

Corporate Governance in East Asia and the Pacific

NEWSLETTER NO. 1 - DECEMBER 2012



Assisting

Companies and banks in implementing good corporate governance practices

Improving

Effective corporate governance regulatory frameworks

Strengthening

Training capacities of educational institutions

Raising

Public awareness of corporate governance issues



**International
Finance Corporation**
World Bank Group

Dear Reader,



Welcome to the inaugural issue of IFC's semi-annually East Asia and Pacific Corporate Governance Project Newsletter.

In the following pages, we look to spotlight ongoing efforts to create more open, accountable, and transparent business sectors across the region. By drawing attention to specific structural and cultural issues currently facing corporations, entrepreneurs, shareholders and related government agencies, we hope to contribute to greater knowledge-sharing activities amongst our friends and partners in both the public and private sectors, so that we may further expedite the adoption of good corporate governance standards and practices in these dynamic, developing economies.

In this issue we focus on the progress of corporate governance relating to IFC's projects in China, Mongolia, Indonesia, and Vietnam. We are pleased to highlight viewpoints and contributions from the many important project stakeholders who share the belief that sound governance contributes to sustainable economic development and growth. In this issue, interviews with Indonesia's Chairman of the National Committee on Governance, Mr. Mas Achmad Daniri, and with Anne Molyneux, lead consultant for IFC's Vietnam Corporate Governance Scorecard Project, give valuable professional insight to how CG is perceived in the different sectors and what needs to be done in the near future to secure CG a place in the business cultures throughout the region.

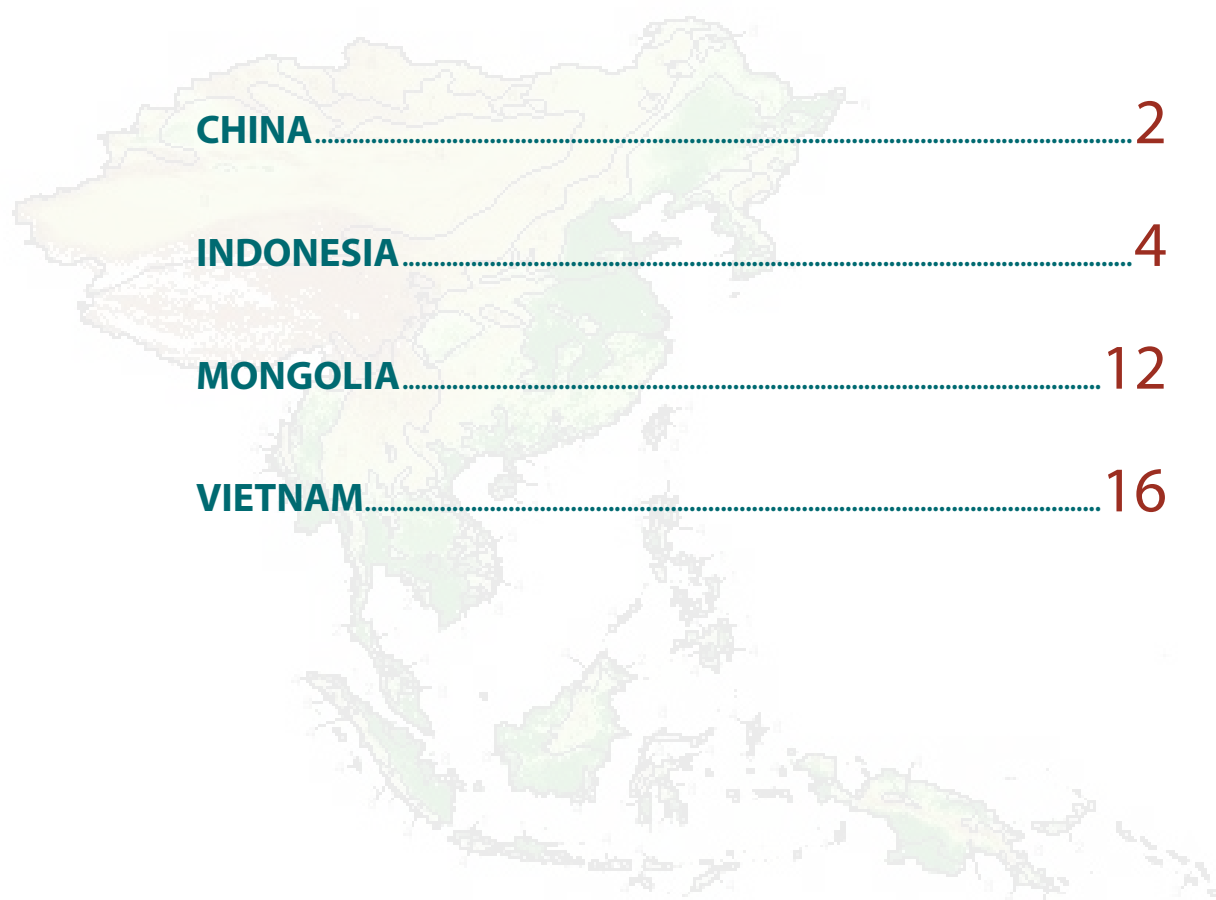
As an international finance institution, we know from firsthand experience how vital good corporate governance can be to the shareholder, the company, and the national economy. Our experiences in similar projects in Central Asia, the Middle East, Africa, and Central, Eastern, and Southeast Europe now serve to complement our understanding of the region's unique context. We hope you will enjoy learning more about our activities through this Newsletter and that you will take it as an opportunity and invitation to participate in our future Newsletters, events, and products.

Sincerely,

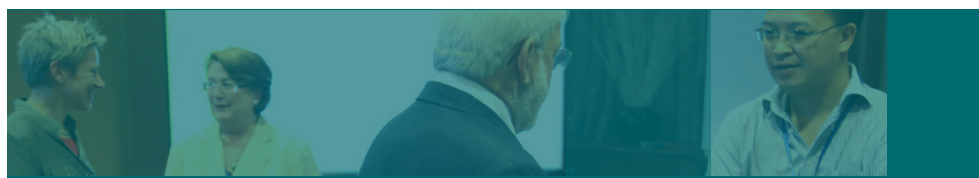
Ian Crosby

Regional Business Line Manager for Sustainable Business Advisory
IFC East Asia and Pacific

Table of Contents



CHINA	2
INDONESIA	4
MONGOLIA	12
VIETNAM	16



About IFC

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

This Newsletter may contain advice, opinions, and statements of various information providers and content providers. IFC does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by any information provider or content provider, or any user of this Newsletter or other person or entity.

