A Corporate Governance Assessment for Punjab Board of Investment and Trade (Draft)




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Although this Assessment aims to be as comprehensive as possible in the breadth of its analysis, it is essential to recognize important limitations. First, IFC is not a Pakistani legal or accounting, audit and internal controls expert. In consequence, this Assessment should not be relied upon as professional advice on legal or accounting, audit or internal controls matters. Punjab Board of Investment and Trade ("**PBIT**" or the "Company") should rely on its own advisors for such advice.

Time and budget limitations did not permit our analysis to be based upon actual observation of the Company's governance in practice over a period of time. We have instead relied upon interviews with key participants. Refer to "Annex 1: Meeting Schedule with PBIT's Directors and Senior Officers". As a result, our understanding of how the Board functions in practice was based on our conversations with Board members and key Executive Officers, rather than from sitting in on a series of Board meetings.

Finally, this Assessment is not meant to be an endorsement by IFC of PBIT's board governance framework, policies, or practices. The aim is not to determine whether PBIT's board meets a prescribed standard, but rather to make informed recommendations about how the Company can ultimately achieve acceptable and eventually internationally recognized standards for its board, and to continue on a sustainable path of governance improvement.

The Assessment is based on information received and collected as of August 2016.

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Summary

The Punjab Government established PBIT in February 2009 to facilitate foreign and domestic investment in the Province. Promoting investment is high on the Government's agenda to increase economic growth and create jobs in Punjab—the largest province in Pakistan representing more than half of the country's economy. PBIT was set up as a not-for-profit company registered under Section 42 of the Companies Ordinance, 1984 with the Registrar, Joint Stock Companies, Lahore. PBIT's operations are funded by the Punjab Government. PBIT reports to the Industries, Commerce, and Investment Department as its administrative department within the Punjab Government.

To implement its vision of showcasing Punjab as a fast emerging global investment and business hub for foreign investors, PBIT needs to continue to strengthen its capacity to become a world-class investment promotion agency. Refer to Annex 2: International Benchmark of Investment Promotion Institutions. A key aspect of building institutional capacity is to improve PBIT's corporate governance practices. Being a custodian of corporate governance of a company, the Board's role is key to addressing PBIT's governance challenges and contributing to strengthening the institutional capacity of PBIT—which in turn depends on improving board room policies and practices to ensure an effective board. The Board needs to continuously improve its role, composition, and skill-mix to align with the PBIT's vision.

At the start, the Board was headed by the Chief Minister of Punjab with a Vice Chairman who was a de-facto Board Member/CEO. Subsequently, the Chief Minister relinquished his role in favor of a Non-Executive Chairman. Separating the roles of the CEO and the Chairman has paved the way for setting up a professional board at PBIT, aligned with the Government's expectation as manifested by its membership comprising majority of private sector members. Further, the Board increased female board members to ensure gender diversity. As a result, ¼ of its Members are women. Refer to Sub-section A3 "Governance Challenges for PBIT's Board" for more discussion on the key challenges faced by the Board.

This Assessment is based on the IFC's CG Methodology. Recommendations are provided to help PBIT improve board effectiveness. These corporate governance changes, implemented by the Board of Directors, should demonstrate the Company's commitment to improve its board practices and to align them with international best practices.

Key challenges and recommendations for board improvement are summarized below.

Key Governance Challenges for the Board:

a. **Ensuring Board autonomy vis-à-vis its relationship with the Punjab Government:** Empowering PBIT's Board is key to its success and a condition

precedent for it to add value to PBIT. PBIT is 100% owned by the Punjab Government. The Punjab Government has three Government Representatives as Ex-Officio Directors on the Board. PBIT relies on the government funds to meet its operating costs and reports to the Industries Department. The Chief Minister is keen on pushing the government's investment agenda. Consequently, the CEO/Chairman report directly to the Chief Minister. The Chief Minister appointed all previous PBIT's Chairmen/CEOs, even if the Board subsequently endorsed such decisions. The Chief Minister's close involvement with PBIT was in part necessitated by his previous role as the Chairman of PBIT's Board (the position he held for the first three years since PBIT"s establishment). In 2012, the Chief Minister relinquished his Chairman's role in favor of a Non-Executive Chairman. Currently, the Chief Minister has no functional role in PBIT. Having parallel reporting lines to the Chief Minister simply prevents the Board from evolving as an active board and blurs accountability (for the Board and the Senior Management).

At the same time, being a government-owned enterprise, the Punjab Government has legitimate expectations from PBIT's Board and the Senior Management to deliver on its mission for promoting investment in the Province. To achieve that, the Government should use the embedded governance structure of PBIT—the Board—to influence the Company's strategy and align its operations with those strategic goals. The Government can influence the board-room discussions through its Nominee Directors (refer to more discussion on the role of Ex-Officio Directors in Section B below). This hands-off approach by the Government/the Chief Minister would ensure that PBIT's Board is empowered as key element of the corporate structure of PBIT. It can also help clarify the roles and responsibilities of the Board and ultimately lead to better accountability of board actions.

b. **Board to lead PBIT's strategy and oversee establishment of a formal strategic planning process, key financial and internal controls to ensure efficiency and transparency of PBIT's operations; and a robust risk management framework for PBIT:** A condition precedent to setting and reviewing strategy is to have a formal strategic planning process. It is the role of PBIT's Senior Management to develop strategic proposals and present them to the Board for approval. A structured strategic planning process will allow PBIT's Board to set the Company's direction and regularly monitor progress toward achieving key business objectives. PBIT's management has recently started to prepare a strategic plan for PBIT. However, this is very much a working draft. Once the strategic plan is finalized by the Management, the Board should be reviewing the plan and providing input. Only then should it be presented to other stakeholders including the Punjab Government. A strategic plan is used to provide focus, direction and a roadmap in order to move the company from where they are now to where they want to go.

Further, Senior Management should establish adequate internal controls and risk management to ensure that the risks to the strategic and business objectives of the Company are mitigated. The sound internal controls framework will ensure that the Company's assets are safeguarded, financial reporting is accurate, and the compliance function is robust.

The Board in turn should oversee the internal controls and risk management of PBIT.

c. **Setting up an Effective Board:** PBIT has a 16-member Board headed by a Non-Executive Chairman. Since its establishment, the Board has undergone key changes to its composition and role. The Board has since its inception consisted of a majority of Non-Executive Directors. However, the Chief Minister acted as the Chairman of the Board. Such close collaboration ensured Government's patronage and raised PBIT's profile—key to its role as a facilitator of investment and a coordinator of the actions of various provincial departments to encourage foreign and domestic investment in key sectors of the Punjab economy. However, on the flip side, the Board shied away from establishing itself as a leader and acted more as a compliance-driven board. Such ex post facto approach deprived the Board from acting in a proactive way. In turn, the Board is essentially relegated to being mostly a board endorsing the Government's/Senior Management's actions without much debate on the overall PBIT's strategy and proper accountability for the Senior Management. In practice, the CEO is responsible directly to the Chief Minister. In or around 2012, the Chief Minister decided to distance himself from the PBIT's Board and appointed a Non-Executive Chairman to replace him. Having a Non-Executive Chairman signaled a much needed change to allow the Board take lead without direct involvement of the Government. As discussed in this CG Report, the Board is poised to transform its role in line with good board practices. To transform its role, the Board faces three main challenges: a) to clearly articulate its vision and mission for PBIT; and b) to have members with skills that are relevant to its new role; and c) to develop and implement best board practices to improve board functioning. Only an effective board—both in terms of having clear purpose and right skills for its members—can lead PBIT to where it wants to be in future. Refer to more discussion on PBIT's Board and our recommendations in Section B (Board Effectiveness) of this CG Report. The Board needs to continuously improve its role, composition, and skill-mix to align with the PBIT's vision.

d. **Clarifying the Role of the Chairman:** During our interviews with the Chairman, Board Members, and the Senior Executives of PBIT, it became clear that there was not enough clarity on the role of the Chairman versus the CEO. Consequently, there was overlap in the discharge of their respective functions.

Being a Non-Executive, the Chairman's role is to lead the Board. All executive functions are to be left to the Senior Management led by the CEO. The Board in turn can set KPIs for the CEO and her team to evaluate their performance on an annual basis. Such segregation of roles and responsibilities is in line with the separation of the offices of the CEO and Chairman. The Board, on the other hand, is responsible for providing strategic leadership, risk governance, and exercising adequate oversight over Senior Management through financial and internal controls.

