatism and continuous improvement), it has made it possible to involve the main actors concerned by the Group's sustainable development policy and action plans and, at the same time, determine the needs and priorities of the subsidiaries.

In more practical terms, CIEL initially organized a forum on sustainable development comprising all of the Group's senior managers (120 executives, a first). The aim was to initiate a dialogue and a path towards a common objective, while maintaining a participatory and collaborative spirit given the diversity and decentralization of decision-making which characterize CIEL. It was subsequently necessary to raise awareness of sustainable development issues and establish

a network on a voluntary and gradual basis. The aim was to end up with a consultation, collaboration and decision-making mechanism with, ultimately, the creation of committees and working groups (environmental and social) at various levels. The increased presence in the field of a team from headquarters made it possible to instill the reflection process, steer and support the subsidiaries and identify needs, in order to gain a pragmatic understanding of the issues and relevant processes suited to each business sector.

While it now seems clear that sustainable development requires the integration of economic, social and environmental objectives, adopting a common vision was not an easy task and the role which governance had to play within sustainability remained poorly understood. Difficulties arose due to various reasons and circumstances. →



Firstly, the great diversity of the Group (in terms of activities, geographical location and markets) made it difficult to come up with a common definition of sustainable development. Secondly, the implementation of the structure for a long time appeared to be unclear, complex and with no great added value compared to the existing mechanism. It was necessary for everyone to find some benefit in it, by gradually adopting

certain principles. The implementation of this structure, via committees, initially promoted collaboration between functions (particularly financial, human resources and environmental engineering) which, up until then, had worked separately, then subsequently the adoption of principles and the handling of the environmental and social measures and good practices.

### WHAT ARE THE BENEFITS FOR THE COMPANY?

This governance structure has established a collaborative platform, promoting a collective awareness of sustainable development issues, which has subsequently led to the creation of consultation and collaboration mechanisms, eventually bringing about common initiatives.

“Adhering to good governance rules, particularly for environmental and social matters, gives a certain credibility and confidence to many stakeholders.”

In the case of CIEL, the principle of good governance lays down a framework which requires a great deal of rigor. This obliges the company to adopt a more structured and methodical approach to the implementation of the environmental and social objectives. Good governance also requires involving a whole host of actors.



The governance structure of CIEL Group is subject to a continuous improvement strategy and is intrinsically necessary to the strategic management of sustainable development,

Consequently, the integration of sustainable development issues into our subsidiaries in our portfolio gradually emerged as being everyone's business, and not the responsibility of just one individual or department. This has gradually led to the ownership and management of the ins and outs and the empowerment of teams, allowing the sharing of good practices and the joint definition of common parameters and projects related to sustainable development, thereby creating group dynamics.

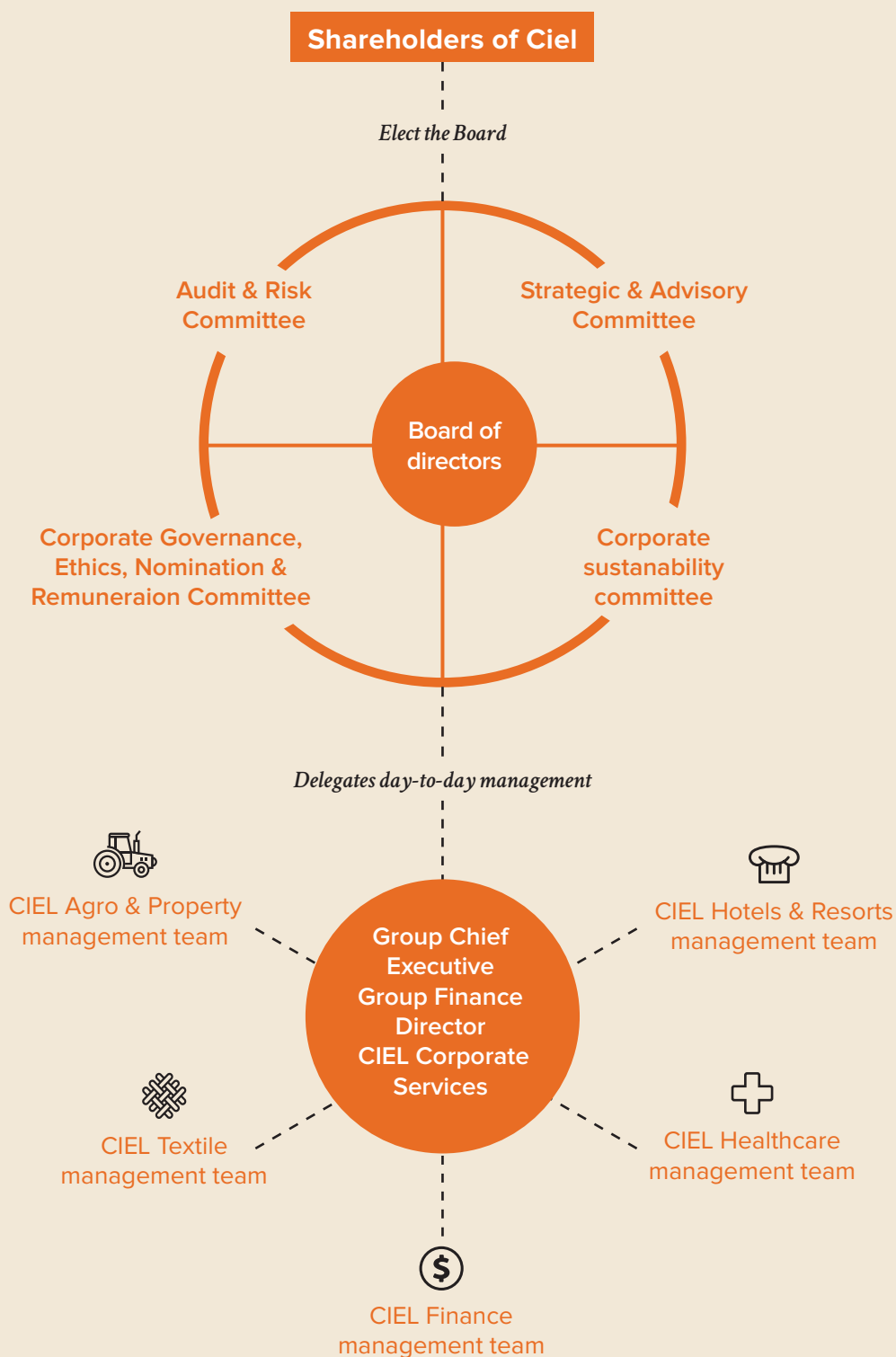
In certain cases, the governance system has also promoted a more in-depth approach, allowing the subsidiaries to show greater resilience to any apprehension over new challenges, or to respond to developments in their respective markets.

Finally, adhering to good governance rules, particularly for environmental and social matters, gives a certain credibility and confidence to many stakeholders. To employees, of course, but also clients, investors and the other economic partners.

the pursuit of short, medium and long-term objectives and the operational effectiveness of environmental and social issues and processes in order to sustainably develop the company. ■



## ➔ Governance structure of CIEL



Source: CIEL Group, 2018.



# *An example of commitment to good governance: DFIs and corporate governance support*

🔗 **Jean-Claude Chesnais**, Governance project manager, Proparco

With the collaboration of the CGDF Working Group: **Marta Viegas-Rocha** (IDB Invest), President; **Sanaa Abouzaïd** (SFI); **Elisabeth Alpe** (ADB); **Vassilis Christakis** (BSTDB); **Andres Oneto** (CAF); **Shirley Payet-Jacob** (CDC); **Jasper Veel** (FMO); **Erik Wessels** (DEG).

Good corporate governance practices have a direct impact on corporate performance and value. Moreover, they are an essential component of business ethics and, so, an integral part of “sustainable development”. This is why support for the development of good practices has become an important part of the work of development finance institutions (DFIs).

## FOCUS CGDF

The Corporate Governance Development Framework (CGDF) is a common platform adopted by 35 Development Finance Institutions (DFIs). Through the Corporate Governance Development Framework, DFIs aim to evaluate and improve governance practices of their investee companies.

**T**here are development finance institutions (DFIs) in all continents. Some are multilateral, like the IFC<sup>1</sup> or IDB Invest<sup>2</sup>; others are bilateral, like Proparco, Norfund<sup>3</sup> and some at a country level like Nafin in Mexico. All have the role of financing private companies<sup>4</sup> in developing countries, in order to create wealth and employment, while developing good social, environmental and, of course, governance practices<sup>5</sup>.

Recognizing the convergence of their missions and their philosophy of intervention, DFIs decided to meet in the form of an informal association around a common platform, the Corporate Governance Development Framework (CGDF), signed in Washington, DC, in 2011. To date, there are 35 signatories from all over the world. Through this founding platform, DFIs commit to integrate corporate governance in its investment operations, regularly exchange information, set up a common strategy, common analysis and action tools, and develop a proactive policy for their clients to promote good corporate governance practices.

On this common basis, each DFI develops its own programs and actions, according to its priorities or means. However, one action is common to all DFIs: the evaluation of client governance leading to the elaboration, negotiation, and implementation of improvement plans. These plans can be accompanied by technical assistance.