Improving Corporate Board Performance in China

Recent corporate scandals around the world, including in China, have shown that corporate boards have struggled to contain fraud, excessive risk-taking, and mismanagement. Repercussions have led to business collapse and in some cases, an industry-wide blowback.

With China's twin stock exchanges – Shanghai and Shenzhen – among the fastest-growing in the world, regulators have focused on improving corporate board performance of Chinese listed companies to prevent problems and maintain investor confidence. A good board with independent directors who are able to challenge management's assumptions and safeguard shareholder values is important to a company's success and viability.

To help Chinese listed companies establish an effective board and implement good corporate governance practices, IFC and the Shenzhen Stock Exchange developed the Chinese edition of a manual for board members. The 75-page book provides an overview of legislative and regulatory requirements and international best practices. Some 6,000 board members and their businesses are expected to benefit from the publication.

"The manual is very suitable for board members of listed companies in China. We recently distributed it to our training participants," says He Jie, Director of the Training Center of the Shenzhen Stock Exchange. The exchange recently held a three-day training in Haikou on the southern island of Hainan for more than 300 independent directors and independent-director candidates of listed companies.

At the event, Juan Carlos Fernandez Zara, Senior Operations Officer of IFC Advisory Services' Corporate Governance Program in East Asia and Pacific, recommended that Chinese boards widen their oversight by monitoring strategy and corporate performance, ensuring effective risk management, developing strong management, and maintaining corporate and board values.

China has made significant progress in corporate governance during the last decade and many Chinese companies have recruited independent directors for their boards, but a number of issues remain. For example, board subcommittees focusing on risk, audit, and other matters have been established but, in many cases, have not played their part because of a compliance-oriented business culture. In some cases, independent directors' views are not valued, and benefits of an effective board, especially in the areas of strategic oversight and control, remain unrecognized.

The training is part of the IFC China Corporate Governance Project's collaboration with the Shenzhen Stock Exchange, now on its fourth year. As of May 2012, the Shenzhen Stock Exchange had 1,472 listed companies, with a total market capitalization of about 7.5 trillion Chinese yuan, or roughly \$1.2 trillion.



Chinese MBA Schools to Offer Corporate Governance Courses

IFC is partnering with universities in China to offer corporate governance training courses to MBA students, as more Chinese business executives are seeking to improve transparency at their companies in preparation for public listings in China and abroad.

Chinese corporate leaders expect to learn about corporate governance issues, in particular Chinese stock exchange regulations and listing requirements, as they look to raise funds through initial public offerings to grow their companies.

In China, the two stock exchanges in Shanghai and Shenzhen only offer formal corporate governance training to directors of listed companies. Out of more than 200 MBA schools in China, only a quarter offer courses on corporate governance.

To help meet the growing demand for such classes, IFC developed a corporate governance curriculum and provided training to 57 Chinese MBA schools last year. So far, 19 of these schools have been offering the course and trained more than 6,000 business executives. Zhongnan University and Beijing Forestry University are among the latest universities that have signed commitment letters expressing their interest in teaching the program.

In addition, IFC, together with Nankai University and Dongbei University of Finance and Economic, held a workshop in Dalian in August for 50 directors and professors from Chinese MBA schools. At the workshop, Tong Daochi, director-general of the Department of International Affairs at the China Securities Regulatory Commission, and Qin Yongfa, deputy director-general of the Bureau of Enterprise Restructuring at State-owned Assets Supervision and Administration, shared insights on topics such as the role of board directors in state-owned enterprises, best practice for listed companies, and executive-training techniques.



In December, IFC will host a train-the-trainer session for professors from Zhongnan University and other MBA schools as well as training-center instructors to coach them how to teach the IFC program effectively.

INDONESIA LAUNCHES CORPORATE GOVERNANCE PROGRAM



Corporate Governance has been a main concern in Indonesia since the 1997-1998 Asian financial crisis. From that moment there has been a steady yet slow progress in both the regulatory environment and the implementation of Corporate Governance best practices in Indonesia. Therefore, critics argue that corporate governance has plenty of room for improvement.

Following this purpose, more than 130 representatives from Indonesian public agencies and private enterprises gathered for the launch of IFC Indonesia Corporate Governance Program, held at the Financial Club in Jakarta on June 18th.

“Indonesia plays an increasingly important role in the global economy. Against this backdrop, Indonesian companies have to compete against enterprises from other emerging economies not only for market share but also for capital,” said Sarvesh Suri, IFC Country Manager for Indonesia. “Good corporate governance becomes essential in increasing investor confidence in Indonesian companies and in the general business environment, and supports sustainable economic development.”

Good corporate governance practices include protecting shareholder rights, sound risk management, and enhanced financial disclosure and transparency. “IFC’s firsthand experience shows that good corporate governance leads to better business results and fosters a favorable business climate,” said Juan Carlos Fernandez, IFC Senior Operations Officer for Corporate Governance in East Asia and Pacific. “With our global and regional experience and expertise, we can support Indonesian companies in integrating good corporate governance practices into their operations, benefiting their shareholders.”

“Indonesia has been lagging behind the region pacesetters even though it is willing to bridge the gap. Its main strength in terms of Corporate Governance resides today in the political will to improve the country’s situation and adopt international standards of best practices, while major drawbacks are still observed especially, from the enforcement perspective” said Moez Miaoui, IFC Operations Officer for Corporate Governance in Indonesia.

A recent study carried out by the Indonesian Institute of Corporate Directorship showed that Corporate Governance remains as a challenge to be tackled by listed companies in the country, especially those outside the banking sector. Hence, the new, five-year Indonesian Corporate Governance program aims to provide advice to companies, institutional investors, and banks, work with government organizations to improve the regulatory framework, and protect shareholders’ rights by defining roles and responsibilities of corporate board of directors.