Consequently, the Board should develop clear ToRs for the position of the Chairman as recommended in Section B (Board Effectiveness) of this CG Report.

e. **Benchmarking against best international practices.** When assessing PBTI's corporate governance and focusing on the crucial role its Board and Senior Management play therein, it is beneficial to look at the corporate governance of other very successfully managed investment promotion institutions (IPIs) throughout the world. All these homologue IPIs were set up by their respective Governments and share the common goal of attracting inward investments into their countries for the benefit of job creation and economic growth. In more technical terms of institution building, it is remarkable that some of the most successful Governments are paying increasingly importance to strengthen the role of IPI's Boards. This is done by ensuring a well-balanced composition which reflects that all necessary skills and, in particular, up-to-date relevant knowledge on key sectors is represented in the Board by bringing in private sector specialists. On the other hand, granting more autonomy to Boards has always to go hand in hand with stricter accountability and transparency as to avoid conflicts of interest, corruption and to demonstrate that the taxpayers' money is spent in line with the public-interest objectives these IPIs necessarily have to follow, which additionally have their proper Internal Audit Committees put in place. A number of good examples focusing on Board compositions and CG related particularities is provided in Annex 2.

Recommendations for improving board performance:

Board composition is central to the board performance. PBIT has a 16-member Board headed by a Non-executive Chairman, Mr. Muzaffar Khawaja. The majority of Board members are from the private sector (i.e., 9 out of 16 members). Further, the Board has six (6) Ex-Officio Directors, of which three are from the Punjab administration comprising Secretary, Finance, Secretary, Industries, and Chairman, Planning & Development. The remaining three (3) Ex Officio Directors comprise the Presidents of Lahore and Faisalabad Chambers of Commerce and the CEO, Ms. Amena Cheema.

PBIT needs to strengthen the Board's role in providing strategic leadership and overseeing Senior Management. To start with, PBIT should reduce the board size from 16 to 10

Members. A lean board should facilitate effective board discussions and contribute to more cohesion among Board Members. To strengthen its capacity, the Board should have additional skills in accounting & finance and specialists in key sectors (e.g., energy, agriculture, urban transport, waste management, etc.). The Board should further ensure that Non-Executive Directors are independent as per the definition under the Public Sector Companies (Corporate Governance) Rules, 2013. A key aspect of board functioning is the role of board Committees. The Board should strengthen the roles of the Audit & Finance and HR Committees by having sufficient Independent Directors with relevant skills to oversee the controls, risk management, and HR policies at PBIT. Specifically, the Chair of the Audit & Finance Committee should be an Independent Board Member with accounting and financing background, preferably with majority of Independent/Non-Executive Directors who are financially literate to effectively discharge their duties as Audit & Finance Committee's Members. The Board should also develop a written Charter for the Audit & Finance Committee to define the membership criteria and clarify its roles and responsibilities. HR is a key risk area and the HR Committee should actively oversee developing HR policies and procedures to hire and retain talented staff at the Board and among the managers and PBIT's staff.

The Board would benefit from developing an annual work plan to prioritize and focus on key areas requiring board oversight. The Board should be meeting on a quarterly basis to ensure regular Board oversight with minutes of meetings taken for the Board's follow up. All the above measures should be captured in a Board Charter with Terms of Reference for each Director clearly defining the Board's role and responsibilities and accountability for individual Board Members. The Board should also develop TORs for the Chairman to clarify his roles and responsibilities—a key to ensuring separation between the Board and the Senior Management. The Board should reimburse Non-Executive Members for travel costs associated with attending Board meetings. The Board should also develop succession plans for the Board and the Senior Management, delegated to the HR Committee to ensure leadership continuity at the Company. The Board should institute a formal Board evaluation process for overall board accountability and improving board performance. Such an internal Board evaluation will enable monitoring the performance of Non-Executive/Independent Directors and highlight areas of improvements. The Board should also provide CG training to select Members. Finally, the Board should appoint a full-time Company Secretary and define his/her roles and responsibilities in a Charter.

In total, there are 12 recommendations for Board improvement. The recommendations have varying priorities. The last section provides guidance on the estimated priority and level of difficulty for making these changes. There is also a Gantt chart with a proposed sequence and schedule of changes. Not all of these changes need to be put in place immediately. Therefore, based on this input and given the large number of changes to make, PBIT should carefully consider which items to pursue in the near-term and medium-term. Once the Board and the Senior Management agree on the changes, PBIT should establish a formal team to set the final priorities and timeline, oversee the changes, and report status at every Board meeting.

Summary of Recommendations

B. Recommendations for Board Effectiveness		Priority
B1	B1. Reduce the Board Size from 16 to 10 Members and ensure Non-Executive Directors with Relevant Skills.	High
B2	Develop a Board Charter	Medium
B3	Develop Directors' Terms of Reference	Medium
B4	Develop TORs for the Chairman	High
B5	Strengthen the role of the Audit & Finance Committee of the Board	High
B6	Strengthen the Role of the HR Committee of the Board	High
B7	Set out Board's Working Procedures	Medium
B8	Reimburse Non-Executive Directors for Out-of-Pocket Expenses for Attending Board Meetings	Medium
B9	Develop a Board Evaluation Plan	Low
B10	Develop Directors' and Senior Management Succession Plans	Medium
B11	Improve the CG Knowledge and Inter-personal Skills of Directors through formal Board Training	Low
B12	Appoint a Company Secretary and develop ToRs describing his/hers Roles and Responsibilities.	Low

A. Introduction

A1. Project Purpose and Approach

PBIT engaged IFC to conduct a Board Assessment. The objective of this IFC's advisory engagement is to provide an objective analysis of and advice on improving the board leadership and effectiveness, help develop key board policies and procedures, and develop a board improvement plan for PBIT's Board to implement over time.

The IFC Team conducted interviews with Board Members and Senior Executives in August 2016 (refer to "Annex 1: Meeting Schedule with PBIT Directors and Senior Officer"). In addition, the IFC Team analyzed key company documents. Based on this input, the IFC Team assessed PBIT's current board policies and practices, identified gaps and challenges, defined recommendations for improvement, and developed a plan for implementation.

By pursuing these improvements, PBIT ultimately hopes to bring its board policies and practices up to international best practice standards. The analysis and recommendations provided in this CG Report are based on IFC's Corporate Governance Methodology in so far as it relates to ensuring board effectiveness.

Sections B describes specific

Why is Corporate Governance Important?

Corporate governance is defined as the structures and processes for the direction and control of corporations. Corporate governance specifies the rights and responsibilities among the main participants in the corporation—including shareholders, directors, and managers—and spells out the rules and procedures for making decisions on corporate affairs.

A company committed to good corporate governance has a solid control environment, high levels of transparency and disclosure, an empowered board of directors, and well-defined shareholders' rights. The interests of the company and those of all shareholders are considered to be the same.

Corporate governance generally matters to companies as it can improve access to capital, help achieve premium valuations and lead to financing on improved terms. Corporate governance can improve corporate performance by producing: (i) superior leadership, oversight, and strategic direction; (ii) efficient information flows and work processes; and (iii) better compliance, accountability, and less conflict. Corporate governance can make—or break--reputations by creating confidence, establishing goodwill and building or restoring trust among stakeholders.

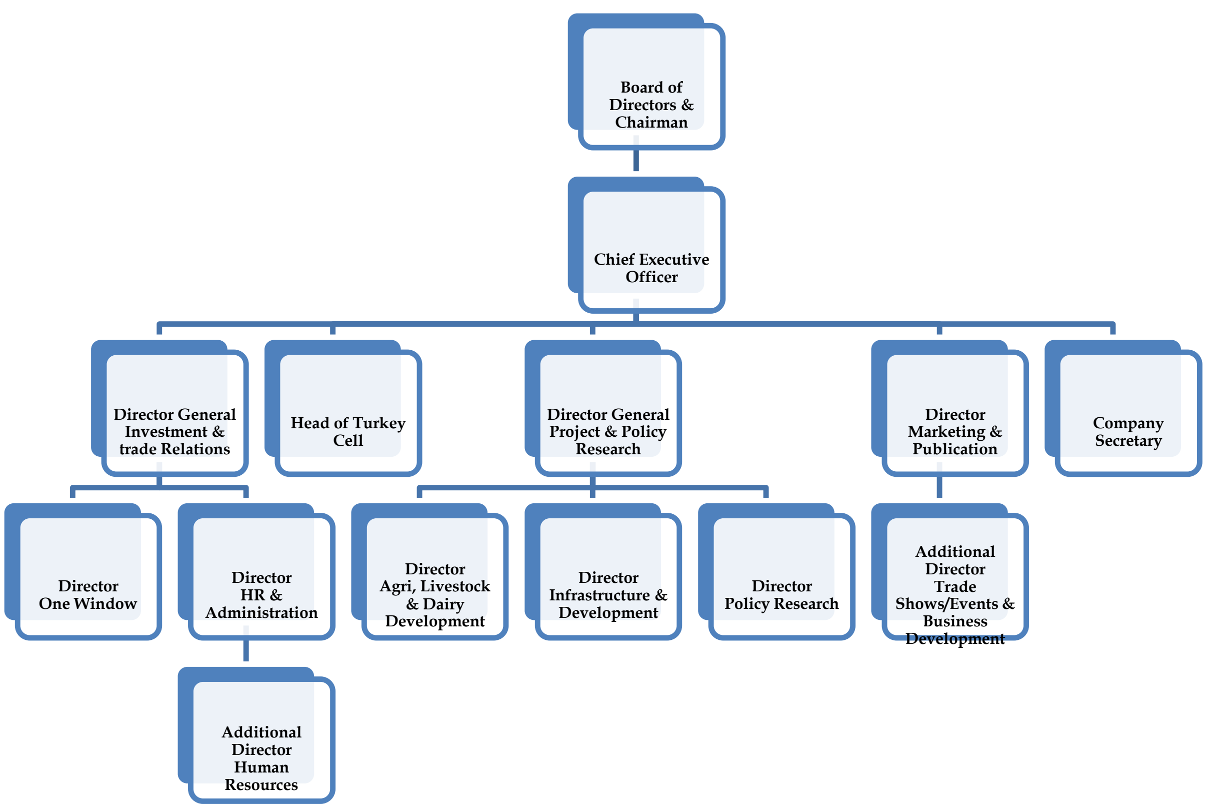
IFC Corporate Governance Success Stories publication, one of the first reports of its kind in the MENA region, highlights the measures taken by 19 companies to improve board effectiveness, management control, and other corporate governance practices. Several companies, such as Bank Audi, PIBT, NRSP Microfinance Bank, and Wadi Holdings, also said good corporate governance helped them ensure long term sustainability, improve access to financing, and manage family relationships in family owned companies.