“Each DFI develops its own programs and actions, according to its priorities or means. However, one action is common to all DFIs: the evaluation of client governance.”

1 • International Finance Corporation, a World Bank company.

2 • IDB: Interamerican Development Bank.

3 • Norway's development finance institution.

4 • Some DFIs may have an expanded role in financing state-owned enterprise.

5 • In addition, there are regional working groups to promote advanced collaborations: thus, the European institutions have grouped together in the EDFI group (European Development Financial Institutions).



## GOVERNANCE DIAGNOSIS, ACTION PLANS AND TECHNICAL ASSISTANCE

Loans or equity investments are the occasion for an evaluation of governance and the implementation of action plans.

A DFI entering into a financial relationship with a company or a bank carries out an analysis of its governance<sup>6</sup> practices, taking into consideration five parameters: the structure and functioning of the board of directors, the organisation and functioning of internal control, the quality of external control and transparency of the company, the rights of shareholders (equality between shareholders and shareholder groups), and the management of transactions between parties and conflicts of interest.

The DFIs also evaluate a major transversal aspect, “the commitment to good governance”, which groups together: the actions taken by the company demonstrating a real commitment (existence of a good governance charter, for example), the hyper-dominant situation or not of a majority shareholder, the role and possible privileges of the family when it is a family company, and the questions of succession for key positions. It is therefore a very broad vision of governance.

Of course, DFIs take into account the size of the enterprise and the cultural context in which a company operates: it will obviously not be possible to have the same expectations for a small enterprise and a multinational. Similarly, the pre-eminent role of the founder’s family in certain regions should be taken into account,

including companies that have already reached international business exposure. However, the difference is only in terms of degree, not in terms of substance for the structures to be promoted. This is because the principles of corporate governance are universal: everywhere we expect governance that respects legal obligations, fair play towards stakeholders, transparency towards shareholders, a clear organization of powers between general management and governance bodies, effective control of operational and financial activity.

“The diagnosis conducted by the DFIs is undertaken by their internal teams or by external consultants. Based on the findings, recommendations are made. They may, where appropriate, take the form of an action plan to upgrade governance.”

The diagnosis conducted by the DFIs is undertaken by their internal teams or by external consultants. Based on the findings, recommendations are made. They may, where appropriate, take the form of an action plan to upgrade governance. Diagnosis and action plans are systematically shared with the head of the company, the main executives and the board of directors, because the real driver of change is the company itself. ➔

**CGDF**



**ADOPTED  
IN 2011**



**35 COUNTRIES  
AROUND THE WORLD**

6 • Notwithstanding financial, social and environmental due diligence.



Where the situation requires it and when a business owner so requests, DFIs may co-finance governance technical assistance with the partner. This is the case when the measures to be taken are particularly specific or require the ongoing presence of a specialist. This can involve training,

drafting policies or internal regulations, internal organization of the company, and the setting up of procedures. Here again, it is a question of accompanying the company in its efforts, by making available not only financial resources, but also the requisite human resources.

## INVESTMENT FUNDS AS INTERMEDIARIES TO PROMOTE GOOD PRACTICES

DFIs can partner with investment funds by taking equity, providing debt lending or co-investing at the level of the investee company. This type of intervention is also an opportunity to promote good environmental, social and governance practices, and ideally generate a “sustainability premium”<sup>7</sup> at exit. Regarding governance, DFIs

encourage investment funds to apply the same rules for their underlying assets as they require for their own direct clients. Depending on the scale of investment and risk profile, some DFIs, including FMO and Obviam<sup>8</sup>, even make it a contractual obligation.

## CLIENT TRAINING AND AWARENESS

Many DFIs offer group or individual training to clients or prospects. Where possible, group training is organized in partnership with representative private sector structures<sup>9</sup>. Other examples include the principle of thematic conferences on a governance topic<sup>10</sup>. In addition to these actions,

standard documents or examples are made available to facilitate the work of entrepreneurs and boards of directors (internal regulations of a board of directors and associated committees; family policy charter, etc.).

“DFIs can partner with investment funds by taking equity, providing debt lending or co-investing at the level of the investee company. This type of intervention is also an opportunity to promote good environmental, social and governance practices.”

7 • Investors are willing to pay a higher price for a company with high standards of governance. Since the 2000s, corporate governance has become one of the building blocks of corporate value. This investor position is particularly true for companies in emerging markets.

8 • FMO: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, the Dutch development finance company. Obviam: independent Swiss investment advisor specialised in developing and emerging countries, from the Swiss Investment Fund for Emerging Markets (SIFEM).

9 • These include the training seminars organized by IDB Invest, or by CAF to local Development Banks in Latin America.

10 • Such as the one organized by Proparco in the spring of 2018 in Yaoundé or the joint program to promote good practices launched in 2017 by the IFC and the Institute of Directors of Côte d'Ivoire.

## CORPORATE GOVERNANCE, A REAL WORLD EXPERIENCE FEEDBACK

The particularity of good governance practices is precisely that they are... good practices. That is to say that they are constituted and evolve essentially based on real world experience and on the interaction between companies. States legislate relatively little in this area<sup>11</sup>, especially for non-listed companies. As a result, it is very often up to professional organizations to write down the recommended practices and ensure that they are applied. In this case, good practices are not mandatory; they are prepared by and for companies themselves without state intervention. However, professional groups strongly encourage their members to comply with voluntary codes of good governance or to explain the reasons why they prefer to ignore them (Comply or Explain principle). This role of reflection, code compilation, and publication of professional associations is often supplemented - when resources are available - by training and awareness-raising activities.

It is for these reasons that some DFIs, including the IFC, IDB Invest and CAF, are very active in the development of professional networks, such as institutes of corporate governance, associations of directors, associations of corporate

secretaries, academic centers and in helping to publish Codes of Good Governance in emerging and developing countries. It is worth mentioning the particularly important role of institutes and associations of directors in disseminating good practices in the markets where they exist and at the very heart of boards of directors. Moreover, these institutes and associations are very often at the origin or closely associated with the drafting of Codes of Good Governance.

It should also be noted that DFIs disseminate reference works and analytical tools for use by governance actors, business leaders and administrators. They, thus, complement the work of specialized networks. The aim is to offer practical, didactic guidelines and tools that can be used directly by professionals

“The particularity of good governance practices is precisely that they are... good practices. That is to say that they are constituted and evolve essentially based on real world experience.”

▼  
The activities of DFIs in favour of business development are multifaceted, and the offer continues to grow. In addition to business diagnostics, consulting and technical assistance, they provide training, reference works, and support

to intermediary bodies involved in governance. Promoting corporate governance has become a key driver that DFIs use to fulfil their mission of providing financial and non-financial added value to developing economies. ■

11 • With the exception of banking and financial activities, which are often highly regulated.

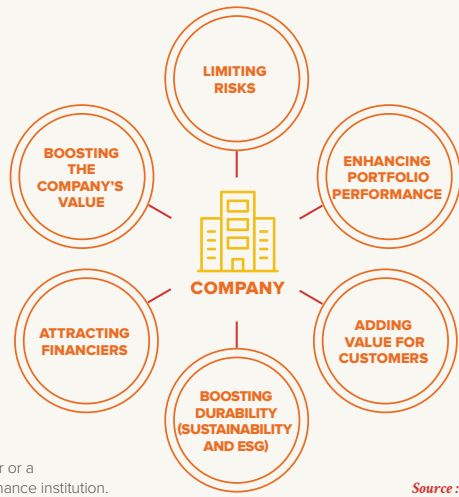
# Corporate governance and good practices

## Corporate governance – What's it all about?

Corporate governance refers to the relations between the management of a company and its Board of Directors, shareholders and other stakeholders. Corporate governance also provides a framework for setting out a company's objectives and the means for achieving these and for tracking its performance.

Source: OECD.