“Implementation of good Corporate Governance beyond mere compliance can be seen in the interaction between a company and its stakeholders. If a company runs its operations using a win-win approach, generates profit, and at the same time provides benefits to all its stakeholders, then this company



can be considered a good corporate citizen. This is what implementing Good Corporate Governance is all about”, said Achmad Daniri, Chairman of the National Committee on Governance (KNKG) of Indonesia.

As Indonesia integrates into the global economy, Indonesian companies are facing up to the need to compete in a global market place where investment criteria are increasingly being scrutinized. The volatility that shook the global economy and the subsequent impacts on global finance and investment behavior has amplified the value of good corporate governance for Indonesian companies and for sustainable economic development.

IFC is implementing the Indonesia Corporate Governance Project with the overall goal of improving corporate governance (CG) practices in Indonesia. Over the next five years, specific project activities are administered through a spectrum of governance interventions, including:

- Advising companies, institutional investors, and banks in implementing good corporate governance practices;
- Working with relevant government organizations to improve the corporate governance regulatory framework;
- Developing and fostering the capacity of educational and professional institutions to provide corporate governance training and education; and
- Raising public awareness of the importance of corporate governance.



MAKING PROGRESS WITH CG REFORMS

In the past few years, particularly since the 1997-1998 financial crisis in East Asia and the 2008 global crisis, corporate governance has continued to be a key area of reform. Particularly in many economies in East Asian region, there has also been a much greater recognition that their corporate governance regimes needed to be reformed if they were to avoid taking on a very heavy burden from corporate governance malpractices. Moreover, even in the more advanced economies, recent high-profile malpractices have shown that such a burden can be very heavy indeed.

Promoting Codes and Regulations

Indonesia has taken several steps towards improving the field of regulating CG and improving legislations since the last financial crisis of 1997-1998, which seriously affected the market and the level of foreign and national investment. Part of the improvements taken includes actions taken on the recommendations of the 2004 WB Report on the Observance of Standards and Codes (ROSC).

Bapepam-LK, the securities regulator has continued to introduce and amend its regulations and has enforced them, which resulted in improved investors protection. CG rules for banks were introduced in 2006 and Bank Indonesia has actively monitored and enforced their implementation. The CG Code was also amended in 2006. Last but not least, a new company law was adopted in 2007. All these had the positive effect of limiting the impact of the 2008 global financial crisis.

A new ROSC was done in 2010, to assess the improvements made since the last one. While the World Bank commends the improvements made in the field of CG, several key obstacles are still outlined, such as: board members still do not carry out many key functions outlined in the OECD principles, which affects their ability to properly monitor the executives; the description of roles and responsibilities of board members are limited, which impacts on the way companies empower and use their board members; the role of the external auditors is not clear, affecting their ability to properly execute their functions; and protection of shareholders is not sufficient, which limits the attractiveness of Indonesian companies.

As Key Next Steps, the ROSC recommends, among other things, that work needs to be done in the following areas: reinforce key shareholders rights in the company articles and company practices; improve the role of board members; promote the use of independent board members; and increase the knowledge of board members and media through trainings.

IFC's Corporate Governance Program has helped the implementation of 48 corporate governance codes in 32 countries all over the world. In Indonesia, IFC is currently working closely with Bapepam-LK and the National Committee on Governance to formulate a CG Manual which will be a useful reference for board members to understand more about corporate governance and increase their knowledge on the roles and responsibilities of corporate boards.

Developing Cutting-edge Knowledge Tools and Research

In Indonesia, the Indonesian Institute of Corporate Directors (IICD) has been performing research since 2005 in the field of CG and more specifically by studying CG practices of listed companies against OECD principles on CG. According to their last scorecard of 2009, implementation of best CG practices in accordance with international standards are still challenging for all analyzed companies, which consists of 330 listed companies in the country.

Non-banking companies are seen as the weakest, with banks and state-owned enterprises (SOEs), performing better. Areas that need improvement include, rights of shareholders, roles of stakeholders and responsibilities of the boards. IICD, which has been a partner of the Global CG Forum, suggests many areas of improvement that can be covered through raising awareness, training and individual work with firms to help them understand and embrace the changes needed. Joint work with regulatory bodies, to help train their employees as well as help them communicate better the legal and regulatory requirements is also envisioned.

These are all aspects for which IFC CG Advisory Services has extended experience and intends to address with its CG Project in Indonesia, particularly for the non-banking sector, which is less regulated and more exposed to poor CG practices. For this sector, the market failure requires a combination of awareness raising and training events, to increase the interest and knowledge of companies and their representatives on the need to embrace good CG.

Strengthening Partner Organizations

Educating and training the current and next generation of business leaders in Indonesia are crucial to having a long term and sustainable impact on improving CG practices in Indonesia. There is a need to build CG training capacity for universities and training institutions in Indonesia. Currently, IFC CG Program in Indonesia is assisting IICD to strengthen its capacity and improve the quality of its various directorship course programs through series of training-of-trainers.



CG Workshop for Indonesian Family Business Owners to Improve CG Practices

On September 27, 2012, IFC, together with the Family Business Network Asia and the Indonesian Institute for Corporate Directorship, is helping family business owners in Indonesia promote good corporate governance practices in their boardrooms through training workshops.

The three-day workshop addressed challenges faced by family businesses - including the establishing of accountability and transparency in company management - and laid out how good corporate governance helps attract investors.

“Corporate governance can improve profitability, growth, and sustainability of family businesses and hence increase stakeholder satisfaction,” said Budiarto Subroto, acting chairman of the Board of Management at the Indonesian Institute for Corporate Directorship. It can increase competitiveness and ensure the sustainability. By integrating good corporate governance practices into family operations, both owners and staff stand to benefit. Rodolfo C. Balmater, Executive Director of Family Business Network Asia, focused on the tremendous value of the family business to the Indonesian economy, but noted that by their very nature, family businesses can compromise their productivity and efficiency in ways that non-family businesses seldom experience. Mr. Balmater stressed the need for family business owners to learn to separate family from business, and shared conceptual tools and processes of self-governance with workshop participants.

The workshop also emphasized that corporate governance cannot go far unless reinforced by reforms in key sectors. Indonesia’s corporate culture must be prompted by legal and regulatory support that creates a more conducive environment for behavioral change at the Board level. Once such reforms are achieved, then Indonesia will see more independent, professional board members and greater transparency in business management, accounting, and reporting to shareholders.