recommendations for improvement; **Section C** proposes an implementation plan.

A2. Company Introduction

The Punjab Government established PBIT in February 2009 to facilitate foreign and domestic investment in the Province. Promoting investment is high on the Government's agenda to increase economic growth and create jobs in Punjab—the largest province in Pakistan representing more than half of the country's economy. PBIT was set up as a not-for-profit company registered under Section 42 of the Companies Ordinance, 1984 with the Registrar, Joint Stock Companies, Lahore. PBIT's operations are funded by the Punjab Government. PBIT reports to the Industries, Commerce, and Investment Department as its administrative department within the Punjab Government.

Currently, PBIT has a 16-member Board of Directors headed by a Non-Executive Chairman. The Senior Management of PBIT comprises the CEO, Ms. Amena Cheema, and a team of directors. Over all, PBIT has 76 staff, of which 31 are vacant positions. PBIT's organizational structure is as follows:



Source: PBIT

Being owned by the Punjab Government, PBIT closely coordinates its activities with the Chief Minister Office and the relevant Government Departments including Finance, Planning & Development, and Industries Departments—the last being its parent department. PBIT also coordinates with other Government Departments and authorities on behalf of potential and existing foreign/domestic investors.

A3. Governance Challenges and Opportunities for PBIT's Board

To implement its vision of showcasing Punjab as a fast emerging global investment and business hub for foreign investors, PBIT needs to continue to strengthen its capacity to become a world-class investment promotion agency. Refer to Annex 2: International Benchmark of Investment Promotion Institutions. A key aspect of building institutional capacity is to improve PBIT's corporate governance practices. Being a custodian of corporate governance of a company, the Board's role is key to addressing PBIT's governance challenges and contributing to strengthening the institutional capacity of PBIT—which in turn depends on improving board room policies and practices to ensure an effective board.

The key challenges facing PBIT's Board are as follows:

a. **Ensuring Board autonomy vis-à-vis its relationship with the Punjab Government:** Empowering PBIT's Board is key to its success and a condition precedent for it to add value to PBIT. PBIT is 100% owned by the Punjab Government. The Punjab Government has three Government Representatives as Ex-Officio Directors on the Board. PBIT relies on the government funds to meet its operating costs and reports to the Industries Department. The Chief Minister is keen on pushing the government's investment agenda. Consequently, the CEO/Chairman report directly to the Chief Minister. The Chief Minister appointed all previous PBIT's Chairmen/CEOs, even if the Board subsequently endorsed such decisions. The Chief Minister's close involvement with PBIT was in part necessitated by his previous role as the Chairman of PBIT's Board (the position he held for the first three years since PBIT"s establishment). In 2012, the Chief Minister relinquished his Chairman's role in favor of a Non-Executive Chairman. Currently, the Chief Minister has no functional role in PBIT. Having parallel reporting lines to the Chief Minister simply prevents the Board from evolving as an active board and blurs accountability (for the Board and the Senior Management).

   At the same time, being a government-owned enterprise, the Punjab Government has legitimate expectations from PBIT's Board and the Senior Management to deliver on its mission for promoting investment in the Province. To achieve that, the Government should use the embedded governance structure of PBIT—the Board—to influence the Company's strategy and align its operations with those strategic goals.

The Government can influence the board-room discussions through its Nominee Directors (refer to more discussion on the role of Ex-Officio Directors in Section B below). This hands-off approach by the Government/the Chief Minister would ensure that PBIT's Board is empowered as key element of the corporate structure of PBIT. It can also help clarify the roles and responsibilities of the Board and ultimately lead to better accountability of board actions.

Needless to mention, PBIT's Board and the Senior Management should take views of the Government and the relevant provincial Departments aboard in setting the strategy for the Company. However, the responsibility to set the strategic direction for PBIT should be that of the Board. Similarly, the Board should be selecting and holding the CEO accountable for achieving PBIT's goals. The recommendations made in this CG Report are in part to guide the Government in empowering the Board and holding it accountable as part of the corporate governance mechanisms available to the Government. Refer to Section B (Board Effectiveness) below for more discussion.

b. **Board to lead PBIT's strategy and oversee establishment of a formal strategic planning process, key financial and internal controls to ensure efficiency and transparency of PBIT's operations; and a robust risk management framework for PBIT:** A condition precedent to setting and reviewing strategy is to have a formal strategic planning process. It is the role of PBIT's Senior Management to develop strategic proposals and present them to the Board for approval. A structured strategic planning process will allow PBIT's Board to set the Company's direction and regularly monitor progress toward achieving key business objectives. PBIT's management has recently started to prepare a strategic plan for PBIT. However, this is very much a working draft. Once the strategic plan is finalized by the Management, the Board should be reviewing the plan and providing input. Only then should it be presented to other stakeholders including the Punjab Government. A strategic plan is used to provide focus, direction and a roadmap in order to move the company from where they are now to where they want to go.

As part of the strategic planning process, PBIT's Management needs to design robust internal controls to safeguard its assets against waste and fraud and ensure compliance with laws. The Senior Management should also have effective risk management framework to mitigate the risks facing the business. PBIT doesn't have a separate risk function. Given the size of the organization, a separate risk function is not necessary. However, it is important that each department has risk orientation and owns the risks facing that particular function and design appropriate mitigants for those risks. Senior Management should establish adequate internal controls and risk management to ensure that the risks to the strategic and business objectives of the Company are mitigated. The sound internal controls framework will ensure that the

Company's assets are safeguarded, financial reporting is accurate, and the compliance function is robust.

At the time of the CG interviews, PBIT's Board was looking for a candidate or a suitable firm to outsource the IA function. Eventually, PBIT should have an internal audit department and develop ToRs for the position of the Head of Internal Audit.

The Board in turn should oversee the internal controls and risk management of PBIT. PBIT's Board, supported by the Audit & Finance Committee, is ultimately responsible for ensuring robust internal controls and risk management in the Company. It is also important the Company External Auditors on a periodic basis to ensure their independence. Refer to more discussion on the role of the Board and the Audit & Finance Committee of the Board in setting robust internal controls and risk management in Section B (Board Effectiveness) below.

c. **Setting up an effective board:** PBIT has a 16-member Board headed by a Non-Executive Chairman. Since its establishment, the Board has undergone key changes to its composition and role. The Board has since its inception consisted of a majority of Non-Executives. However, the Chief Minister acted as the Chairman of the Board. Such close collaboration ensured Government's patronage and raised PBIT's profile—key to its role as a facilitator of investment and a coordinator of the actions of various provincial departments to encourage foreign and domestic investment in key sectors of the Punjab economy. However, on the flip side, the Board shied away from establishing itself as a leader and acted more as a compliance-driven board. Such ex post facto approach deprived the Board from acting in a proactive way. In turn, the Board was essentially relegated to being mostly a board endorsing the Government's/Senior Management's actions without much debate on the overall PBIT's strategy and proper accountability for the Senior Management. In practice, the CEO is responsible directly to the Chief Minister. In or around 2012, the Chief Minister decided to distance himself from the PBIT's Board and appointed a Non-Executive Chairman. Having a Non-Executive Chairman signaled a much needed change to allow the Board take lead without direct involvement of the Government. As discussed in this CG Report, the Board is poised to transform its role in line with good board practices. To transform its role, the Board faces three main challenges: a) to clearly articulate its vision and mission for PBIT; and b) to have members with skills that are relevant to its new role; and c) to develop and implement best board practices to improve board functioning. Only an effective board—both in terms of having clear purpose and right skills for its members—can lead PBIT to where it wants to be in future. Refer to more discussion on PBIT's Board and our recommendations in Section B (Board Effectiveness) of this CG Report. The Board needs to continuously improve its role, composition, and skill-mix to align with the PBIT's vision.

d. **Clarifying the Role of the Chairman:** During our interviews with the Chairman, Board Members, and the Senior Executives of PBIT, it became clear that there was not enough clarity on the role of the Chairman versus the CEO. Consequently, there was overlap in the discharge of their respective functions.