## What are the benefits of good corporate governance\*?

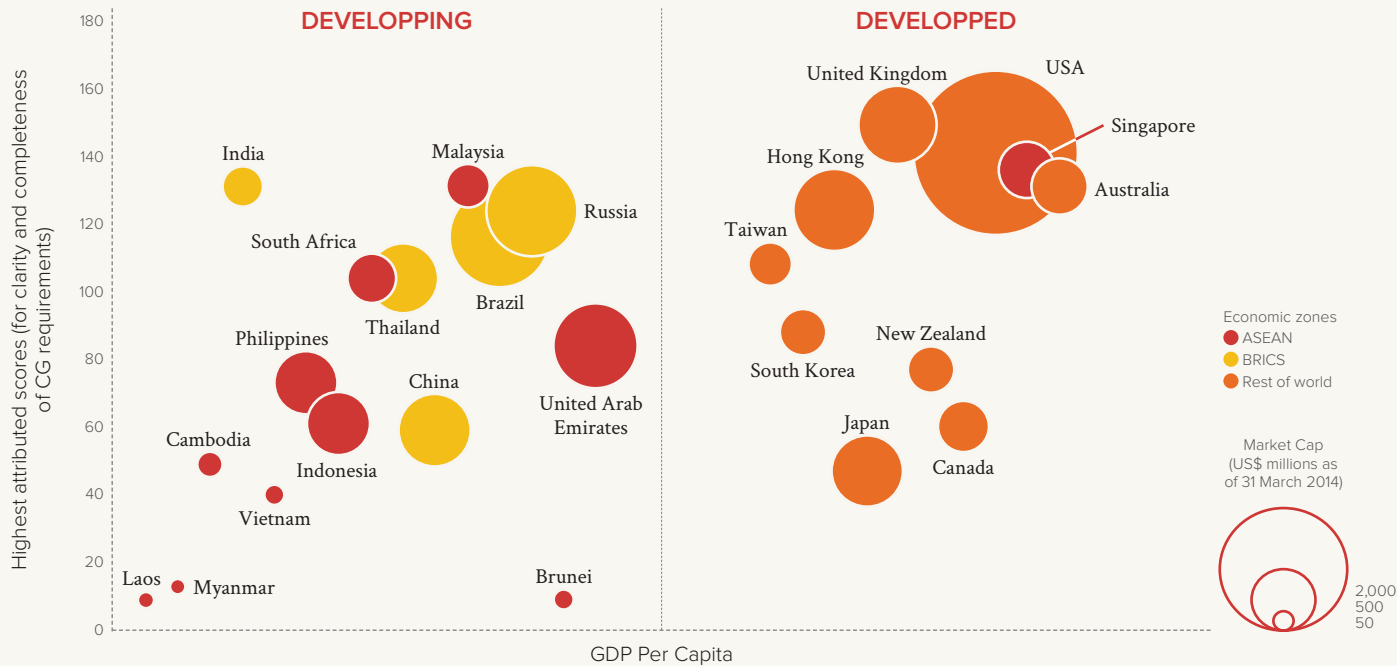


\* For an investor or a development finance institution.

Source: Proparco, 2018.

## Corporate governance and economic power

According to a joint study by Acca Global and KPMG, there is a direct correlation between GDP per capita and transparent corporate governance (and comprehensive standards). There appears to be less correlation between average stock market capitalisation and the maturity of corporate governance.



Source: Acca Global, KPMG, "Balancing rules and flexibility - a study of corporate governance requirements across 25 markets", 2014, p.53.

## Corporate governance codes: focus on 32 different countries

### AMERICA

#### 1 CANADA

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 1995  
Latest revision: 2012

#### 2 UNITED STATES OF AMERICA

Style of CG: Unitary  
Strength: Voluntary  
Introduced: 1997  
Latest revision: 2012

#### 3 BRAZIL

Style of CG: Unitary  
Strength: Voluntary  
Introduced: 1999  
Latest revision: 2010

### EUROPE AND AFRICA

#### 4 UNITED KINGDOM

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 1992  
Latest revision: 2014

#### 5 MOROCCO

Style of CG: Two-tiered  
Strength: Comply or explain  
Introduced: 2008  
Latest revision: 2008

#### 6 GHANA

Style of CG: Unitary  
Strength: Voluntary  
Introduced: 2002  
Latest revision: 2010

#### 7 TUNISIA

Style of CG: Two-tiered  
Strength: Voluntary  
Introduced: 2008  
Latest revision: 2012

#### 8 NIGERIA

Style of CG: Unitary  
Strength: Apply and explain  
Introduced: 2003  
Latest revision: 2011

#### 9 EGYPT

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 2005  
Latest revision: 2016

#### 10 ETHIOPIA

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 2011  
Latest revision: 2011

#### 11 UGANDA

Style of CG: Unitary  
Strength: Voluntary  
Introduced: 2002  
Latest revision: 2008

#### 12 RWANDA

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 2012  
Latest revision: 2016

#### 13 ZAMBIA

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 2005  
Latest revision: 2005

#### 14 KENYA

Style of CG: Unitary  
Strength: Apply and explain  
Introduced: 2002  
Latest revision: 2015

#### 15 TANZANIA

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 2002  
Latest revision: 2002

#### 16 MALAWI

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 2001  
Latest revision: 2010

#### 17 MOZAMBIQUE

Style of CG: Two-tiered  
Strength: Voluntary  
Introduced: 2011  
Latest revision: 2011

#### 18 SOUTH AFRICA

Style of CG: Unitary  
Strength: Apply and explain  
Introduced: 1994  
Latest revision: 2016

#### 19 MAURITIUS

Style of CG: Unitary  
Strength: Apply and explain  
Introduced: 2003  
Latest revision: 2016

#### 20 RUSSIA

Style of CG: Unitary  
Strength: Voluntary  
Introduced: 2002  
Latest revision: 2014

### ASIA

#### 21 INDIA

Style of CG: Unitary  
Strength: Mandatory  
Introduced: 1998  
Latest revision: 2013

#### 22 CHINA

Style of CG: Two-tiered  
Strength: Comply or explain  
Introduced: 2001  
Latest revision: 2001

#### 23 THAILAND

Style of CG: Other  
Strength: Comply or explain  
Introduced: 1998  
Latest revision: 2012

#### 24 MALAYSIA

Style of CG: Unitary  
Strength: Apply and explain  
Introduced: 2000  
Latest revision: 2012

#### 25 SINGAPORE

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 2001  
Latest revision: 2012

#### 26 VIETNAM

Style of CG: Other  
Strength: Mandatory  
Introduced: 2007  
Latest revision: 2012

#### 27 CAMBODIA

Style of CG: Unitary  
Strength: Mandatory  
Introduced: 2009  
Latest revision: 2009

#### 28 KOREA

Style of CG: Unitary  
Strength: Comply or explain  
Introduced: 1999  
Latest revision: 2003

#### 29 JAPAN

Style of CG: Other  
Strength: Mandatory  
Introduced: 1997  
Latest revision: 2009

#### 30 PHILIPPINES

Style of CG: Unitary  
Strength: Mandatory  
Introduced: 1998  
Latest revision: 2009

#### 31 INDONESIA

Style of CG: Two-tiered  
Strength: Voluntary  
Introduced: 2000  
Latest revision: 2006

### OCEANIA

#### 32 AUSTRALIA

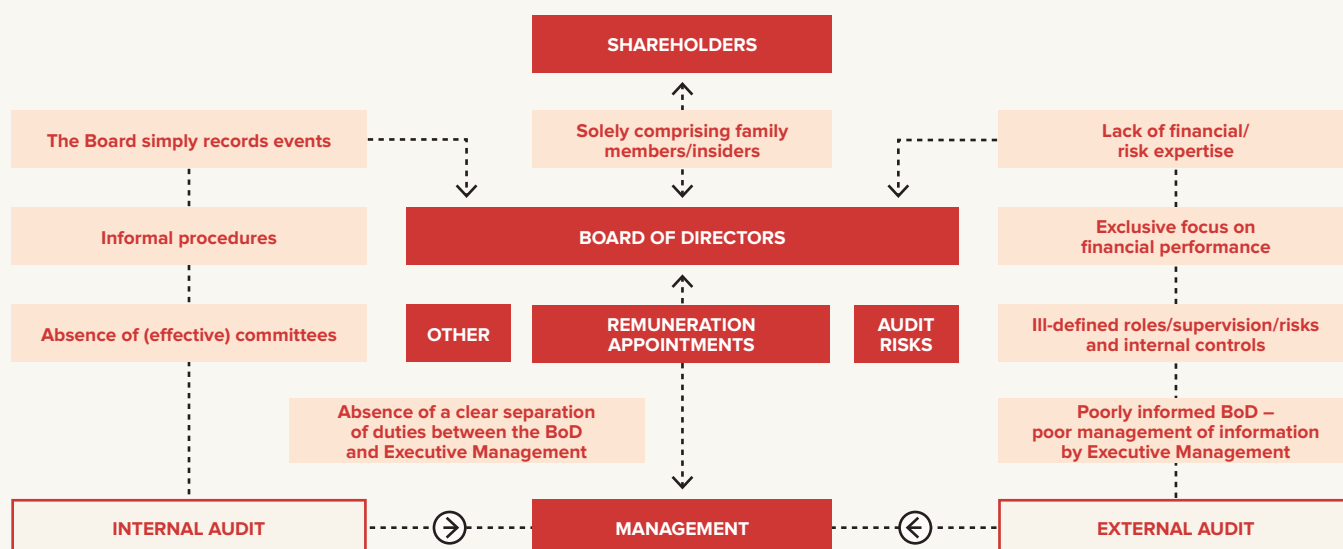
Style of CG: Unitary  
Strength: If not, why not  
Introduced: 2003  
Latest revision: 2014

**Unitary:** Company with a board of directors. Power shared between the Board of Directors and the Executive Board. **Two-tiered:** Company with a management board (executive function) and a supervisory board (control function). **Voluntary:** Companies are encouraged to follow the requirements but are not required to and do not need to explain if they choose not to. **Comply or explain:** Companies are required to state whether they adopt the recommended approach and if they do not comply, why they choose not to. Variations also include "apply and/or explain" or "if not, why not" instruments. **Mandatory:** Companies must comply with the requirements or face fines/penalties.