IFC, KNKG HOST FIRST CG ROUNDTABLE

On September 4, 2012, IFC and National Committee on Governance (KNKG) hosted the first CG round table discussion in Jakarta which underscored the emerging new business paradigm that can better guarantee good governance practices and values-driven management.

The discussion exposed the participants to the principles and practices of corporate governance and Management by Mission, which is an improvement over the more traditional Management by Results and Management by Objectives, and how they relate to each other. The round table discussion consisted of lectures and case discussions tailored to the Southeast Asian countries, especially the so-called VIP (Vietnam, Indonesia and the Philippines), the largest emerging markets of the ASEAN.

Speakers noted that today's corporations are called to meet the challenge of adhering to the highest standard of ethical values and principles of good corporate governance to help create a more sustainable economic growth and development. They also discussed the 1998 Asian financial crisis that was mainly triggered by the business practices in the financial sector that were not in compliance with the principles of good corporate governance. The same factor apparently is behind the current global economic crisis. A major reason for the economic recession being faced by a number of countries in Europe and North America today is partly attributed to a crisis in values and virtues in the business conducts of many corporations.

Speakers presented cases that corporate boards and other top executives of major enterprises, especially in the financial sector, have focused almost exclusively on either maximizing shareholder value or, worse, the salaries and bonuses received by top management personnel. The values that are usually contained in the mission statements of business organizations have only received lip service. In a number of cases, outright fraud and deceit have been perpetuated by the highest officials of business enterprises. Many corporations continue to emphasize only on the quantity, rather than the quality, of wealth. They suggested that as the epicenter of the global economy is moving towards the Asia Pacific region, it is important that business enterprises in the Asian emerging markets are able to learn from the experiences of the advanced economies.



An interview with

MR. MAS ACHMAD DANIRI

Chairman, National Committee on Governance (KNKG)



COVERING BETTER BUSINESSES

KNKG was established on November 30, 2004 with a mandate to propagate the acceptance and application of good corporate governance principles nationwide and establish Indonesia's reputation as a country where high standards of corporate governance are firmly embedded throughout the economy in public and corporate administrations. KNKG pursues a broad program of activities that include information, research and training that illustrate the need for good corporate governance and help in the application of CG principles through research and training.

What is your view on corporate governance situation in Indonesia?

There are two main factors that drive corporate governance challenges in Indonesia, internal factor and external factor. Internally, we are still following a compliance or check list-based approach. The challenge for Indonesian companies is how to make corporate governance principles as part of their corporate culture. Externally, companies do not live in vacuum, but interact with other stakeholders, including regulators, in order to speed up CG reform in Indonesia. Therefore, it is very important that corporate governance and public governance reform must go hand-in-hand.

In general, many improvement and development on corporate governance have occurred in the past ten years in Indonesia. For example, the Annual Report Award (ARA) which have been organized annually since 2001 has demonstrated through companies that are awarded a rapid development on improved reporting standards. The annual reporting standard in Indonesia can now be considered in par with the international best practices. So far, ARA has attracted about 180 companies, both listed and non-listed companies from the banking and non-banking institutions as well as state-owned enterprises (SOEs), to compete for prestigious awards for the best annual report in various categories.

What is the role of KNKG in corporate governance reform in Indonesia?

I envision that KNKG shall have a stronger research capacity on corporate governance, especially issues related to the various codes on CG that it has issued and plans to issue. Strengthening KNKG's research capacity is important to support its various CG programs in the future. Our strategy in promoting good CG must involve good research, building a good CG system, introducing emerging best practices, and building a culture of ethics and social responsibility. KNKG will continue its efforts to improve public awareness level of CG, especially at the level of decision makers (i.e., corporate boards) in Indonesian corporations.

How can IFC and KNKG work together in promoting good CG practices in Indonesia?

IFC and KNKG, as well as other key stakeholders, cannot work on its own in promoting good CG practices in Indonesia. We need to collaborate with all other key stakeholders and synergize our efforts. Of a special note, it is also important to introduce a national certification program for all CG trainers/facilitators and assessors. They are an important part in scaling up good CG promotion in this Country. Various CG codes written and published by KNKG still need to be distributed to as m any relevant institutions as possible through, for instance, CG-related training programs and public events. To do this effectively, KNKG needs financial support from both the government and private sector, as well as a multilateral agency like IFC.

How do you see the role of the newly established Financial Services Authority (Otoritas Jasa Keuangan, OJK) in improving CG in Indonesia?

The creation of OJK can be the right momentum for the government to strengthen the role of KNKG. OJK can play its role in synchronizing various rules and regulations in the banking and financial institutions in Indonesia. We put so much hope that OJK can fully support KNKG with its various programs. And for this I am very optimistic, I must say that the OJK Chairman also believes, that there is a good synergy between KNKG and OJK in trying to improve CG in Indonesia. An example for future collaboration would be on introducing CG assessment for the banking sector. KNKG experts and assessors can help OJK in assessing the CG practices of banks in Indonesia. In the near future, I believe KNKG can assist the government in formulating the right CG-related regulations. To ensure the sustainability of CG environment in Indonesia all efforts, I think, must be regulatory driven, market driven, and ethical driven.





Mongolia's New Company Law Helps Private Sector Attract More Investment

In Mongolia, many young companies seek outside investment in order to compete and seize opportunities in the country's fast-growing economy. But as in many emerging markets, investors need to be assured that their investment goes where it should, their rights are protected, and that the Mongolian companies follow international corporate best practices.

To shore up investor confidence, Mongolia will need to embrace international governance standards and business practices. IFC and the government of Mongolia, with the help of the Japanese government, are working together on initiatives to that will help local companies improve their internal management procedures and upgrade shareholder protection. With better corporate governance, Mongolian companies will improve their operational efficiency and financial performance, and consequently be able to attract higher quality investment. At the same time, Mongolia's companies require a legal environment that is conducive to implementing structural and behavioral change. IFC is therefore focusing on building a conducive legal framework for companies. The recent passage of the new Law on Companies is a key step towards achieving these objectives.

