

Corporate Governance SOE Progression Matrix - World Bank Group (International Finance Corporation)



Objective and features

1. Objective

The Corporate Governance State-Owned Enterprise (CG SOE) Progression Matrix aims to assess and improve the corporate governance of a company - including the governance attributes of key environmental and social policies and procedures - to identify, reduce, and manage risks.

2. Institutional coverage

Public corporations.

3. Technical coverage

SOEs are assessed based on the following six parameters:

1. Commitment to environmental, social, and governance (leadership and culture)
2. Structure and functioning of the Board of Directors
3. Control environment (internal control system, internal audit function, risk governance, and compliance)
4. Disclosure and transparency
5. Shareholders' rights
6. Governance of stakeholder engagement (which includes civil society and communities affected by a company's operations).

4. Application method

Custodian.

Methodology

5. Methodology

The CG SOE Progression Matrix is organized in four levels of company practices (listed below). It emphasizes the importance of ongoing improvements in a company's governance practices - graduating from basic to intermediate and to advanced level (good international practice and leadership). Since 2018, the methodology has covered environmental and social (E&S) issues.

- Level 1: Basic corporate governance practices that the company should develop and adopt; an E&S governance agenda is being developed.
- Level 2: Intermediate corporate governance practices, including basic steps to strengthen E&S governance within the organization, which reflects a culture of continuous improvement.
- Level 3: Good international practices, including intermediate and other good corporate governance practices, which indicate that the organization has a track record of established corporate governance and E&S governance practices.
- Level 4: Corporate governance leadership and international best practices, indicating that the organization has achieved the preceding three levels of corporate governance maturity and conforms to the recognized international practices.

6. Benchmarking system

A rating is assigned in terms of low-, medium-, and high-risk categories. Currently, each of the parameters of the methodology has its own risk rating which will be used for a compound risk rating for the SOE.

7. Linkage to PEFA framework

Information gathered for PEFA's public asset management (PI-12) and revenue administration (PI-19), where public corporations operate as holding companies or regulators, can be corroborated to some extent with the findings from the Progression Matrix.

8. Complementarity with PEFA framework

Fiscal risk reporting (PI-10) measures fiscal risk from public corporations and can complement the findings of the Progression Matrix.



Development and use

9. Development and coordination

The Progression Matrix was designed based on good practices recognized by the IFC and internationally accepted benchmarks of good practice, including the OECD Principles for SOE Governance. The tool development process was internal and included consultation with WB. The WB and IFC standards of good corporate governance are aligned, and corporate governance initiatives are led by a collaborative approach.

The tool was revised in 2018 to expand the application of sustainability standards across the entire financial system of emerging markets. IFC has updated and expanded its corporate governance methodology, to include E&S governance issues. Some of the revisions incorporated were governance of stakeholder engagement, treatment of E&S risk (in the Control Environment section), and oversight of E&S risk management in board operations. The IFC's policy for investing in SOE was amended in 2015 and in 2017, and these changes were reflected in the revision of the Progression Matrix. The methodology was revised to integrate environmental and social factors into corporate governance practices. IFC is currently working on an advanced E&S risk assessment methodology.

Advisory programs are usually supported by donors such as SECO.

In case of co-investment with other international financial institutions where conditions for investment are mutually agreed, the assessment and recommendations are discussed, and a joint action plan is developed. In case of co-investment, joint due diligence is undertaken to avoid duplication of assessment where one organization leads the process. Where the WB conducted an assessment of corporate governance on an SOE, the IFC team would use the WB's report as a starting point and consider the need for additional diligence on a case-by-case basis.

10. Assessment management

The assessment is conducted in the following steps:

1. A mandate is signed with the SOE depending on the nature of IFC service/engagement (e.g., advisory, investment).
2. A questionnaire is shared with the SOE, and IFC requests for the relevant datasets and documents to undertake a preliminary desk review.
3. This is followed by interviews with board members, members from the management handling key functions (CEO, CFO, CRO, etc.), officers in charge of risk management and compliance, officers in charge of E&S risk oversight and internal audit, and corporate secretary, among others.
4. IFC also holds discussions with minority shareholders to understand the protection available to them, as well as with relevant officials from the government represented in the SOE board and external auditors.
5. The report is drafted to highlight positive practices and areas of improvement and includes a set of recommendations.
6. In the case of a risk assessment for an investment decision, the recommendations would ideally include a set of conditions to be met by the SOE to proceed with the engagement.

The above steps are similar for advisory and investment projects. For advisory projects, IFC works with the SOE to prioritize the recommendations, and in most cases, support their implementation. Company-level advisory services are provided at a fee to the SOEs. For investment projects, the report is presented to the IFC management in the decision meeting and a consensus is reached on the conditions to be met to proceed with the investment. This is followed by a negotiation with the SOE on the structure of the conditions and timelines of their implementation which will be monitored by the IFC team.

Each report is peer reviewed by an internal senior team member. Experts in specific categories are identified to undertake reviews in the relevant domain. When an assessment is undertaken in collaboration with WB, the report is also peer reviewed by the organization who was not involved in the report drafting.

11. Uses by the government and members of the PFM community

The assessment findings are used to provide advisory services to the SOEs or assess the risk associated with investment, based on the identified gaps, upon request of the SOEs and in line with the IFC's Country Development Strategy.

In other cases, the assessment is employed as a due diligence measure to assess new investments, monitor portfolio, and evaluate governance risks that could lead to a set of recommendations and covenants that would become mandatory for investment.

IFC supports SOEs attain corporate governance practices acceptable in the private sector prior to privatization.

12. Sequencing with other tools

The Progression Matrix can complement the findings of WB's Integrated SOE Framework (D11).

13. PFM capacity building

IFC provides tailored advice and assists with implementation of recommendations. The support includes capacity-building initiatives. In some cases, the IFC advisory programs are integrated with WB programs, where WB manages the program at the framework level and IFC manages the program at the company level.

14. Tracking of changes and frequency of assessments

Progress can be tracked because the governance practices are evaluated and benchmarked with the Progression Matrix, which is designed to reflect a progressive shift from "basic practices" to "leadership." Implementation of covenants linked to investments is regularly monitored as part of the overall portfolio monitoring process.

There is no predetermined frequency of assessment. The need for an assessment can be established by IFC in line with the investment strategy or when an advisory program is requested by an SOE.

15. Resource requirements

Cost for the assessment varies depending on various factors such as scope and comprehensiveness of work, subsidy from WB or IFC depending on the countries where the SOEs are located, contributions from other donors in delivering the engagement, or cost borne by the SOEs.

The assessment process can be completed in up to two months. Duration is influenced by factors such as the shareholding structure, size of the board, size and complexity of the SOE, and scope of activity.

The time taken by the SOE to prepare relevant documents for desk review, arrange interviews, and finalize the report (alongside internal approval process) can impact the assessment duration at times.



Transparency

16. Access to methodology

The *Progression Matrix*, the documents consulted during desk review and general information request, and IFC's corporate governance tools are [available](#).

17. Access to assessment results

The reports are not published.