Source: Acca Global, KPMG, "Acca Global, KPMG, "Balancing rules and flexibility - a study of corporate governance requirements across 25 markets", 2014 ; "Balancing rules and flexibility for growth, - a study of corporate governance requirements across global markets phase 2 - Africa", 2017.

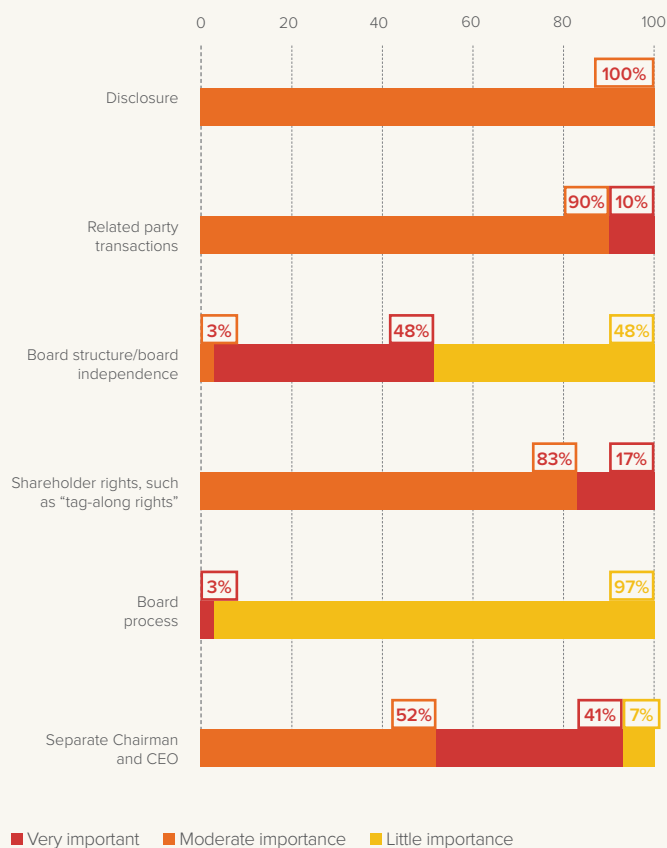
## KEY FIGURES

### Corporate governance: main difficulties in emerging countries ▼



Source: FMO, Proparco, 2018.

### What are the characteristics of good governance for investors in developing countries? ▼



Source: V. Khanna, R. Zyla, "Corporate Governance Matters to Investors in Emerging Market Companies", Société financière internationale (IFI), 2017, p.12.

### Corporate governance tools: the African example ▼

A number of "instruments" or "tools" are used to bring corporate governance into line with expected standards.



Source: Acca Global, KPMG, "Balancing rules and flexibility for growth, - a study of corporate governance requirements across global markets phase 2 – Africa", 2017.



# Taking over at the helm of a company: duties, challenges and solutions

 **Mossadeck Bally**, Founder, Chairman and CEO, Azalai Hotels Group

The issue of taking over at the helm of a company has long been – and is still today – a taboo in Africa. When the time comes to appoint a successor, it is often perceived as being the end of the world. But for Mossadeck Bally, Founder, Chairman and CEO of Azalai Hotels Group – an African hotel giant –, this issue can and must be addressed calmly, in particular through a good governance policy.

**E**very company inevitably comes into being through an idea, a vision which will subsequently be shared, communicated and finally realized through actions.

Cumbersome administrative and legal procedures used to entail high costs (formal and informal) in the business creation process and this was an initial and huge barrier for a number of budding African entrepreneurs. Nowadays, fortunately

and in the overwhelming majority of African countries, these formalities have been greatly simplified, making formal business creation easier and less expensive.

There are an increasing number of African entrepreneurs and they all move into sectors of the economy, with some success. However, one of the difficulties they often face, after having got through the difficult first years, is still the sustainability and transfer of their company. →

## FOCUS AZALAI HOTELS

Azalai Hotels Group is the leading hotel chain in West Africa and is strengthening its international position. With over 20 years of experience and a headquarters based in Mali, Azalai Hotels has developed a strategy focused on meeting the increasing needs of its clients. From Bamako to Abidjan, and including Ouagadougou, Bissau, Cotonou and Nouakchott, Azalai Hotels Group has a strong local base, providing over 3,000 direct and indirect jobs across the subregion.

“Cumbersome administrative and legal procedures used to entail high costs in the business creation process and this was an initial and huge barrier for a number of budding African entrepreneurs.”



## ADDRESSING THE ISSUE OF SUCCESSION WITHOUT COMPLACENCY

While legal instruments allow a company to be created with a renewable lifespan of 99 years, very few reach their tenth anniversary. A small proportion of them come into being, grow and disappear, while the majority of companies disappear even before growing. One of the main causes of this phenomenon is the confusion between the company and the people it is made up of, in particular the founder(s), the main driving force of the company's activities.

In most cases, when the company does address the need for a strong governance policy, it disappears with its founder, who has not established a clear policy to prepare his/her succession. Yet the nightmare for many entrepreneurs is to see their project, their work, their vision, which they have often devoted all their energy and best years to, disappear one day.

## SUCCESSION: A TABOO IN AFRICA

Any entrepreneur who wishes to have a viable company that survives them should establish a good governance policy in their organization and address the issue of their succession without complacency. The entrepreneur needs to constantly share their vision and ensure that their employees and partners take this vision on board.

some do not hesitate to warn anyone who dares touch on the question. It is therefore necessary to find ways for the idea to come from the entrepreneur without feeling that they are being rushed.

“While legal instruments allow a company to be created with a renewable lifespan of 99 years, very few reach their tenth anniversary.

A small proportion of them come into being, grow and disappear.”

While one of the skills of an entrepreneur is their ability to manage the difficulties encountered throughout the life of the company, the first is to be able to foresee and anticipate new issues which could hamper the company's activities or its sustainability. This notion is especially important in terms of succession, as it is sure that the founder will inevitably be forced to leave the company one day.

Who will take the place of the boss? Have they thought about their succession? Who could talk to them about it? All these questions remain taboo in Africa. The idea of a successor gives the feeling that it is the end of the world and

In certain African companies, following the death of the “founding father” and boss, it is not unusual to see the rights holders before the courts in drawn-out court cases over succession issues. Everyone believes they deserve the largest share and attach little importance to the continuity of the business, which will be wound up before too long. A step-by-step succession plan can attenuate this phenomenon.

## KNOWING HOW TO PASS ON THE BATON

Some entrepreneurs, for their part, manage to plan their succession, not with objective criteria, but rather on the basis of family ties. They do not make sure that the successor has the ability to manage the complex issues imposed by entrepreneurship. There are also cases where the rights holders maneuver to revoke the institutional successor and “place” their representative, who generally lacks know-how and vision, which thereby leads to the company being wound up. It is not forbidden, or even immoral, to be replaced by a member of your family in a private company. However, this must be done subject to the choice of this succession being strictly based on objective criteria: mainly competency.

Consequently, what can be done to prevent the disappearance of a company which is economically viable, but runs the risk of suffering the torment of a chaotic succession? There is no magic formula. Each entrepreneur is different, each company is a textbook case. But it is possible to make certain assumptions which would appear to have worked relatively well in other lands.

First of all, a successful succession needs to be prepared well in advance and can take several years depending on the size of the company. The subject should not in any way be taboo and should, on the contrary, be addressed as a strategic issue. This is to avoid prematurely starting a war of succession which, in turn, will have very harmful impacts on the company's activities (wait-and-see attitude, worried teams, worried creditors and suppliers, etc.). If the founder handles the process, they would do well to identify the person and put them in

a work situation quite early on, in order to test their managerial capacities and, especially, their leadership. As far as possible, it is also recommended not to inform either the person under consideration or the company's teams that this person is being considered to take up the torch. Consequently, in medium-sized and large companies, the task which involves testing and appointing a successor could be entrusted to a select strategic committee, composed of independent and experienced people, who will only report to the founder.

A family succession is perfectly feasible provided that the person chosen in the family has closely followed an impartial selection and testing process. In addition, for a company to survive its successor, it is absolutely necessary for the ownership of the assets (majority shareholder) to be separate from the management of the assets. In other words, it is possible to own the company without managing it, and when the person does manage it, it is because they have been selected on the basis of strictly professional criteria and competencies.

Finally, for a succession to run smoothly, the founder must open up their company to external expertise while they are still active (independent directors, independent Board committees, external audits and advice, etc.). By opening up, it is possible to correct the shortcomings of a paternalistic management and prepare managers to take on more responsibilities and pull their own weight. A team of well-trained managers, properly supervised by an independent and competent Board of Directors, considerably facilitates the transfer of a company.



The transfer of a company in Africa can, perhaps more than in any other geographical area, be a real headache. If the head of the company does not make prior arrangements, it is not unusual to see companies torn apart by a “simple”

matter of succession. Yet, as we have shown, establishing a good governance policy in the company is unquestionably a way of addressing this issue calmly, free from taboo and in a very efficient manner. ■



# Good governance practices: organizing business succession

📍 Jacques Jonathan Nyemb, lawyer, Cabinet Nyemb

Not planning your succession often means planning the failure of its transfer. Consequently, a successful transfer generally entails a successful planning of the succession. To achieve this, this planning also requires establishing various good practices, both in terms of the transfer of assets and the transfer of the management of the company, according to Jacques Jonathan Nyemb.