New Law to Help the Private Sector

The Law on Companies was enacted in October 2011. It introduced stronger corporate governance regulations, such as requiring companies to define the role and composition of the Board of Directors, protecting shareholders' rights, and improving corporate transparency. "These regulations promote good practices that enable companies to attract more investments," said Jigjid Unenbat, Executive Director of Mongolia's Corporate Governance Development Center. "The new law is expected to further stimulate private sector growth in Mongolia. We are working to help Mongolian companies remain competitive and plan smart for future growth."

To educate companies about the Law, IFC organized a conference with the Financial Regulatory Commission and the Corporate Governance Development Center. The conference brought together the local regulator and more than 270 participants from the financial sector, the private sector, universities, and consultancy firms to discuss implementation. The conference led to monthly roundtables by IFC, the Financial Regulatory Commission, and the Corporate Governance Development Center to address issues related to the law's implementation for local businessmen and practitioners.



Corporate Governance Development Center Raising Standards

In addition, the Development Center has organized training programs and consultations on corporate governance topics for private and listed companies and banks, as well as for local universities. The Center has helped local universities establish courses on corporate governance as a means of integrating governance concepts and standards into the workplace and the coming generation of business leaders. Most recently, the Center (the project) has focused on ensuring highest possible standards in teaching corporate governance. In collaboration with IFC and the Global Corporate Governance Forum, the Center conducted a four-day training on Corporate Governance Board Leadership in May for academics, service providers, and regulators who train and provide consultancy services on corporate governance for Mongolian companies and banks (we had more than one partner institution there). A second training was offered in Ulaanbaatar in October in cooperation with the Financial Regulatory Commission and Banking and Finance Academy to ensure the sustainability of the corporate governance knowledge and services in the local market. All told, 55 professionals have been trained in Mongolia in corporate governance in 2012.

Such effort has begun to show results - especially in newly established corporations. The addition of the new Law should further propel both new and established local companies adopt international standards and practices that will help them cope with the challenges brought about by the country's rapid economic development. Mongolia's economy expanded by 17.3 % in 2011, driven largely by the performance of its resource sector. "The Mongolian economy is growing rapidly and local firms are facing operational challenges to cope with such a dynamic development," said Jigjid Unenbat, Executive Director of the Corporate Governance Development Center. "We are pleased to work with IFC to help Mongolian companies grow more competitive and plan for future growth."



Mongolia's Corporate Governance Forum

Improving Business Competitiveness



More than 150 entrepreneurs, government policy makers, and international experts come together to discuss improving Mongolian company competitiveness amidst a booming economy.

The fifth annual National Corporate Governance Forum was held in May in Ulaanbaatar. Discussion focused on helping privately held companies take their businesses to the next level by accessing new investors and markets, including through listings in domestic and international stock exchanges. Speakers noted that additional capital could help companies expand faster, boost productivity, and create jobs, but even with a rapidly expanding private sector and market economy, local companies will need to satisfy increasingly cautious investor criteria in an extremely competitive global environment to qualify for investment. This includes the demand that local companies adopt international governance standards and practices.

Mongolia has made progress in introducing good corporate governance practices - most notably the recent passage of the Law on Companies in 2011, which introduced stronger corporate governance regulations. But implementation of the Law and other legal developments will be just as critical in providing a stable and conducive framework, and it will take continued communication and cooperation between the public and private sectors. The Corporate Governance Forum is a direct attempt to further this cooperation by establishing a reliable platform for businesses and government counterparts, as well as international stakeholders, to maintain a progressive dialogue. A perfect example of such was the presentation given by Yasuyuki Konuma, Executive Officer for New Listings of Tokyo Stock Exchange, on what Mongolian companies need to do in order to tap the Japanese stock market.

“The number of privately held companies in Mongolia has been rapidly growing and they are playing an increasingly important role in the economy,” said Jigjid Unenbat, Executive Director of the Corporate Governance Development Center, a professional training and research institution. “By bringing together the public and private sector, the Forum helps shape further corporate governance and investment climate reforms in Mongolia.”



CG ROUNDTABLE: ACCELERATING THE REFORM AGENDA

Discussion prioritizes the creation of a Corporate Governance Scorecard to serve as a benchmarking tool to help improve business competitiveness and boost investor confidence.

At an October roundtable in Ulaanbaatar co-hosted by IFC, the Financial Regulatory Commission and the Corporate Governance Development Center, more than 80 key public and private stakeholders participated in the design and endorsement of a scorecard which will allow investors,

regulators, and entrepreneurs to assess Mongolian company compliance with corporate governance best practices. It was agreed that the scorecard will benchmark local corporate governance measures and regulations against global best practices. Roundtable participants expect the scorecard to help international investors evaluate new and existing investments and accelerate reform at the company and regulatory levels.

“The legal framework for corporate governance in Mongolia has significantly improved,” said Jigjid Unenbat, Executive Director at the Corporate Governance Development Center. “But law enforcement and detailed guidelines should be in place soon in order to effectively enhance financial transparency, managerial accountability, and

shareholder value.”

“Good corporate governance is most needed in emerging markets like Mongolia to ensure local businesses are efficient and receive better access to financing,” said Rachel Robbins, IFC’s Vice President and General Counsel at the time of the roundtable. “IFC is keen to fill the gaps by supporting firms financially and sharing knowledge in order to contribute to Mongolia’s sustainable economic growth.”

This marks the second adoption of a CG Scorecard practice in IFC’s East Asia and Pacific; Vietnam was the first such country to employ a scorecard evaluation on its top 100 Vietnamese listed companies. Published in collaboration with the Global Corporate Governance Forum (GCGF), the Vietnam Scorecard’s findings serve as a tool to promote further corporate reforms by identifying legal, regulatory, and company specific gaps to concerned parties including regulators, capital market institutions, and corporate and private sector stakeholders, and the invested public.