   Being a Non-Executive, the Chairman's role is to lead the Board. All executive functions are to be left to the Senior Management led by the CEO. The Board in turn can set KPIs for the CEO and her team to evaluate their performance on an annual basis. Such segregation of roles and responsibilities is in line with the separation of the offices of the CEO and Chairman. The Board, on the other hand, is responsible for providing strategic leadership, risk governance, and exercising adequate oversight over Senior Management through financial and internal controls. Consequently, the Board should develop clear ToRs for the position of the Chairman as recommended in Section B (Board Effectiveness) of this CG Report.

e. **Benchmarking against best international practices.** When assessing PBTI's corporate governance and focusing on the crucial role its Board and Senior Management play therein, it is beneficial to look at the corporate governance of other very successfully managed IPIs throughout the world. All these homologue IPIs were set up by their respective Governments and share the common goal of attracting inward investments into their countries for the benefit of job creation and economic growth. In more technical terms of institution building, it is remarkable that some of the most successful Governments are paying increasingly importance to strengthen the role of IPI's Boards. This is done by ensuring a well-balanced composition which reflects that all necessary skills and, in particular, up-to-date relevant knowledge on key sectors is represented in the Board by bringing in private sector specialists. On the other hand, granting more autonomy to Boards has always to go hand in hand with stricter accountability and transparency as to avoid conflicts of interest, corruption and to demonstrate that the taxpayers' money is spent in line with the public-interest objectives these IPIs necessarily have to follow, which additionally have their proper Internal Audit Committees put in place. A number of good examples focusing on Board compositions and CG related particularities is provided in Annex 2.

B. Recommendations: Board Effectiveness

This section describes recommendations to strengthen PBIT Board Effectiveness, followed by our analysis.

B. Recommendations for Board Effectiveness		Priority
B1	B1. Reduce the Board Size from 16 to 10 Members and ensure Non-Executive Directors with Relevant Skills.	High
B2	Develop a Board Charter	Medium
B3	Develop Directors' Terms of Reference	Medium
B4	Develop TORs for the Chairman	High
B5	Strengthen the Role of the Audit & Finance Committee of the Board	High
B6	Strengthen the Role of the HR Committee of the Board	High
B7	Set out Board's Working Procedures	Medium
B8	Reimburse Non-Executive Directors for Out-of-Pocket Expenses for Attending Board Meetings	Medium
B9	Develop a Board Evaluation Plan	Low
B10	Develop Directors' and Senior Management Succession Plans	Medium
B11	Improve the CG Knowledge and Inter-personal Skills of Directors through formal Board Training	Low
B12	Appoint a Company Secretary and develop ToRs describing his/hers Roles and Responsibilities.	Low

An effective, professional, and independent Board of Directors is essential for good corporate governance. The Board acts in the best interests of the company and its shareholders. It approves the strategy of the company, oversees management and the company's financial operations, and protects shareholders' rights. While the Board cannot substitute for talented professional managers, or change the economic environment in which a company operates, it can influence the performance of the company through its strategic oversight and control over management. Board activities may go entirely unnoticed when everything appears to be going well. However, when a company faces difficult conditions, the Board becomes the centre of attention and its importance becomes clear.

Board composition is central to a board's functioning and performance. During interviews conducted by the IFC Team, Board Members were committed to setting up an effective board to lead PBIT.

PBIT has a 16-member Board headed by a Non-Executive Chairman, Mr. Muzaffar Khawaja. To its credit, the Board has majority of members from the private sector, who are non-executives, (i.e., 9 out of 15 members) comprising (1) Mr. Pir Saad Ahsanuddin; (2) Ms. Seems Aziz; (3) Ms. Ayesha Aziz; (4) Mr. Aamir Iqbal; (5) Mr. Ziad Bashir; (6) Ms. Sharmeen Obaid Chinoy; (7) Ms. Saadia Khan; (8) Mr. Khimid Ando; and (9) Mr. Shehryar Baksh. Further, the Board has six (6) ex-officio directors, of which three are career civil servants comprising Secretary, Finance, Secretary, Industries, and Chairman, Planning & Development. The remaining three (3) Ex-officio Directors comprise the Presidents of Lahore and Faisalabad Chambers of Commerce and the CEO, Ms. Amena Cheema. Although designated as Ex-officio Directors, the Presidents of the Lahore and Faisalabad Chambers of Commerce are private sector individuals with business background. As a result, 11 out of 15 Board Members are in essence from the private sector.

At the start, the Board was headed by the Chief Minister of the Punjab with a Vice Chairman who was a de-facto board member/CEO. Subsequently, the Chief Minister relinquished his role in favor of a non-executive Chairman. Separating the roles of the CEO and the Chairman has paved the way for setting up a professional board at PBIT, aligned with the Government's expectation as manifested by its membership comprising a majority of private sector members. Further, the Board increased the number of female board members to ensure gender diversity. As a result, ¼ of its Members are women. Refer to Section A3 "Governance Challenges for PBIT's Board" for more discussion on the key governance challenges of the Board.

The brief profile of PBIT's Board is as follows:

Names & Designation	Qualification	Areas of Expertise	Ex-officio : Non-Executive Member
(1) Mr. Muzaffar Khawaja, Chairman, PBIT	M.Sc. Economics, University of Karachi, Karachi	Banking and Management Consulting	Non-Executive
(2) Mr. Jehanzeb Khan, Chairman, Planning and Development, Government of Punjab	MBA (Public Service), University of Birmingham	Public Financial Management	Ex-officio
(3) Mr. Khalid Sherdil, Secretary, Industries, Commerce and Investment Department, Government of Punjab	MSC, Computer Science, McGill University, Montreal	Computer Science	Ex-officio
(4) Secretary, Finance, Government of Punjab[1]	___	___	Ex-officio
(5) Mr. Sheikh Muhammad Arshad, President Lahore Chamber of Commerce	BA, Islamia College, Lahore	Entrepreneur	Ex-officio
(6) Mr. Ch. Muhammad Nawaz, President The Faisalabad Chamber of Commerce & Industry	Graduate	Entrepreneur	Ex-officio
(7) Mr. Pir Saad Ahsanuddin, Executive Director, Republic Engineering Corporation (Private) Limited	MBA, Harvard Business School, Boston, Massachusetts	Strategy, Private Equity, and Entrepreneurship	Non-Executive

[1] At the time of the CG interviews, the position of the Secretary Finance was vacant.

(8) Ms. Seema Aziz, Managing Director, Sefam (Private) Limited	BSC, University of Punjab, Lahore	Entrepreneur and social activist	Non-Executive
(9) Mr. Aamir Iqbal, Managing Director & CEO, Bayer Pakistan (Pvt) Limited	MBA, Institute of Business Administration, University of the Punjab, Lahore	Marketing and management	Non-Executive
(10) Ms. Sadia Khan, CEO, Selar Enterprises (Private) Limited	MBA, INSEAD	Development Finance, Strategy and Management	Non-Executive
(11) Ms. Sharmeen Obaid Chinoy,	Master's in International Policy Studies, Stanford University	Journalism and Film	Non-Executive
(12) Ms. Ayesha Aziz, Managing Director, Pak Brunei Investment Company	MBA, Institute of Business Administration, Karachi	Banking and Finance	Non-Executive
(13) Mr. Khimid Ando, Chief Executive Officer, Pakistan, Mitsubishi Corporation	Bachelor of Liberal Arts, International Christian University, Tokyo	Management and Marketing	Non-Executive
(14) Mr. Ziad Bashir, CEO Arwen Tech (Private) Limited	BSC, Babson College, Boston	Textile and Information Technology	Non-Executive
(15) Mr. Sheryar Baksh, Chairman, H. Karim Buksh (Private) Limited		Entrepreneur	Non-Executive

(16) Ms. Amena Cheema, CEO, PBIT	Masters in English Literature, University of Richmond, Richmond, VA	Policy analysis, mediation and inter-government negotiations	Ex-officio

With a Non-Executive Chairman and a majority of private sector members, the Board is all set to transform its role to become a professionally-run board. Key changes for PBIT to improve board composition and functioning are as follows:

B1. Reduce the Board Size from 16 to 10 Members and ensure Non-Executive Directors with Relevant Skills. We recommend PBIT reduce the board size to ten (10) members comprising four (4) Ex-Officio Directors, five (5) Non-Executives, and a Non-Executive Chairman. As discussed above, the Board currently consists of 16 Directors, of which nine are Non-Executives, six Ex-Officio Directors, and a Non-Executive Chairman.