**T**he transfer of the company's assets may be likely to cause difficulties, hence the need to adopt good practices.

## GIVE PRIORITY TO THE PRINCIPLE OF EQUALITY

The transfer of assets for the benefit of one or several more qualified or male senior heirs to the detriment of the others is likely to create imbalances in the distribution of the succession, especially when the company is the main element of the predecessor's estate. When there are several heirs, it is recommended to take each heir into consideration. The principle of equality should therefore take precedence for the transfer of the company's assets, meaning the transfer in equal parts to all the descendants. To achieve this, the predecessor can proceed with the equal distribution of his estate through his will. This will is binding on all the heirs, who must respect its provisions.

### FOCUS NYEMB

Cabinet Nyemb was established in 1996 and is based in Douala (Cameroon). It is one of the main independent law firms in Sub-Saharan Africa. Cabinet Nyemb is composed of fifteen lawyers and jurists and has recognized expertise, both locally and internationally, in litigation and business law consultancy.

## CONCLUDE A SHAREHOLDERS' AGREEMENT

To ensure the company's survival following its transfer and anticipate the difficulties that are likely to arise between heirs, a shareholders' agreement can be concluded between the heirs, which governs the relations between the company's new shareholders. The agreement will contribute to ensuring a smooth transition of the assets, or to minimizing conflicts when an unexpected situation occurs. There are generally operational, financial and capital clauses in this type of agreement.

“To ensure the company's survival following its transfer and anticipate the difficulties [...] a shareholders' agreement can be concluded between the heirs.”



## PREPARE A SUCCESSION AGREEMENT

The predecessor can also decide to obtain the agreement of their descendants while they are alive on how to divide up their estate, in the form of a succession agreement. This approach is in particular recommended in the event of a preferential transfer of the company's assets by the predecessor to only one of their descendants, in order to avoid difficulties in relation to the violation of the reserved portion of the estate. Consequently, through this agreement, the predecessor's heirs can agree to the family business being taken over by one of the heirs and define the terms of this takeover (free of

charge or in exchange for compensation, for example). The signing of the succession agreement will thereby ensure the continuity of the company's activity.

“A family charter is an agreement established within the family, which consists of shared values and guidelines which are binding on its members. This instrument is even more necessary when some of the company's shareholders are not family members.”

## MANAGERIAL TRANSFER OF THE COMPANY

The transfer of the company's assets is not necessarily aligned with the transfer of managerial powers. Various practices therefore need to be implemented to ensure the latter.

### ADOPT A FAMILY CHARTER

A family charter is an agreement established within the family, which consists of shared values and guidelines which are binding on its members. This instrument is even more necessary when some of the company's shareholders are not family members. It also provides for the role of institutions which may intervene in the succession process (family meeting, family council, Board of Directors, etc.). The family charter thereby fosters a common understanding of the succession rules by all the company's stakeholders, in order to avoid any future friction that is likely to paralyze the director's succession process and jeopardize the sustainability of the company.

### PROVIDE FOR AN INTERNAL SUCCESSION PLAN

The various phases of the succession process must be structured in a formal succession plan, which ensures the continuity of the company's activity. The aim of this plan must be to ensure that the required management competencies and capacities are available to replace the outgoing director. The content of the succession plan depends on each company and the difficulties that are likely to arise during the succession planning process. Various principles generally govern the succession of the director (initiation, phasing, intervention of external consultants, inclusive acceptance process, transition process, etc.). ■





# Reforming governance in pursuit of growth: the case of Adenia and Opham

 **Tojo Rakotozafy**, Senior Investment Associate, Adenia Partners

Adenia Partners is closely involved in the day-to-day management of its investees. In particular, it has partnered Opham, a Malagasy pharmaceutical products distributor, and recast its corporate governance structure in pursuit of enhanced growth.

**A**denia Partners is a private equity fund manager that has invested 23 times over more than 15 years in African private companies working in different sectors. As well as investing in equity, the Fund also seeks to improve its investees' underlying fundamentals by sitting on – and sometimes reorganising – their management and governance bodies.

Adenia Partners pursues a business development plan to create value but it also focuses on “institutional” aspects by deploying robust management systems and governance structures. This is made easier by its strategy of acquiring majority stakes and it was as part of this approach that Adenia and its fellow shareholders acquired Madagascar's leading pharmaceutical products distributor Opham in 2016.

## NEED TO REBUILD GOVERNANCE

Before being acquired by Adenia, Opham was family-owned. Family members held key positions within the business and all strategic and operational decisions were made by four people. This family-based management helped the company to grow quickly thanks to a number of successful ventures, however the company had outgrown its existing governance processes and a new structure was needed to ensure long-term survival and drive a new cycle of growth.

Adenia recast Opham's governance processes, mainly by focusing on three key aspects. First, the composition of the new Board of Directors needed to be streamlined in order to devise a fresh corporate strategy. Next, a solid management team was needed to deploy this strategy. Finally, key stakeholders in the Malagasy pharmaceutical market needed to be brought into the company's decision-making process.

### FOCUS

#### ADENIA PARTNERS

Adenia Partners is a private equity fund manager specialised in investing in high-potential African businesses.

Since it was set up in 2002, it has invested in over 20 companies through four different funds. Adenia currently has USD 500 million worth of assets under management and six offices in Mauritius, Madagascar, Côte d'Ivoire, Ghana, Kenya and Cameroon.

## A NEW MODUS OPERANDI FOR THE BOARD OF DIRECTORS

Adenia and its co-shareholders entered into a shareholders' agreement covering the missions of the Board, its composition, the procedures for convening meetings, preparing the minutes, voting arrangements and the documents to be submitted to the General Shareholders Meeting. The functions of legal secretary were outsourced to external consultants to reduce compliance risk.

The shareholders entrusted the Board with devising and overseeing corporate strategy in the hope that it would work in an independent and flexible manner. An independent director – an expert in generic drug distribution – was appointed to the Board to provide input for an appropriate strategy. He helped Opham to select suppliers in what remains an underdeveloped

sector in Madagascar and his contribution has helped to boost Opham's growth in its market.

While the Board only meets three or four times a year, Adenia liaises between this decision-making body and operational management, in particular through daily contact with the Chief Executive Officer (CEO). Adenia also provides management support, especially at the company's monthly Executive Committee meetings. This helps to speed up decision-making as Board members are able to follow and understand what is going on in Opham without actually being involved day to day. The exchanges between Adenia and the CEO are facilitated by the Adenia team's familiarity with Opham: two Adenia consultants are actually former CEOs of the company.

## REBUILDING EXECUTIVE MANAGEMENT

When the shareholders' agreement was being prepared, the shareholders stressed their attachment to the principle of segregating the roles of CEO and director. The Board itself defined the duties and responsibilities of the Chief Executive Officer who is tasked with implementing strategy. The new CEO, Philippe Egraz, was recruited with this in mind and especially for his expertise in the African pharmaceutical distribution sector. He is renowned for developing businesses and was previously CEO of African subsidiaries of the Eurapharma Group, one of Africa's biggest pharmaceutical wholesalers. His experience together with his entrepreneurial mindset made him an ideal partner for Adenia. Philippe Egraz also agreed to become CEO because he was able to acquire a stake in the company's equity.

The CEO also overhauled executive management in order to make senior executives more accountable for strategy implementation. Setting up a genuinely accountable management team helps drive productivity while limiting dependence on the CEO's office. Senior executive management meets once a month in Executive Committee mode and Adenia participates in an advisory role. A Chief Financial Officer was appointed and an ERP system set up to enable monthly consolidated financial reporting. Senior managers have better access to information: they track the performance of their departments, share any problems encountered and are able to see the bigger operating picture. This means better cross-functional cooperation and more autonomous managers. The company becomes more flexible and durable: for example, operational teams will find it easier to adapt to a new CEO. →

### ➔ ISO 9001:2015



ISO 9001:2015 specifies requirements for a quality management system when an organization:

- a) needs to demonstrate its ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and
- b) aims to enhance customer satisfaction through the effective application of the system, including processes for enhancing the system and compliance with customer and applicable statutory and regulatory requirements.

All the requirements of ISO 9001:2015 are generic and are intended to be applicable to any organization, regardless of its type or size, or the products and services it provides.

Source : [www.iso.org](http://www.iso.org)



## CERTIFICATION AND WORKING IN PHASE WITH THE PHARMACEUTICAL MARKET

International best practices in pharmaceutical distribution and the demands of pharma labs gradually drove Opham to go beyond local Madagascar regulations. For example, in 2015 Opham was the first pharmaceutical distributor in the Indian Ocean to be certified ISO 9001. Opham is also regularly cited as a reference by the major international labs who perform on-site audits lasting several weeks.