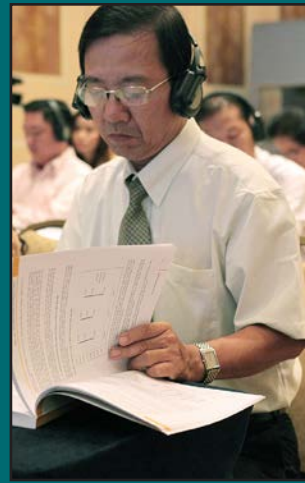


Vietnam Launches 2012 CG Scorecard

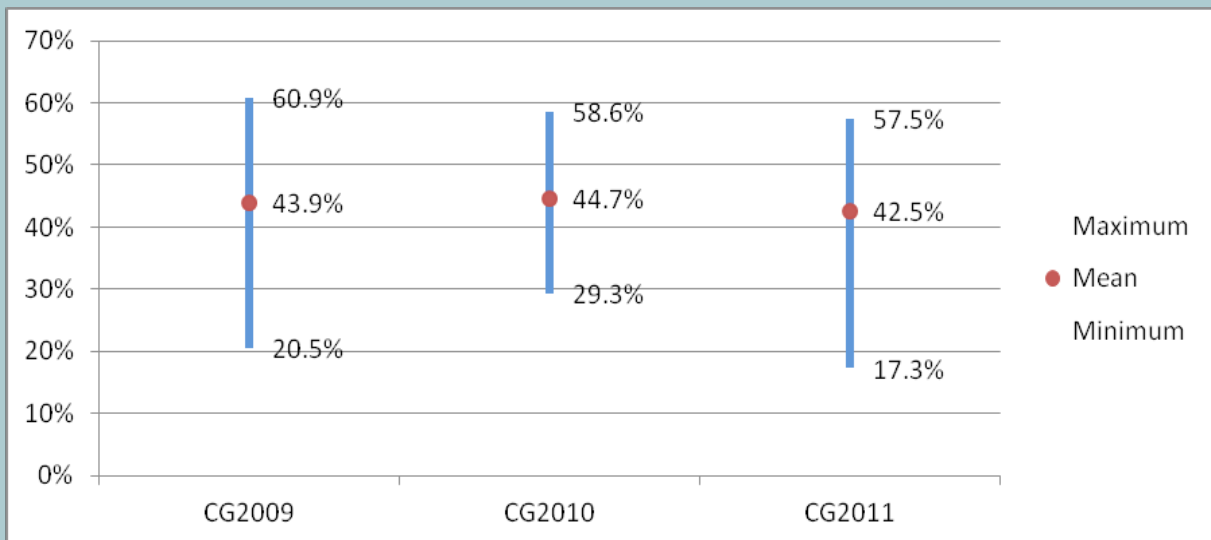
This is the third Corporate Governance Scorecard produced by IFC's Vietnam Corporate Governance Project and the Global Corporate Governance Forum (GCGF) in partnership with the State Securities Commission of Vietnam (SSC) and the Governments of Canada, Finland, Ireland, Japan, New Zealand, Switzerland, and the Netherlands.

This is the third year Vietnam has employed a scorecard survey to monitor CG standards and practices in Vietnamese companies. Vietnam's 100 largest publicly listed companies, representing more than 80% of the combined market capitalization on the Hanoi (HNX) and Ho Chi Minh (HOSE) stock exchanges, were assessed against five areas recognized by the OECD as keys to good corporate governance. Publication of their results (based on 2011 CG data) brings the additional benefit of being able to evaluate progress in Vietnamese companies in general in their ability to establish a more investor friendly corporate culture.

The 2012 Scorecard shows that while Vietnam has made progress on the regulatory side, there has been little movement and take-up from the company side. Indeed, the scorecard shows a decline in the overall results against the year previous. Gains made after the publication of the first Scorecard have been reversed, with a decline by 2.2 percentage points in the average company score. Importantly, the minimum score also has fallen from 29.3% to 17.3%.



Overall CG performance in 2009, 2010 and 2011





There are a number of potential reasons for this step backwards. In 2011, Vietnam was suffering from an economic downturn, and companies faced great difficulties. Reported information was generally lighter and more superficial, possibly to mask poor results. Also, information related to stakeholders was noticeably poorer. In difficult economic times companies seemed not to consider, or not do as much as previously for benefits of employees, environment, and community. Furthermore in 2011, the SSC was more active in monitoring and enforcing

regulations and announcing violations to the market. As a result, more negative information about companies was available. Again this lessens the CG scores overall.

With an average CG score across all companies of 42.5%, considerably lower than the average level, the results of the review show that CG in Vietnam is far from achieving international best practices. Companies in Vietnam have generally not yet understood the importance of CG. Investors have now to face the fact that CG in Vietnam is more in the rules than in the implementation and there may be real risks in investing in such an environment.

Key recommendations

For three years now, all CG Scorecard Reports have highlighted that CG developments in Vietnam have been 'top down' and led by the legal framework and regulatory actions. The market has been waiting for companies to become aware and take on their responsibilities. As this approach has failed to show much change from companies, it appears it is now time to focus on mechanisms to encourage movement from the companies. Possibilities include:

- Stronger monitoring and enforcement of financial reporting and CG practices.
- Regulators allowed to apply appropriate sanctions and report to the public on their actions.
- The State, as a major shareholder in the Vietnamese securities market, should 'champion' better corporate governance, train director appointees in global CG practices, and demand practices be applied in companies where they have a major shareholding.
- Expedite and increase required training of directors.
- Increase protection for minority shareholders.
- Increase participation for shareholders in company affairs.

From the company perspective, the results indicate three key areas for future focus: disclosure and transparency, board responsibilities, and equitable treatment and inclusion of shareholders. Other recommendations include risk management enhancement, board training, and CG Code Development.



The Vietnam CG Scorecard has been jointly conducted by IFC, SSC and GCGF since its inception in 2009. The assessment of each company is based on information, company data and documents publicly available to current or potential investors. The full report can be downloaded at the IFC website: <http://www.ifc.org/vietnamcg>

An interview with

ANNE MOLYNEUX

CPA, Director of CS International

Member, OECD Corporate Governance Steering Committee



VIETNAM CG: PAST PROGRESS?

Having been the lead consultant for the IFC's Vietnam CG Scorecard Project for the last three years, what are your general comments to the Vietnam results: What trends do you see? Are they sector-based? Where has there been progress? Where are the main areas of concern?