Board Size: In terms of ideal board size, there is no magic number. The board size could vary depending upon the sector, the requisite skill mix, and the need to have adequate representation of different categories of directors. As a common sense rule, boards should have enough members to complete their work effectively (without overburdening members), to provide continuity, and to ensure quorums for meetings. At the same time, boards should not be too large to mitigate the risk of indecision and unnecessary conflict arising from having to accommodate views of each one of the board members. As a consequence, seven to nine members appear a common board size. In any event, a board should not have more than 12 members. Fewer than seven is also not advisable, as the quorum becomes very small, and the exclusive appointment of independent directors to committees difficult.

In line with international best practices, many other successfully managed IPIs are governed by rather lean Boards composed of around 10 Board members (New Zealand 9, Sweden 10, and Ireland 13) with an important percentage of private sector specialists with relevant experience in key sectors for inward investment attraction. Refer to the international benchmark in Annex 2 for more details.

Currently, PBIT Board has 16 members. It is understandable that the Board has to ensure adequate representation of the Government Nominees vis-à-vis the Private Sector Members. However, given the large number of directors, PBIT Board risks having lengthy board meetings with discussions dominated by a few active members. Over time, this can lead to alienating those Board members who are unable to participate fully in board discussions. Or worse, the Board may be tempted to make certain decisions without proper discussions due to the time pressure. Consequently, the Board size should be decreased. In reducing the board size, of course, the total number of both the Government Nominees and the Non-Executives will have to be decreased. The key, however, is to continue to maintain the balance between the Government Nominees and Non-Executives. Similarly, the key skills need to be present on the Board irrespective of the reduced board size. Both these objectives could be achieved given that the Board would still have enough members to ensure adequate representation and proper skill mix.

Skill Mix: In terms of the skill mix, the Board has general management, economics, IT, financial management, and banking experience. To strengthen the current skill-mix, the Board will benefit from having a director with marketing and accounting background as well as sector specialists in key sectors (e.g., energy, agriculture, urban transport, waste management, etc.).

Board Independence: In addition, the Board should have sufficient independence within its ranks for it to act objectively and in the best interest of the Company. Consequently, the Board should ensure that all Non-Executives are in addition considered Independent Directors. In summary, PBIT should consider the following key changes to the Board size, skill mix and independence:

- For reasons discussed above, reduce the board size to 10 Members (i.e., 4 Ex-Officio Directors; 5 Non-Executives; and a Non-Executive Chair).
- Having five (5) Non-Executives should ensure that the Board continues to have private sector orientation and relevant skills.
- The Ex-Officio Directors should be four (4) including the PBIT's CEO. The Board can recommend to the Government which Government Departments/Business Chambers to continue to be represented on the Board.

Key Benefits of an Independent Director:

Regardless of the official definition, the key is to have an independent-minded person to help ensure the following:

- *Helps ensure that situations are assessed openly and objectively, bringing an unbiased view to board deliberations.*
- *Ability to act in the best interest of all shareholders (and not just the one it might represent).*
- *Helps ensure the long-term interests of the company are being considered (and not being influenced by the potential near-term strategy of one or two particular shareholders).*
- *Helps guarantee a professional member with the right qualifications, skill sets, and commitment is appointed.*
- *Provides assurance to minority shareholders that their views are being represented (and the directors are not just representatives of major stakeholders).*

- Non-Executive Directors should be no more than five (5), who have relevant skills and are committed to the directors' duties described earlier. In deciding which Non-Executive Directors to retain, the Board should be guided by a) whether the particular skill is needed; b) whether the particular skill is already represented or overlaps; and c) the time commitment by the selected Non-Executives.

- The Chairman should continue to be a Non-Executive to ensure proper accountability of the CEO and the Management.

- The Chairman to encourage that the Government Nominee Directors attend meetings in person and appoint proxies to attend board meetings only for exceptional circumstance.

- Continue to have a sufficient number of women directors to ensure board diversity;

- Ensure that all Non-Executives are Independent Members to enhance board objectivity (refer to Rule 2(d) of the Public Sector Companies (Corporate Governance) Rules, 2013 for the definition of Independent Director).

- PBIT should ensure the Board has relevant skills. The Board, as a group, should have the following skills: Strategy, Public Policy, Management (particularly HR management), Sector Specialists (e.g., energy, agriculture, urban transport, waste management, etc.), Investment & Finance (particularly public financial management background), Economics, Marketing, and Accounting.

Based upon the above considerations, the recommended board composition is as follows:

	Total Size	**Ex-Officio Members**	**Non-Executive/Private Sector Members**	**Chairman: Executive or Non-Executive?**
Current	16	6	9	1 (Non-Executive)
Recommended	10	4	5 (Independent Directors)	1 (Non-Executive)

B2. Develop a Board Charter: We recommend PBIT document the Board's roles and responsibilities in a formal board charter. Refer to "Annex 2: Sample Board Charter".

Currently, the Board doesn't have a written Board Charter. Based on the interviews, we also understand that there was a lack of clarity regarding the full range of board roles and responsibilities. At the same time, Board Members were aware of the need for a more active board. The expectations from each Board Member need to be communicated at the time of appointment/renewal of the board term. This can be achieved by having a written board charter. The board charter will ensure that the Board discharges its roles and responsibilities in line with best board practices. The board charter should be used to help set the annual work plan (refer to more discussion on the board work plan later in this Section B) to ensure that all areas of board responsibility are included in board agendas as appropriate.

The Board charter should also provide clarity to the Directors as to the role of the Board versus Senior Management in the Company.

Board vs. Management Roles: In establishing a more formal Board, PBIT should clearly delineate the oversight and decision-making roles of the Board versus Management (i.e., Management refers collectively to the executives of PBIT). Generally speaking, the Management (not the Board) is responsible for running PBIT on a day-to-day basis. This includes all types of routine business decisions, except those, which are highly material or extraordinary in nature (e.g., projects above a defined threshold or other major capital allocations).

Key Board Roles (Documented in the Board Charter)

- ✓ *Reviewing, approving, and monitoring PBIT's long-term strategic objectives and business plans of Management.*
- ✓ *Monitoring the overall performance of the Company and Management's progress towards its strategic objectives.*
- ✓ *Assessing the major risks facing PBIT and the steps taken by Management to monitor and control such risks.*
- ✓ *Reviewing and approving major business transactions, including significant capital allocations and expenditures.*
- ✓ *Selecting and recommending Director Nominees for election by Shareholders.*
- ✓ *Selecting, developing, and evaluating potential candidates for executive officer positions (when necessary) and overseeing the development of executive officer succession plans.*
- ✓ *Overseeing the integrity of the financial statements, the compliance with legal and regulatory requirements, the performance, qualifications, and independence of the external auditor, and the performance of the internal audit function.*
- ✓ *Assessing the adequacy of and compliance with PBIT's Code of Ethics and Code of Conduct to promote compliance with applicable laws and regulations.*
- ✓ *Evaluating the overall performance and effectiveness of the Board and deciding on matters of corporate governance.*
- ✓ *Reviewing financing needs for PBIT and approving significant financing transactions.*

In turn, the Board's role is to provide strategic leadership to PBIT and oversee the Senior Management. In that role, the Board should be kept abreast of all facets of management activity (not just financial) at an oversight level (see later discussion on Board Working Procedures and setting an annual board work plan in this Section). Performing the roles and responsibilities agreed in the Board Charter, the Board should ensure it is clear on how it will fulfill each of those roles versus the Management. (Refer to more discussion on the separation of the roles of the Board and the Senior Management under the Chairman's role in this Section B below).

B3. Develop Directors' Terms of Reference. We recommend PBIT define and develop terms of reference (ToRs) for Individual Board Members. The TORs will clarify the expectations PBIT has from each Board Member and will serve as the basis for the annual Board Evaluation (see discussion on board evaluation later in this Section). The board charter, discussed before, defines the roles and responsibilities for the Board as a group. The Director TORs will define the requirements for individual Directors.

These TORs have been added as part of the draft board charter for PBIT (refer to "Annex 5: Draft Board Charter). They should be clearly communicated to all existing and potential Board Directors, prior to their selection, to ensure they fully understand the Company's expectations and the commitment required to serve on the Board.

B4 Develop TORs for the Chairman. We recommend PBIT's Board develop clear terms of reference for the Board Chairman. Being a Non-Executive, the Chairman's role is to lead the Board. All executive functions are to be left to the Senior Management led by the CEO. The Board in turn can set KPIs for the CEO and her team to evaluate their performance on an annual basis. Such segregation of roles and responsibilities is in line with the separation of the offices of the CEO and Chairman.

Further, the Chairman should be devoted to improving board performance and implementing recommendations made in this CG Report. As such, it is important that he provides active leadership to the Board in his role as Board Chair.

Given that the Board Chairman is expected to have thorough knowledge of PBIT's strategy, investment goals, and its activities, and maintains close liaison with the CEO, he/she can act as the spokesperson for PBIT at different investment forums and similar occasions.