“Opham was the first pharmaceutical distributor in the Indian Ocean to be certified ISO 9001.”

As well as certification, giving key market stakeholders seats on governance bodies is a good way of enhancing the value proposition, gaining credibility and consolidating market position.

Opham, the Malagasy government and pharma labs have common interests such as increasing the number of drugs available in Madagascar,

combating the sale of unauthorised drugs and promoting best practices for distributing medicines. Adenia has chosen the path of cooperation and incorporated these actors into Opham's governance structure, notably by redefining the duties and responsibilities of the company's Chief Pharmacist. S/he sits on the Executive Committee and is the point person between the public authorities, the labs and Opham's management and governance bodies.

Indeed, the company's Chief Pharmacist is responsible for reconciling the company's interests with those of public health in general. S/he liaises with the health authorities concerning the import, export, transport, distribution, storage, monitoring and recalling of drugs. Thanks to the links that the Chief Pharmacist has forged and their familiarity with national and public health imperatives, the company is able to select the new molecules to be launched on the Madagascar market and understand the quality requirements of – and cooperate with – the health authorities, for example in tackling the black market for medicines.

## A NEW PHASE

Adenia has exercised its responsibility as Opham's majority shareholder to the full by enhancing its governance processes. Capital and outside expertise are easier to attract and information circulates more easily, thus fostering initiatives among stakeholders and cooperation with key market actors. These processes help Opham

to sustain its market leadership position and participate in the economic development of Madagascar. The company's founders created a national leader with a family-owned governance structure; Adenia has enabled it to make the transition to a shareholder governance model tailored to a group of this size. ■



# INAD-CI, an association of company directors promoting good governance

 **Viviane Zunon Kipre, President, INAD-CI**

**T**he National Institute of Directors of Côte d'Ivoire (*Institut national des administrateurs de Côte d'Ivoire* – INAD-CI) was set up in April 2013 by a group of corporate executives and professional organisations to encourage and promote good governance in Ivorian companies and help company directors with their professional development.

INAD-CI's brief includes providing information and training to its members, acting as a forum for exchanging experiences and promoting good corporate governance practices, forging links with public authorities and all bodies concerned with the activities of corporate directors, and creating talent pools of independent directors

through a corporate director certification programme (CAS).

Members may avail of a number of platforms and training programmes – *INAD-CI Formation* (training) and *INAD-CI Performance Class* – to get up to speed with the duties and responsibilities of corporate officers, analysing financial data, handling communication techniques, devising and implementing corporate strategy, managing human resources and deploying a CSR policy. The Institute equips them with the basics needed to exercise the function of a director and helps members forge a solid skills foundation. It has already held around 100 training sessions since it was set up.

## FOCUS INAD-CI

The National Institute of Directors of Côte d'Ivoire (INAD-CI) was set up in 2013 in Abidjan and is the country's leading advocate for the professionalisation of the activity of company director. Its mission includes promoting good governance practices and helping company directors with their professional development and the association may be used by executives wishing to enhance their corporate governance expertise.

## PERSISTENT SHORTCOMINGS IN CORPORATE GOVERNANCE

For the INAD-CI, which is a member of the African Corporate Governance Network, (ACGN), the focus is on meeting the governance challenges faced by Côte d'Ivoire businesses. In spite of the publication of a Corporate Governance Code in 2010 by stakeholders in the sector under the auspices of the Budget Ministry *inter alia*, many Ivorian businesses continue to suffer from major deficiencies in terms of good governance. These

can mainly be traced back to their respective governance bodies, i.e., the Board of Directors and Executive Management.

Aside from ignorance of basic governance principles by certain key actors, the persistence of a permissive environment conducive to corruption also saps the vitality of businesses and – by extension – the entire national economic fabric.

## A TOOL AVAILABLE TO COMPANIES

INAD-CI wishes to establish itself as an essential part of improving corporate governance in Côte d'Ivoire. As a means to this end, six commissions have been set up to carry out the Institute's work: ethics and admission to trading; training and capacity-building; research and prospective studies; gender balance; international relations and strategic partnerships; legal affairs.

The Institute has also forged strategic partnerships with various specialised structures such as the Moroccan Institute of Directors (IMA), the Regional Stock Exchange (BRVM) and Société financière internationale (SFI). It is also a party to the tripartite agreement signed in 2017 with the Directorate General of Government Portfolio Investments (*Direction générale du Portefeuille de l'État*) and the Ivorian Association of Chartered Accountants (*Ordre des experts comptables de Côte d'Ivoire*). ■



# Promoting good corporate governance: the Peruvian experience

📍 **Carlos Rivero Zevallos**, Deputy Superintendent of Research and Development, SMV

“Good corporate governance guidelines for Peruvian companies” were published in July 2002 with the aim of strengthening and enhancing governance in the country’s businesses. Ten years later it appeared that these guidelines needed to be updated to reflect regulatory changes as well as experiences elsewhere and progress achieved in corporate governance.

## FOCUS SMV

*Superintendencia del Mercado de Valores (SMV) is a specialised agency attached to the Peruvian Finance Ministry tasked with protecting investors and ensuring the effectiveness and transparency of the markets under its supervision and price setting mechanisms.*

**S**uperintendencia del Mercado de Valores (“SMV”) is the Peruvian securities regulatory authority. Over the past few years, its brief has included launching a series of initiatives designed to bolster best corporate governance and sustainable development practices among companies involved in public offerings (through the issue of equity or debt). These developments reflect much stricter international standards made all the more important by the fact that the Peruvian securities market is currently involved in the regional economic integration process known as the Pacific Alliance.

It was against this backdrop that “Good corporate governance guidelines for Peruvian companies”

were published in 2002 under the auspices of what was then known as the National commission for the supervision of businesses and securities” (now known as SMV) and thanks to the combined efforts and accreditation of a range of public and private institutions. They were based on voluntary adoption principles and were intended to become a benchmark for the sector and to lay down the highest standards of rights and obligations for investor protection and market regulations. In the same vein, SMV subsequently sought to require companies whose shares are traded on a regulated stock market to be aware of their degree of compliance with these principles, notably through their annual reports and investor prospectuses (reflecting global trends in disclosures that should appear in these various different documents).

## A NEW CODE FOR MORE EFFECTIVE COMPLIANCE WITH SPECIFIC MARKET REQUIREMENTS

Ten years after publication of these Principles, it appeared necessary to recast them entirely to reflect subsequent regulatory changes and experience elsewhere as well as international progress achieved in corporate governance.

Consequently, in February 2012, at the behest of SMV, an “Updating Committee” was established bringing together 14 leading public and private institutions. The Committee finalised its work in November 2013 and published an

updated “Corporate Governance Code for Peruvian companies”. The main purpose of the new Code was to enhance investor perceptions of corporate governance, promote higher levels of transparency and investor protection, help develop businesses and add value to the economy.

The idea remains one of voluntary adoption and the Code is organised around five pillars and 31 underlying principles, reflecting the specific features of the Peruvian stock market and domestic businesses. There is a particular focus on Annual General Meetings of shareholders, the Board of Directors and Executive Management as well as risk management and inter-

nal control. It also contains two appendices of additional principles, one for public companies and the other for family-owned companies, in recognition of their importance to the country’s economic development.

The principles contained in the Code thus constitute a guide intended not only for companies trading on the stock market but for all companies doing business in the country. Once adopted, they highlight a capacity for self-determination and self-governance that is precisely the basis for the recognition and acceptance of these principles by all economic stakeholders.

## BETTER INVESTMENT OPPORTUNITIES

The new Code also recast the report that discloses the degree of compliance of a given issuer with the aforementioned principles and in June 2014, SMV ratified the “Report on compliance with the Corporate Governance Code for Peruvian companies”. It is organised around four separate sections that reflect the structure of the Code itself and the assessment comprises a series of questions and answers (i.e., either YES or NO). It is based on the internationally recognised “comply or explain” principle. Moreover, a series of additional questions and disclosures have been added to the evaluation in respect of each principle. These provide additional disclosures concerning the extent of a company’s compliance with the Code which facilitates decision-making among investors and stakeholders alike.

Further to the approach described above, in December 2015, SMV asked all issuers to publish an appendix covering the adoption of CSR principles in addition to their annual report. This allows investors to comprehensively assess the issuer’s risk management processes and identify long-term investment opportunities.

Among other good governance achievements, we should also list the creation by *Bolsa de Valores de Lima (BVL*, the Lima Stock Exchange) of a “Good corporate governance index”. This comprises a list of security issuers who apply best practices and also hold minimum amounts of liquidity. In the same vein, CAVALI ICLV (a central custodian) and SMV have cut their fees and commissions by 90% for operations on securities that belong to this index in recognition of the adoption of best governance practices by the issuers concerned.



While corporate governance has made great strides it still remains a key issue given the changes constantly taking place and its importance to SMV and the markets. This is a testimony to

its central role in developing and strengthening capital markets and promoting a culture of respect and equal treatment for both shareholders and investors alike. ■





# Corporate governance: the journey of a Kenyan bank

👉 **Gauri Gupta**, General Manager (corporate advisory), I&M Bank

I&M's corporate governance structures have evolved considerably, driven in particular by the regulatory framework and I&M's aspiration to professionalize and enhance its governance framework. As acquisitions progressed, I&M gradually became a major regional player, with the need for enhanced corporate governance. Today, endemic corruption, the approach of regulators and disparate conditions of competition are the main challenges faced by the Bank.