In my work on the IFC Corporate Governance Project, I have seen considerable improvement in the regulations that will better support shareholders and protect their investments. The Corporate Governance Regulations (Circular 121) issued in 2012 is a major step forward. There have been other important developments: The Ministry of Finance has issued a number of Circulars providing guidance on corporate governance and information disclosure. Greater monitoring and enforcement on the part of the HNX, the HOSE and by the State Securities Commission is happening. Regulators are demanding information from companies such as disclosure of directors' share trading and they have prosecuted the first case for securities fraud and price manipulation and criminal proceedings - the first prosecution since the stock exchange opened. These are good signs.

However in general, companies have not seen the need for change, despite ominous signs of a lackluster stock market and a downturn in local and foreign investment. In the three Vietnam Scorecard reviews I have undertaken of the 100 largest listed companies on the HNX and the HOSE, there has been little improvement in company corporate governance, if the information they provide to the market and the investor public is a guide. Average scores are 42.5% in 2011 (44.7% in 2010 and 43.9% in 2009) - not good enough. A good score would be 75% or above.

Vietnam is in a competitive market for investment. The country's neighbors achieve higher scores in similar corporate governance assessments. Singapore and Hong Kong are considered the region's leaders, ahead of Vietnam, Thailand and Malaysia (Malaysia in 2011 57.2%; Thailand in 2011 77%). Whilst corporate governance is only one driver in the investment decision, it is a key one watched by investors. Internal Vietnamese investors are also considering the value of corporate governance. For example, Dragon Capital Growth Fund, Ltd. publicly states: "investments are screened for strong growth, value, and good corporate governance".

What are your recommendations for Boards of Directors here in Vietnam?



Boards of directors need to understand that they are missing a great opportunity in corporate governance (CG). Companies in Vietnam with better corporate governance, over three years statistical analysis, regularly outperformed other listed companies in their ROE and ROA.

'Understand your responsibilities, do them well, and tell investors what you are doing.'

Boards and supervisory boards need to better understand CG regulations and fulfill the global expectations of their responsibilities. Boards need to be more independent to benefit from diverse views. No matter how senior or busy directors are, they should undertake development programs so they know the nuances of good corporate governance. Boards should commit to ethical approaches to company business and develop and publish a Code of Ethics and establish Committees of the board, such as an Audit Committee, to ensure increased transparency, quality, accurate information and strong risk oversight, internal controls and internal audit.

'Increase transparency and disclosure.'

Many more companies must commit to increased transparency and disclosure of company financial and non-financial information, of board activities, and of the corporate governance frameworks within the company. For example, shareholders need to know more about director nominees before they vote for new board members at the AGM. They need to know about the nominees other directorships in other companies and of any relationships to existing board members.

Annual Reports and Financial Statements need to be more reliable - issued early and not subjected to change. Greater detail should be included in the Annual Report about the board and supervisory board and their activities, about how the board deals with conflicts of interest when they arise, about company strategies and foreseeable risks, and about accounting changes and audit issues.

'Improve shareholder treatment.'

Shareholders need to know they will be fairly and equitably treated. In other words, that other major or controlling shareholders will not benefit at their expense. This is not the current perception in Vietnam as in the World Bank Doing Business Report for 2013, Vietnam achieves a position of 169th out of a possible 183 countries in 'protecting investors'.

The provision of information is vital. More Vietnamese companies should establish an investor relations function to ensure accurate information flows to shareholders, including current lists of major shareholders, their shareholdings and changes to shareholdings. Company directors should report publicly their share trading as this is an important indicator to other investors, without access to company information, what those with access to information may think of the company's future. Policies on insider trading should be implemented in each company.

Boards should encourage shareholders to participate in company affairs, attend the AGM, provide their views and to ask questions of the board, the supervisory board and of the external auditor. Boards must let shareholders know they are welcome at the AGM.

What do you see in recent developments in policies and regulations that will impact Vietnamese corporate behavior going forward?



Again, Vietnam is to be congratulated on the new CG Regulations (Circular 121). It has addressed some of the gaps between Vietnam CG and global practices. New and good developments in the CG Regulations are the introduction of specific measures for large scale public companies such as one-third of the board being independent directors, mandatory company secretaries, detailed rules in the formulation of internal policies and procedures to provide discipline to corporate governance in large companies, and of mandatory training for directors. All will require understanding and real effort on the part of boards on their introduction.

An ‘independent director’ is a new concept in Vietnam, new and different from the previously held idea that a non-executive director was also ‘independent’. An independent director should exercise objective judgement without influences or conflicts of interest. Initially, these individuals may be difficult to identify and the search for independent directors may take the board out of their comfort zone and away from the normal director selection process in Vietnam that has been based on relationships and friendships. Other countries, such as Thailand, have faced this dilemma previously and established good practices. Existing boards will need to adapt and understand the concept of independent directors. Independent directors are likely to challenge board and management thinking. Boards should expect more vibrant discussions.



What advice would you give to the individual, minority shareholder here in Vietnam?

Individual and minority shareholders should review carefully the corporate governance of companies in Vietnam and their financial position. They should research the major shareowners, their families, connections and cross shareholdings. A close study of financial information together with non-financial information, regulatory filings and media articles should provide a wider company view. In all cases, minority shareholders have rights to attend and vote at the AGM. And they should exercise those rights. One key protection would be to ask the external auditor what he found unusual or problematic regarding the financial statements, the quality of company internal controls and accounting and recording functions.



Regulators, Stock Exchange Build Up CG Enforcement Capacity

IFC's Corporate Governance Project in Vietnam, in collaboration with the State Securities Commission (SSC) organized two-day corporate governance enforcement trainings for 80 participants from the SSC, the Hanoi Stock Exchange and the Ho Chi Minh City Stock Exchange.



The trainings, in continuation with the ones provided in September last year, are aimed at strengthening corporate governance enforcement capacity of the regulator and the two stock exchanges. This year, the topics of the training are focused key enforcement challenges, board independence, conflicts of interest, board's accountability for control environment, and financial statement fraud.

David Robinett, trainer and senior specialist from the World Bank's corporate governance team, said "The events were excellent opportunities to share the knowledge we have on corporate governance enforcement and other challenges and engage directly with the working level staff and high level officials at the three institutions as well company board members and officers. There is clearly a lot of interest and relevance in areas including how to find and best utilize independent board members and the link between overseeing conflicts of interest and the need to understand who owns and controls companies."