Further, we recommend that PBIT develop an Authority Matrix to guide the Board and the Senior Management regarding their roles and responsibilities. In addition, the Authority Matrix should also help the Board to define those responsibilities that should ideally be delegated to the Board's Committee. The Matrix clearly describes where different types of business decisions are to be made (e.g., AGM, Board, Board Committees, or Senior Management). This will help clearly define and communicate the authorities of the Board and Senior Management to all parties to avoid ambiguity and sharpen decision making. Refer to “Sample Authority Matrix” attached as Annex 3.

B5. Strengthen the role of the Audit & Finance Committee of the Board. We recommend PBIT strengthen the role of the Audit and Finance Committee of the Board. PBIT currently has a 4-member Audit and Finance Committee comprising Mr. Ziad Bashir (Convener), Non-Executive, Mr. Jehanzeb Khan, Secretary, Finance Department, Mr. Khalid Sherdil[2], Secretary, Industries, Commerce, and Investment Department, and Ms. Ayesha Aziz, Non-Executive.

Key Functions of Audit Committee

- ✓ *Consist of three non-executive members, ultimately with a majority of independent directors (including the chair of the Committee).*
- ✓ *Include a member(s) with strong financial/accounting expertise (ideally the Committee chair).*
- ✓ *Oversee and monitor the presentation of financial statements and other non-financial disclosures.*
- ✓ *Oversee the work of the External and Internal Auditors.*
- ✓ *Oversee the Company's frameworks for risk management and internal control.*
- ✓ *Oversee proper compliance with applicable external laws and regulations binding the Company.*
- ✓ *Oversee internal compliance with the Code of Conduct (including serving as the point of contact for the anonymous 'whistle blower' process) and other key conduct-related policies such as conflict of interest, and related party transactions.*
- ✓ *Oversee follow-up of management's response to any audit findings (e.g. internal control weaknesses).*

Board Committees ensure board professionalism and help manage conflict arising from having company executives on the board. The committees help handle a greater number of issues in a more efficient manner and develop subject-specific expertise on the company's operations. The key board committees are audit, nominations, and remuneration.

Composition of the Audit and Finance Committee: The Audit& Finance Committee should have strong financial and accounting expertise to be able to assist the Board in overseeing financial reporting, internal control, risk management, and internal and external audit. The Audit & Finance Committee doesn't have a written charter. It is advised that the Board develop and approve a formal charter for the Audit and Finance Committee. Refer to “Annex 4: Sample Audit Committee Charter”. The Audit & Finance Committee's Chair should be an Independent Board Member with accounting and finance background, and preferably with majority of Independent/Non-Executive Directors who are financially literate to discharge their duties as Committees' Members.

[2] Mr. Sherdil is Ms. Amena Cheema's spouse. This could have given rise to conflict of interest in his role as the Member of Audit & Finance Committee. However, Ms. Cheema recently resigned from her position as the CEO hence this isn't flagged as such in this CG Report.

Establish adequate internal controls and risk management. Overseen by the Audit & Finance Committee, we recommend PBIT to develop adequate internal controls and risk management framework. The internal controls will ensure that PBIT has procedures and practices safeguarding the Company's assets against waste, fraud, and inefficiency, ensuring reliability and accuracy of financial and operating data, and ensuring compliance with the Company's polices, laws and regulations. Risk Management will be an integral component of the internal controls by ensuring that the risks to the strategic and business objectives of the Company are adequately identified and having risk controls for key risks.

Committee of Sponsoring Organizations of the Treadway Commission's (COSO) "Internal Control-Integrated Framework" is designed to act as a major stimulus for companies to focus on their internal control systems, so that these could ensure reliable corporate governance, credible financial reporting and efficient risk management. COSO's internal control system model is based on five interrelated components:

» The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all aspects of internal control, providing discipline and structure. Of particular importance is that the control environment is influenced by the integrity and ethical values of those in leadership positions within the organization and reflected in the tone set by top management.
» Risk assessment is the entity's identification and evaluation of how risk might affect the achievement of objectives.
» Control activities are the strategic actions established by management to ensure that its directives are carried out.
» Information and communication systems provide the information in a form and at a time that enables people to carry out their responsibilities.
» Monitoring is a process that assesses the efficiency and effectiveness of internal controls over time.

It is also important to distinguish risk management from internal controls. The risk management is tasked with identifying key risks to the company, measuring exposures to those risks, monitoring risk vulnerability, determining the corresponding need on an ongoing basis, controlling or mitigating risk exposures, and reporting to the senior management and the Board. In contrast, the internal controls are designed to ensure each key risk has a process to help control the risks, help to ensure process integrity, compliance and effectiveness, provide comfort that financial and management information is reliable, timely and complete, and place reasonable checks on managerial and employee discretion.

Leading Practices in Setting up Risk Management Framework

- ✓ *Integrate risk identification and assessment (probability, impact) into the strategic planning process – i.e., develop a simple, easy to use strategic planning template that articulates objectives, strategic actions/initiatives, budget, KPIs, and Risks.*
- ✓ *Include mitigation actions and owners to track progress.*
- ✓ *Have each business unit then update this planning matrix periodically – e.g., monthly/bi-monthly – and use to monitor performance.*
- ✓ *Keep it simple – don't make it burdensome – Use it as a tool to review progress against the plans/risks at routine management meetings (e.g., monthly or quarterly).*
- ✓ *Helps ensure risks are linked to strategic plans/actions – and risks are considered and discussed in a more methodical manner on a routine basis.*

Establish a separate IA function. We further recommend PBIT set up separate internal audit (IA) department to monitor and ensure adequacy of internal controls. In the short- to medium term, PBIT can consider outsourcing the IA function. We have been told that PBIT is currently in the process to identify a consultant/firm for outsourcing internal audit's role. The Audit & Finance Committee should be leading the selection process and recommending to the Board the names of potential candidate(s) for the outsourced IA position.

The IA is responsible for measuring and evaluating the effectiveness of internal controls in the company. Its key functions include ensuring the efficacy of management operations, the integrity of financial and other data, safeguarding the assets of the company against misappropriation and fraud and ensuring compliance with applicable laws. Given its mandate, the "litmus test" for the effectiveness of the internal audit function is its ability to help the company implement and improve internal controls necessary for achieving goals and objectives set by the management. To conduct independent appraisals, the audit department has to be independent from the management. By clearly defining the audit department's roles and responsibilities, an organization can minimize the risk of interference in the audit process. Internal auditors should be functionally reporting to the board and its audit committee to ensure their independence from the management.

Leading Practices in Setting up Effective Audit Department

- ✓ *The Head of IA should develop Annual Audit Plan with input by the Senior Management and approved by the Board of Directors*
- ✓ *To efficiently discharge his roles and responsibilities, the Head of IA should have a team of 2-3 staff working with him to conduct annual audits.*
- ✓ *The Internal Audit Manager to functionally report to the Board Audit Committee (with a dotted line to the CEO).*
- ✓ *The Internal Audit to continually advise the Board and the Audit Committee on emerging risks, risk management, and internal audit to keep them abreast of the latest developments as well as attending Audit Committee meetings where audit issues are discussed.*
- ✓ *The Head of IA and other internal audit department staff should attend training on their role as internal auditors. This will be a key challenge to continuously improve skills of the internal audit department so that it is a value-add to the company.*

B6. Strengthen the role of the HR Committee of the Board. We recommend PBIT strengthen the role of the HR Committee of the Board. PBIT has a 4-member HR Committee comprising Mr. Shehryar Baksh, Non-Executive (Convener), Ms. Seema Aziz, Non-Executive, Mr. Khalid Sherdil[3], Secretary, Industries, Commerce, and Investment Department, and Ms. Amena Cheema, CEO, PBIT. The HR Committee was actively involved in the section of the incumbent CEO and recommended the shortlisted candidates to the Board. We recommend that PBIT has a majority of Non-Executives on the HR Committee. PBIT to appoint a new Non-Executive/Independent Director to replace to manage the conflict and align the HR Committees composition with good CG practices.

The Pakistan Code of Corporate Governance 2012 (CG Code) mandates every listed company to have, inter alia, a Human Resource & Remuneration (HR&R) Committee.

The CG Code stipulates that the HR&R Committee will be composed of at least three members comprising a majority of non-executive directors, including preferably an independent director. The CEO may be included as a member of the committee but not as the chairman of committee. The CEO, if member of HR&R Committee, shall not participate in the proceedings of the committee on matters that directly relate to his performance and compensation.

The committee shall be responsible for:
i) Recommending human resource management policies to the board;
ii) Recommending to the board the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO;

[3] See footnote 2 above.

iii) Recommending to the board the selection, evaluation, compensation (including retirement benefits) of COO, CFO, Company Secretary and Head of Internal Audit; and
iv) Consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO or COO.

In contrast the above roles and responsibilities of the HR&R Committee as stipulated under the CG Code, the Public Sector Companies (Corporate Governance) Rules, 2013 requires all public sector companies to have key board committees including the HR & Nomination Committees—together these two committees are responsible for both board and the Management-level succession planning and HR leadership. Further, the CG Rules 2013 set more stringent criteria for HR & Nomination Committees membership requiring a non-executive chair with the majority of Independent Directors for these two board committees.