**S**imply put, corporate governance can be defined as “the processes, systems, practices, and procedures that govern organizations”. The widely

embraced definition of the Organisation for Economic Co-operation and Development (OECD) is “the system by which business corporations are directed and controlled.” (OECD, 2004).

## GOOD GOVERNANCE BEGINNINGS

### FOCUS I&M BANK

I&M Bank is a leading commercial bank headquartered in Kenya, with a growing regional presence currently extending to Mauritius, Tanzania and Rwanda. I&M Bank is wholly owned by I&M Holdings PLC which is listed on the Nairobi Stock Exchange. I&M Group prides itself on its strong values and key strengths of innovative service and strong customer relationships and through these pillars, aspires to be the banking powerhouse in East Africa for medium to large businesses and premium clients.

In tandem with developments in Kenya and globally, corporate governance structures at I&M have evolved significantly over the last two decades. Several factors have been instrumental along this journey; key amongst them being (i) the regulatory framework and (ii) I&M's growth, expansion and aspiration to enhance and improve its corporate governance.

I&M evolved from humble beginnings 44 years ago. Incorporated in 1974, by the current Chairman Mr. Suresh B. Raja Shah, to provide personalized financial services for Nairobi's business community, it then converted to a licensed financial institution in 1980. Before I&M became a Bank in April 1996, it had started its journey of institutionalizing the business and initiating sound corporate governance principles, with the appointment of independent directors on its board.

From around 40 employees and one branch in Kenya in 1996, the Group has grown to over 1800 employees and a network of 76 bank branches spread across four countries in 2018. Today it boasts total assets of USD 2.46 billion, shareholders' funds of USD 441 million and a loyal and growing base of over 350,000 customers.

“Before I&M became a Bank in April 1996, it had [...] initiated sound corporate governance principles.”



## THE TURNING POINT

During the period 1999-2000, the Central Bank of Kenya issued several prudential guidelines (including corporate governance) under the Banking Act, to transform the sector and to force licensed banks to implement and uphold high standards of corporate governance. This was as a result of five bank failures in Kenya in 1998.

The Prudential Guidelines issued in 2000 outlined the code of conduct for directors, managers as well as other employees and in addition specified the duties and responsibilities of directors, chief executives and management.

I&M's first acquisition, in December 2002, was a turning point in its corporate governance journey. Having taken over the banking business of the

“The next significant milestone in I&M's journey of enhancing corporate governance was the coming on board of Proparco, first as a senior debt lender in 2004 and soon thereafter as a shareholder, following an equity injection in 2007.”

erstwhile Biashara Bank of Kenya in exchange for shares in the Bank, I&M changed overnight from being a closely held entity to one with approximately 1,180 shareholders. In addition, the changes brought about by the newly issued guidelines meant putting in place the necessary systems and structures.

## HONOURING PIONEER STAKEHOLDERS

The next significant milestone in I&M's journey of enhancing corporate governance was the coming on board of Proparco, first as a senior debt lender in 2004 and soon thereafter as a shareholder, following an equity injection (jointly with DEG) in 2007. The five-year period 2003-2007 saw I&M Bank continuing to step up its corporate governance standards.

It did so by setting up its first board committees. It also formalized a five-year strategy with clearly defined strategic (medium term) and corporate (annual) objectives and KPIs. Among others, it strengthened management oversight and control; set up independent risk management and compliance functions, and a Strategic Planning Department; and initiated a process of board evaluation.

## STAKEHOLDERS JOIN, MARKETS OPEN

As part of its five-year strategy, put in place in 2007, and during the period 2008-2012, I&M established itself as a regional player, establishing its presence in Mauritius, Tanzania and Rwanda.

This entailed increasing its capital base by opening up its capital to high net worth individuals. This was accompanied by further strengthening its corporate governance practises. →



These included increasing the number of board committees; formalizing the Group's corporate social responsibility structures and deepening its relationship with stakeholders, aimed at making a sustainable difference in the community; reviewing and strengthening its AML (Anti Money Laundering) policy and procedures; implementing a social and environmental risk management system; tightening and solidifying the Treasury and Asset Liability Management

framework; redesigning its organizational structure, and consequently reviewing and revamping critical policies and procedures, to beef up enterprise risk management – especially market risk and operational risk; forming the Group Management Centre, with a CEO's office, with the responsibility of exercising strategic management and control and overseeing operations in the subsidiary banking entities; and launching an employee share-ownership scheme.

### CONSOLIDATING, GOING PUBLIC AND FORMALIZING

The Group's listing on the Nairobi Securities Exchange, in June 2013, through a reverse takeover of City Trust Limited, and the simultaneous creation of I&M Holdings plc, a non-operating holding company, licensed and regulated by the Central Bank of Kenya, entailed the next step in bolstering its corporate governance framework.

Over the five-year period from 2013-2017, I&M set up a group reporting structure, with each subsidiary reporting to the holding company. An independent chairman and additional independent directors at the holding company level gave further credence to its governance processes.

Other noteworthy initiatives were improvements in financial reporting standards and enhanced public disclosures through the Bank's website, annual reports, investor briefings and I&M Foundation presentations. More importantly, I&M upgraded its strategic management process in conjunction with a transformation strategy. This was aimed at digitizing its business model to create sustainable value for stakeholders.

In 2017 the Group contracted a recognized independent firm to undertake an annual governance audit.

“Other noteworthy initiatives were improvements in financial reporting standards and enhanced public disclosures through the Bank's website, annual reports, investor briefings and I&M Foundation presentations.”



## RECOGNITION RECEIVED

In 2016, I&M was named the Best Bank in East Africa for Corporate Governance at the third Banker Africa awards. The award, recognizing the Bank as a benchmark for high ethical standards, transparency and accountability across all levels of operation, was a significant achievement, set against the backdrop of three bank failures during that period.

As I&M steps forward with vigour and confidence, it looks back with humility and pride, noting its beginnings and achievements over the last two decades. Yet it would be remiss

not to spotlight the support received from independent directors, DFI partners, correspondent banks, professional service providers, consultants, regulators and peer banks, locally and internationally.

“Yet some [obstacles] do remain. Endemic corruption, a “one size fits all” approach by regulators, [...] and an uneven playing field.”

## FORMED OF FIRE

Recollecting significant milestones, we realize that this has not been an easy journey, but as a wise man once said, “If you find a path with no obstacles, it probably doesn’t lead anywhere”.

Our story is a testimony to overcoming obstacles; yet some do remain. Endemic corruption, a “one size fits all” approach by regulators, coupled with a “box-ticking” attitude, and an uneven playing field are some of the key challenges faced by I&M. In Kenya, listed companies are undeniably disadvantaged compared with many other corporate entities and organizations who are not required to follow similar or even any of

the basic corporate governance principles. The result is a disparate situation, with too much information, unwarranted media attention – bordering on sensationalism – and over-analysis of the handful of listed entities.

Another challenge is the relatively small pool of independent directors and an even smaller pool of those who are well versed in specialised fields such as enterprise risk management and other emerging areas including enterprise business technology governance, blockchain, distributed ledger systems and robotics process automation.

## GOOD GOVERNMENT BENEFITS BROADLY

We hope that the planned introduction of a code of corporate governance for private companies will remove this disparity. Only when private companies adopt corporate governance standards will there be a wider understanding and

appreciation of the many benefits of doing so. The chief benefit will be sustainable high-value entities that are able to withstand the tests of time and cyclical economic fluctuations. ■



# Good governance: a framework for sustainable performance

 **Riyaadh Hanslo**, Regulatory Specialist, Jumo

The establishment of good governance is fundamental to the success of any company. The emerging markets start-up Jumo operates in Africa and Asia and has adopted a holistic approach to corporate governance: maximizing financial returns for shareholders and stakeholders while considering the objectives of the company as a whole. As a market leader, Jumo aims to influence and create regulatory frameworks that work with regulators and stakeholders.

## FOCUS JUMO

Jumo is a South African technology company that provides a platform for individuals in emerging markets, who are largely excluded from traditional financial services, to access mobile savings and credit in real-time – often for the first time. Jumo has developed a credit scoring algorithm which allows the client's ability to repay a loan to be estimated based on data related to the use of their mobile phone, electronic wallet and other behavioural data.

**W**here corporate governance is a priority, access to capital, exceptional employees, well-aligned partners and meeting investor expectations follow. Hence, it is fundamental to the success of companies.

## INTRODUCING JUMO

For a financial technology company like Jumo, operating in seven emerging economies on two continents comes with a variety of challenges, such as a lack of regulation (especially regarding consumer protection) and evolving regulatory landscapes. Jumo has built a technology platform that connects customers (mainly MSMEs) to progressive financial products; it is active in Ghana, Kenya, Tanzania, Uganda, Zambia, Rwanda and Pakistan. The company relies on exceptional partnerships to achieve its strong performance. Partners include investors, mobile network operators, financial service providers, regulators and customers. All have various concerns necessitating confidence in Jumo's operations. Given the nature of its business, good corporate governance is essential for legal compliance and customer protection.