Participants expressed their appreciation to the chances to equip their understanding and knowledge on international best practices; exchange their views on the local practices as well as playing their active roles in some interesting exercises during the course. At the training, heads of corporate governance teams from SSC and the two stock exchanges were also invited to share views and

discuss challenges with their colleagues. According to Tran Anh Dao, HOSE's Vice President of Listing and Disclosure department "We currently face with many challenges to enforce companies to comply with the new Circular 121 on corporate governance codes for listed and large public companies. We always highly appreciate the supports from IFC's Vietnam Corporate Governance Project to get this course organized at the right time and with the right contents".



HANOI HOSTS BETTER BOARD EFFECTIVENESS WORKSHOP



The November workshop, organized by the Hanoi Stock Exchange, the Securities Exchange of Thailand, and IFC, was designed to provide an international perspective on the value of transparency and independence in structuring Boards of Directors. It also candidly assessed the urgency for Vietnamese companies to embrace independent directors and good board practices.



Independence, in a word, is the most important factor influencing Board effectiveness. According to the workshop's panel of experts, research shows that the quality of Board of Director governance improves when independent directors account for at least 50% of the Board. Unfortunately, these findings are not enough to instigate change in Vietnamese corporate management structures. To the contrary: Vietnamese companies still hesitate to relinquish control and privacy, and notions of independence are easier said than practiced.

Mr. Nguyen Dinh Cung, Deputy Director of the Central Institute for Economic Management, told the workshop's 115 participants, "The traditional hesitance to transparency can be partly attributed to the fact that information disclosure does not guarantee benefits; it can often expose companies to more risk... Moreover, independence depends on each individual, and is very difficult to control in Vietnamese enterprises, given the marginalization of small shareholders and the practice of major shareholders of shoring up power by voting themselves to Board and management positions. Add to this the fact that the supervisory board is appointed by the major shareholders and therefore often not strong enough to challenge the Board of Directors on company operations."

So what will it take to get companies to change from within? Mr. Warapatr Todhanakasem, an expert from the Bangkok Stock Exchange of Thailand, explained that it was the 1997 economic crisis that hit Thailand especially hard that made it clear that a new corporate governance style was necessary. Shortly thereafter, Thailand began to emphasize greater independence in corporate controls, and independent directors climbed to reach the 50% threshold. He also noted that a bit of trial and error led to Thai law allowing independent directors to own 3% of the companies they work for, giving them incentive to oppose harmful Board decisions.

With an increasingly competitive global economy, dwindling foreign investment, and a slew of high-profile corporate fiascos, Vietnam could follow the Thai example and use tough times to begin to shed old habits. The Ministry of Finance has moved this way with its July Circular 121/2012/TT-BTC requiring least one-third of a board's members to be independent, (unlike Thailand, independent members cannot be either shareholders or executive directors). However, the circular does not regulate professional qualifications or ethical conduct of independent directors, and thus leaves some space for debate. Also debatable is the preference for establishment of independent directors, or the reform of the Supervisory Board selection process and its role as an independent decision-maker.



Advanced Media Training for CG Reporting

A two-day training workshop offered 15 local journalists the opportunity to advance their CG knowledge and gain an update of recent CG developments in the region and the world.

The workshop brought back graduates of the two earlier CG reporting trainings to continue the discussion on how the media can contribute to promoting good corporate governance. A number of guest speakers including representatives from SSC, Deloitte, the Agence France Press, IFC, and Dragon Capital also joined the workshop to exchange their view on different CG topics with the participants.

“Corporate governance is becoming increasingly important and is attracting greater public attention in Vietnam. The workshop provided us with deeper CG knowledge as well as an update on what are currently happening in this area in the world. This will help sharpen our abilities to report CG to the business community and the public” said Hong Dung, a journalist from The Stock Investment, a newspaper specializing in financial and stock market news.

Another workshop participant, Huynh Thi Truong An, from the Financial and Business News Channel, shared: “The most useful part of the training to me was to help reporters to read a financial statement and report, to distinguish the illogical figures and data. I am now more knowledgeable and confident in covering stories on corporate governance. If I know about a corruption story, I will absolutely cover it.”

After the training, more than ten articles on CG were published in top business newspapers in Vietnam as an immediate result of the workshop.



East Asia and Pacific

Juan Carlos Fernandez Zara
Senior Operations Officer, Corporate Governance
IFC Sustainable Business Advisory, EAP
3rd Floor, Somerset Chancellour Court
21-23 Nguyen Thi Minh Khai St, District 1, HCMC, Vietnam
Tel: +84 8 3823 5266 Fax: (84-8) 3823 5271
E-mail: jfernandez@ifc.org Web: www.ifc.org

China

Min Liu
Operations Officer, Corporate Governance
10th floor, Hongda International Plaza
No. 2 Xianan Road, Chengdu, Sichuan
610041, P.R.China
Tel: +86 28 6552 2842 Fax: +86 (28) 8676 7362
E-mail: mliu1@ifc.org

Indonesia

Moez Miaoui
Operations Officer
Email: Mmiaoui@ifc.org

Stefan S. Handoyo
Operations Officer
Email: Shandoyo@ifc.org

Indonesia Stock Exchange Building, Tower 2, 9th Floor
Jl. Jend. Sudirman Kav. 52-53, Jakarta 12190, Indonesia.
Tel: +62 21 2994 8001 Fax: +62 (21) 2994 8002

Mongolia

Anar Aliyev
Operations Officer
Email: aaliyev@ifc.org

Munkhtsetseg Badarch (Mugie)
Associate Operations Officer
Email: mbadarch@ifc.org

Mongolian Corporate Governance Project
4th Floor, MCS Plaza Building
Seoul Street-4, 210644 Ulaanbaatar, Mongolia
Tel: + 976 11 312694 Fax: + 976-11 312696

Vietnam

Nguyen Nguyet Anh
Operations Officer
Vietnam Corporate Governance Project
3rd floor, 63 Ly Thai To St. Hanoi, Vietnam
Tel: +84 4 3937 8741 Fax: +84 4 38247898
E-mail: NAnh2@ifc.org
Website: www.ifc.org/vietnamcg