Strengthen HR function and develop key HR policies and procedures and continue to update these policies. We recommend PBIT strengthen the HR function and develop key HR polices. PBIT currently has 31 vacant positions against the total head count of 76 staff. Further, PBIT has experienced high staff turnover in recent years. Accordingly, PBIT need to strengthen HR policies and employ talented staff for key business functions and processes and continually motivate them through right incentives.

A key aspect of the HR policies should be to attract and retain talented staff that are incentivized and are made accountable for their work. Another important role of PBIT's HR should be of developing succession plans for Senior Managers. The succession planning is not just naming back-up staff but grooming the potential successors for leadership positions in the Company through coaching, on the job training, and formal leadership and technical trainings to develop their skills.

Leading HR Practices

- ✓ *Document HR function ToRs to ensure all key roles are being addressed.*
- ✓ *Appoint an HR Lead to oversee all HR roles – give senior level person oversight role for HR to elevate its strategic importance.*
- ✓ *Strive to make the HR function a strategic partner – e.g., helping design effective sourcing and retention strategies, compensation and benefit programs, professional development programs, and performance management systems.*
- ✓ *Document policies/approaches to these areas: Compensation/Benefits, Professional Development, Performance Management and Reward.*
- ✓ *Consider outsourcing some roles (e.g., recruitment/sourcing, professional development).*
- ✓ *Consider setting up an HR committee to give senior level attention and help strategize these various issues.*

B7 Set out Board's Working Procedures. We recommend PBIT set out and document the Board's working procedures to improve board effectiveness. Most of the recommendations are easy to implement, but their influence on the efficiency and effectiveness of Board/Committees' meetings should be long lasting.

Develop an Annual Work Plan: Each year the Board needs to set up an annual work plan. The Chairman should draft the work plan with help from the Company Secretary, to be shared with the Board for review and approval. At the beginning of each fiscal year, the major topics that the Board wants to address during its routine meetings should be defined with approximate time allocated to each. The roles and responsibilities defined in the Board Charter should serve as an input to the work plan to ensure the Board is covering all its duties accordingly and spending the appropriate time for each subject. This will form the basis for the meeting agendas (to be augmented with other timely issues as needed). Examples of topics that the Board should include in its work plan are included in the table below. It should be noted that, when dealing with the relevant executive issues, the responsible person in the Company could be invited if it is viewed that their additional input is required. There will likely be other topics that the Board chooses to set as part of its work plan and schedule accordingly. The agenda for each particular meeting should also include other timely, pertinent issues that routinely come up during the course of business.

Sample Board Plan (not exhaustive)

Topic	Minimum Frequency	Facilitated via Committee
Setting the strategic plan and budget	Annually (updated as needed)	Possible Work Group
Reviewing management performance against plan	Quarterly (plus as needed)	Full Board
Monitoring expansion project performance	Quarterly (plus as needed)	Full Board
Reviewing the financial statements	Quarterly (plus as needed)	Audit Committee
Discussing risk management and control (and other Internal Audit findings)	Quarterly (plus as needed)	Audit Committee
HR Improvements Updates	Quarterly (plus as needed)	HR/Nominations /CG Committee
IT Investments/Updates	Semi-Annually (plus as needed)	Audit Committee/Work Group
Business Development/Marketing	Quarterly (plus as needed)	Possible Work Group
Succession Planning	Annually	HR/Nominations /CG Committee
Board Evaluation	Annually	HR/Nominations /CG Committee
CEO Evaluation	Annually	HR/Nominations /CG Committee
Corporate Governance Review	Annually	HR/Nominations /CG Committee

Board Meetings—Frequency and Agenda: During the past two years, the Board has been meeting with irregular frequency. The PBIT's Board should meet at least four times a year. The Audit & Finance and HR Committees should additionally set regular meetings to address roles and responsibilities within their purview, while the working groups, if and when established, should meet as needed. The Board should set its formal agenda based on the annual plan to ensure that all necessary topics are covered during the course of the year. The Chairman should also ensure that sufficient time is devoted to discussing and reviewing the strategy. Any briefing material circulated to the Board (e.g. issue papers, decision memos and management reports) should be succinct yet candid and insightful enough to allow members to quickly get to the root of key issues and make informed decisions.

Board Minutes: The Board should continue to document formal minutes of each meeting, both of the Board and the Board's Committees. The Company Secretary shall have responsibility for documenting the minutes and circulating to all Board Members for approval. The minutes should clearly capture the key takeaways of the conversations held and explicitly document decisions taken or action items identified, as well as mention the Directors agreeing, dissenting or contributing to particular agenda items. This will help ensure that there is follow-up to major decisions/actions from each board meeting.

B8. Reimburse Non-Executive Directors for Out-of-Pocket Expenses for Attending Board Meetings. We strongly recommend PBIT reimburse its Non-Executive Directors for travel and other costs related to attending board meetings. We understand that the Non-Executive Directors are not receiving reimbursement for out-of-pocket expenses.

It is a good CG practice for directors to be remunerated for their work especially if they are independent and have no relationship with the company other than their board seats. Paying the non-executive directors re-enforces the point that being a director of a company is a significant responsibility requiring commitment and time, and not something to be treated as a casual favor for a family friend or business acquaintance. If a company is to attract high level and committed directors over the long term, it will need to pay them for their services. However, as a not-for-profit company, set up under section 42 of the Companies Ordinance, 1984, PBIT is bared from distributing profits from its activities among its members and their family members or providing remuneration for services to its members under the terms of its Memorandum and Articles of Association.

Specifically, section V (3) of PBIT's Memorandum of Association unequivocally provides: "Payment of remuneration for services or otherwise to its Members (except where holding bona fide offices of the Company i.e., Chief Executive Office, COO, Secretary) or their family members shall be prohibited." As the above section expressly provides, PBIT is currently prohibited from paying remuneration to its Members for their services which will include services to be provided as Board Members. Further, Article 51(c) of PBIT's Articles of Association provides: "the company shall not pay or transfer any portion of its money, property or income, directly by way of divided, bonus or profit, to any of its member(s) or the relative or relatives of member or members." This prohibition further restricts payment to Board Directors for their services by way of sharing with them profits of PBIT. Our review of the constituent documents of a number of section 42 companies has revealed that the aforementioned prohibition is almost universal among not-for-profit companies. Given the above bar on remunerating Directors, PBIT, at a minimum, should reimburse those Board

Members who are based in Karachi and come to Lahore to attend board meetings. This reimbursement policy should lead to increasing attendance at board meetings.

B9. Develop a Board Evaluation Plan. We recommend PBIT develop a board evaluation plan to improve board performance. Refer to "Annex 5: Sample Board Evaluation". PBIT should establish a formal process for evaluating its Board Members on an annual basis. PBIT Board can start off with having internal board evaluation. Once the Board Members are aligned on the evaluation purpose and goal, the Board can hire an external consultant to conduct such evaluation. These evaluations, along with the Director TORs, will help ensure Board Members are clear on the expectations and level of commitment required to serve on the PBIT's Board. It will also drive the replacement/re-nomination of Directors, which ideally should take place every three years, on a staggered basis.

Board Group Evaluations	*Individual Director Evaluations*
• *Performance against set objectives* • *Board's contribution to strategic development/oversight* • *Board's contribution to promoting portfolio management, risk management and control* • *Board has right mix of up to date knowledge and skills* • *Board's response to any problems or crises* • *Relevance of Board agendas* • *Board communication with management* • *Contribution to General Assembly and annual report* • *Effectiveness of the Board's Committees*	• *Preparation for Board meetings* • *Attendance at Board meetings* • *Contribution at Board meetings* • *Level of understanding of the Company's business* • *Contribution to strategy, portfolio management, and risk management* • *Trusted and respected* • *Keep their skills up to date* • *Good interpersonal skills* • *Open and independently minded* • *Adherence to duty of care and duty of loyalty*

There are two types of evaluation: a Group Evaluation and an Individual Director Evaluation (refer to the above table). The HR Committee can facilitate this process; including the approach for the evaluation. There should be separate surveys for the Board as a group and that for individual directors; and both should be confidential.

B10. Develop Directors' and Senior Management Succession Plans. We recommend PBIT Board, supported by the HR Committee, develop succession plans for the Board and the CEO and review and approve succession plans for key Senior Management positions. The succession plans should be linked to the documented roles and responsibilities required for each position, and should start by objectively identifying the key knowledge, skills and abilities required for the position; i.e. a job description. Based on this, the succession plan should identify:

- Emergency plans for each position; i.e. if the individual was to leave unexpectedly, how this job function will be performed in the near-term.
- More importantly, potential candidates for the long-term; i.e. the individuals that would best fit the corresponding job descriptions over the long-term.