It entails responsibility, transparency and meeting the needs of all stakeholders using appropriate frameworks. Gains due to good corporate governance are in the areas of risk management, efficiency, public image, access to credit and investor trust.

The company strives to meet modern businesses requirements. These include maximising financial returns for shareholders and stakeholders (such as customers, suppliers, employees and the community), while considering society at large, for example, protecting the environment, supporting global development goals, enhancing government objectives and being a good corporate citizen.

Jumo and its employees also strive to take collective ownership for these corporate responsibilities. The tools and practices used for good corporate governance include a well-informed board of directors, external certification, employee awareness campaigns, effective risk and governance committees, a stringent approach to self-regulation and customer-centric decision-making.

## FROM THEORY TO PRACTICE

Jumo has a wide range of non-executive and executive directors on its board and sub-committees. Frequent meetings of the board allow for honest communication on positioning the business, setting clear expectations and establishing high levels of reciprocal trust for fast strategic execution. In addition to a number of ethics committees, Jumo has a diverse base of ethical investors, who ensure that the right organisational structures are in place.

Also, Jumo participates in the Smart Campaign Fintech Protects Community of Practice. This is a virtual community aimed at ensuring that digital financial services offer the greatest value to consumers and maintain adequate customer protection. Joining this community and opting in for the assessment pilot missions that will form the basis of the new set of Fintech Standards compels Jumo to maintain high levels of corporate governance – regardless of mandatory regulation. Doing this is recommended for start-ups in developing markets. While it encourages investment, it also builds consumer confidence.

## EXPERT COLLABORATION

A number of internal committees provide oversight and address major risks. They cover IT, data, credit, and enterprise, social and ethics issues, and comprise experts responsible for aligning and implementing corporate governance principles.

Corporate governance is not the responsibility only of management. Jumo maintains a culture of good corporate governance throughout the company. Internal initiatives are in place to affirm and strengthen this.

Its Customer Operating Principles (called COPs internally) are the foundation of Jumo's customer value proposition. Jumo's Customer Intelligence unit has defined its COPs – loosely modelled on the Smart Campaign's client protection principles – with the intention of promoting access to financial services and meeting financial inclusion objectives, creating a sustainable digital ecosystem, providing choices and empowering customers, creating financial value for all stakeholders, and enabling the fair and transparent exchange of value for digital data. COP awareness campaigns take place regularly across the organisation. This promotes and embeds customer protection and upholds the interests of stakeholders.

Their mandate, among others, is to rate current risks, consider their implications, and implement initiatives for improvement. The committees meet regularly, making decisions that help provide timely, effective responses to risks.

## OPENING THE WAY

At Jumo we have taken a holistic approach to corporate governance, to make sure we are future fit. Instead of compartmentalising and only complying with regulatory requirements in each of our territories, we strive to meet and maintain the highest levels of corporate governance in structures and procedures, across all territories. This not only ensures compliance in the most strictly regulated regions, but also addresses important regulatory issues in regions where adequate regulation has not even been considered. As market leaders, Jumo sets a precedent – a serious responsibility necessitating a pioneering approach. We aim to work hand-in-hand with regulators and stakeholders to influence and create regulatory frameworks.

The scale at which Jumo aims to enable financial inclusion demands high levels of consumer protection and corporate governance. Companies, like Jumo, that make social responsibility an integral part of their business model need to have strong governance structures in place. Whether those operating in developing countries are self-regulated start-ups or publicly listed companies, embracing corporate governance will ensure that ever-changing regulatory landscapes remain easy to adapt to and that stakeholder needs are addressed, irrespective of legal requirements. ■



By Thomas Husson and Romain De Oliveira, *Head of Proparco's Douala office and assistant editor of Private Sector & Development review, respectively*

Dedicating an entire issue of *Private Sector & Development* review to corporate governance may appear a surprising, or at the very least, not all that obvious a choice. Indeed, good corporate governance principles as defined by the Organization for Economic Cooperation and Development (OECD)<sup>1</sup> may appear to be more in keeping with the concerns of major listed corporations in developed countries than with smaller-scale family-owned businesses in emerging countries. This issue provides convincing evidence that this first impression is an erroneous one and that the topic should be of interest to all businesses, regardless of their stage of development, sector or development context/geography.

Corporate governance provides a lever for controlling business risk and development. As the researcher Georg Wernicke demonstrates (*pages 10-13*), there is a direct link between governance and economic efficiency. Whereas an effective governance system will positively impact the value of the business that sets it up, a deficient system will tend to hurt the economic well-being of a company. It is also interesting to note that practices need to be tailored to the business' context in order to add more value. The CIEL Group (*pages 14-17*) brilliantly illustrates the value that can be added through proactive adoption of good corporate governance principles. By developing a structure based around three principles (decentralisation, pragmatism and constant improvement), CIEL has developed a tailored governance framework that takes account of all stakeholders and incorporates environmental and social imperatives.

Indeed, good governance principles are universal and can be applied to any business. As Jean-Claude Chesnais explains (*pages 18-21*), development finance institution (DFIs) need to take account of the size of a business and its corporate culture in order to assess its governance. But "the difference is only in terms of degree, not in terms of substance for the structures to be promoted". This issue provides concrete examples of businesses in emerging countries that have adopted these principles and been able to use them to resolve tricky, strategic-type problems. For example, the Azalaï hotel group (*pages 25-27*) explains how they used good governance principles to handle the succession process in a perfectly smooth manner and safeguard the company's long-term future. This is a tricky question for family-owned businesses and it is developed in more detail by the lawyer Jacques Jonathan Nyemb (*pages 28-29*). For its part, Kenya-based I&M Bank has gradually adapted its governance structures to support its growth and help drive its international development (*pages 36-39*).

A range of stakeholders are promoting good corporate governance practices in emerging countries. Associations of company directors such as INAD-CI (*page 33*) are especially important for promoting best practices through training company directors or drafting corporate governance codes tailored to the local business environment. Private equity funds like Adenia are vital for improving governance in the companies in which they invest. This can mean overhauling governance bodies, appointing independent directors and enhancing reporting and control processes to boost growth (*pages 30-32*). The role

<sup>1</sup> "Corporate governance refers to the relations between the management of a company and its Board of Directors, shareholders and other stakeholders. Corporate governance also provides a framework for setting out a company's objectives and the means for achieving these and for tracking its performance", *OECD Principles of Corporate Governance*, OECD, 2004, p.11.

of stock markets and their regulatory bodies (*pages 34-35*) is also of key strategic importance by enhancing the links between transparency, good governance and access to capital markets.

Devoting a whole issue to this topic is also a way of highlighting the role that DFIs – including Proparco – can play in helping their clients to

deploy these best practices. Indeed, this was the aim of a common charter, the Corporate Governance Development Framework set up in 2011 (*pages 18-21*). The purpose of this platform is to exchange information and develop evaluation tools and common pro-corporate governance policies. ■

## PS&D

Since 2009, Proparco has coordinated the *Private Sector & Development* (PS&D) initiative, examining the role of the private sector in southern countries.

Issued as a quarterly themed magazine and specialist blog, the PS&D initiative presents the ideas and experiences of researchers and actors in the private sector who are bringing true added value to the development of the countries.

### The last five issues of the review

#### Special issue

The hotel and tourism industries in Africa: a booming market

#### Issue29

Financing start-ups to build tomorrow's african economies

#### Issue28

Improving the quality and accessibility of African medicine

#### Special issue

Private sector and digital innovation: catalysts for development

#### Issue 27

Vulnerabilities and crises: what role for companies?

### Recent blog articles

#### **Regulating African pharmaceutical markets in order to structure and develop the local economy more effectively**

- Alexandre de La Volpilière, *pharmacist and public health inspector*

#### **Agri-businesses must act in a sustainable manner to develop African agriculture -**

Anne Pacquet, Vice-Chairman of the Scientific Committee, *FARM Foundation*

#### **Access to quality seeds: the example of local seed ventures in Malawi -** Jérôme Bossuet, *agronomist*

#### **In Rwanda, “hospitals can now use RapidSMS data to get ready for new arrivals!” -** Samir Abdelkrim, *entrepreneur and consultant*

#### **What role for the private sector in developing a digital Africa? -** Jean-Michel Huet, *partner, Bearing Point*

### Video

Report: Andela, developers from the Silicon savannah

[BLOG.PRIVATE-SECTOR-AND-DEVELOPMENT.COM](http://BLOG.PRIVATE-SECTOR-AND-DEVELOPMENT.COM)

# Private Sector & Development

*Private Sector & Development* (PS&D) is a quarterly publication that provides analyses of the mechanisms through which the private sector can support the development of southern countries. Each issue compares the views of experts in different fields, from academia to the private sector, development institutions and civil society. An extension of the magazine, the PS&D blog offers a wider forum for discussion on private sector and development issues.

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