For any potential candidates identified, a professional development plan needs to be defined to assist preparing the individual(s) for the job; i.e. training to be taken, cross-experience to be achieved.

CEO/Chairman Succession: A priority area that PBIT needs to address is the succession planning for the CEO and Chairman. As discussed above, this will be a key priority as and when the Board is tasked with appointing a successor to the CEO/Chairman. The Board should continually be involved with this process to monitor progress and adjust as needed. Refer to Annex 8: Draft Terms of Reference for the CEO".

B11. Improve the CG knowledge and inter-personal skills of Directors through formal board training. We recommend PBIT train its Board Members on their roles and responsibilities and improve their inter-personal skills through formal training. The training should include a session on the role of the Chairman. PBIT may consider having five Directors including three Non-Executive Directors trained in the medium term. PBIT should aim for the entire Board to be trained in the long term. Further, the Chairman should be periodically (for example, on an annual basis) reviewing the training needs of Board Members including New Board Members and develop a training plan accordingly.

Board training is instrumental in improving board performance. Board members, particularly non-executives, are professionals with in-depth technical knowledge and solid experience who add value to the company's board they serve on. As such, the board members are expected to contribute to the boardroom discussions, shape the strategy of the company, and oversee the senior management. At the same time, an individual director's contribution to a large extent depends on having robust board policies and procedures in place. The trained board members are better positioned than others as CG champions for the board to improve its procedures and practices and add value to the company. Further, such board trainings provide a valuable opportunity to the board members to interact with other directors and be able to benchmark their own governance practices with those of the peers—instead of securing the minimum compliance with local laws and CG regulations.

Training is an important part of being an effective board member. There is substantial pay-off from investing in board member training. Training can take a range of forms depending on the specific needs of the company including induction training, multiday courses, possibly as part of official certification, more advanced courses, such as in finance, role of the chair, role of the audit committee, coaching and mentoring programs, and participation in relevant workshops, seminars, or class.

B12. Appoint a Company Secretary and develop a charter describing his/her roles and responsibilities. We recommend PBIT appoint a full-time Company Secretary and define his/her roles and responsibilities. Currently, PBIT has a part-time Company Secretary. Having a full-time Company Secretary will support the Chairman in running effective board meetings. Refer to "Annex 6: Sample Terms of Reference for the Company Secretary".

Benchmark Comparison: Company Secretary

Best practice is to have a company secretary that can help professionalize the work of the board and improve corporate governance practices. Ideally, the Corporate Secretary has a legal background, understands corporate and securities law, has sufficient business knowledge to understand the company's business, and has strong interpersonal skills that allow him/her to help the Chairperson steer boards. The Company Secretary should not be a board member. In smaller companies, a part-time Corporate Secretary is common. In the MENA region, about 89% of companies stated that they have a Corporate Secretary and about 38% are part-time.

(IFC/Hawkamah MENA CG Survey, 2008)

Given his/hers key role, the major areas of responsibility for a company secretary are to:

- Ensure corporate governance is documented, communicated and followed in practice.
- Support the Board by organizing Board meetings, channeling information to and from the Board and advising on corporate governance.
- Act as a trusted advisor to the Board and the Chairperson.
- Advise the Directors on their responsibilities.
- Provide professional and administrative support to the annual general meeting.
- Advise the Board and Senor Management on legal, regulatory and corporate governance matters.
- Assist in establishing and maintaining clear communication between the various governing bodies of PBIT.

Company secretaries are typically lawyers or ideally individuals who are certified as company secretary (for example, the Institute of Corporate Secretaries of Pakistan offers such training). Candidates who have previously served in this role are a plus. Given his/her role, the company secretary should be committed, vigilant, and have the ability to work under pressure and individuals with these personal traits should be given priority during the selection process. The company secretary should also possess strong interpersonal skills to collaborate with the management and the board. He/She also acts as a valuable resource for the board on legal and compliance issues.

C. Implementation Planning:

C1. Costs & Benefits:

Following is a summary of potential costs and likely benefits associated with the changes described in this Report. The actual costs will depend on specific actions taken, but the table provides indicative cost drivers that can be considered against the potential benefits.

Costs	Benefits
Advisory fees to help implement CG changes	Signal to the investors, creditors, and business partners
Board /Senior Management time to lead changes	Improved Board functioning – Oversight & Stewardship
Internal Staff time to help implement changes	In line with international best practices and donors expectations
	More formal structures & processes to support business Improved risk management and control

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C2. Managing the Implementation – Next Steps:

A proposed Gantt chart is provided in the following section. Firstly, however, some suggested steps are discussed to help PBIT prepare for and manage the implementation effectively.

Prior to and during implementation, PBIT should take care to ensure the following steps are completed to and ensure the improvement project is continuously monitored and managed effectively.

- Obtain Sign-Off – The Chairperson, the CEO, and other Board Members should approve the recommendations. Ideally, this would occur at the soonest possible date so as not to delay their implementation.

- Designate Project Leader – Once the recommendations are approved, PBIT should designate an individual to serve as overall coordinator for these changes. The individual will have primary responsibility for managing the implementation, adjusting the plan as necessary, reporting on project status, and managing communications internally and externally.

- Finalize Plan & Schedule – Once the leader is designated, s/he should review the plan and timeline for implementation. Management should be comfortable with the priorities assigned and timeframes proposed. The leader should update the plan accordingly during the project as progress is achieved and if other changes to the timeline and approach are required.

- Monitor Project Implementation – The leader should establish a routine process for monitoring implementation. This includes routine status meetings (e.g., bi-weekly), status reports, and updates to other Management executives. The leader should use the finalized plan and timeline as the basis for monitoring progress and should update it as necessary.

- Communicate & Manage Change – The leader should develop a plan for communicating the project and its progress to all managers, employees, shareowners, and stakeholders of the Company, as appropriate.

C3. Implementation Highlights:

A tentative implementation schedule is presented in this section. For each task, there is an indication of the relative priority and level of difficulty (workload, complexity) associated with implementing the change.

The precise schedule of activities will depend on several factors such as the hiring of consultants, where necessary, other competing corporate priorities that the Board and the Senior Management find themselves engaged with and so on. The schedule might be accordingly adjusted and some items may need to be brought forward or relaxed.

To enhance Board's effectiveness, several recommendations should be implemented in the near-term (such as reducing the board size with Members having relevant skills, developing the Chairman's TORs, and strengthening Board Committees). Other recommendations (such as Board Charter, Directors' TORs, Board's working procedures, reimbursement of costs, and the development of succession plans for Board and Senior Management) can be implemented in the medium-run. Further, PBIT can begin training individual directors anytime from now, but at least two directors including one Independent Director should be trained in the medium term. Further, PBIT should consider having five Directors including three Non-Executive Directors trained in the medium term. PBIT should aim for the entire Board to be trained in the long term. Last, the Board should develop a board evaluation plan.

PBIT Recommendations: B. Board Effectiveness		Priority	Difficulty	Time Line (T+Months)													
				1	2	3	4	5	6	7	8	9	10	11	12	18	24
B1	Reduce Board Size	High															
B2	Develop a Board Charter	Med															
B3	Develop Director Terms of Reference	Med															
B4	Develop TORs for the Chairman	High															

B5	Strengthen the Role of the Audit & Finance Committee of the Board	High															
B6	Strengthen the Role of the HR Committee of the Board	High															
B7	Set out Board Working Procedures	Med															
B8	Reimburse Non-Executive Directors for Out-of-Pocket Expenses	Med															
B9	Develop a Board Evaluation Plan	Low															
B10	Develop Directors' and Senior Management Succession Plans	Med															
B11	Formal CG Board Training	Low															
B12	Appoint a full-time Company Secretary	Low															

Annex 1: Meeting Schedule with PBIT's Directors and Senior Officers

Sr. #	Names	Designation	In Person/Telephone
1	Ms. Amena Cheema	CEO	In Person
2	Mr. Muzaffar Khawaja	Chairman	In Person
3	Mr. Haroon Shaukat, Turkey Cell	Management	In Person
4	Col Shaukat, Director HR, Admin & F&A	Management	In Person
5	Mr. Fazal Ur Rehman, Director OWF	Management	In Person
6	Mr. Khalid Sherdil, Secretary Industries	Director	In Person
7	Mr. Jehanzeb Khan, Chairman P&D	Director	In Person
8	Mr. Almas Hyder, Vice Chairman, Lahore Chamber of Commerce	Director	In Person
9	Mr. Pir Saad Ahsanuddin, Republic Engineering	Director	In Person
10	Dr. Suhail Saleem, Director ALDD	Management	In Person
11	Ms. Seema Aziz, CEO Sefam Sarena	Director	In Person
12	Ms. Ayesha Aziz, MD Pak Brunei	Director	Phone
13	Mr. Aamir Iqbal, CEO Bayer	Director	Phone
14	Chaudhry Muhammad Nawaz, President Faisalabad Chamber of Commerce	Director	In Person
15	Ms. Sadia Khan, Selar Enterprises	Director	In Person
16	Mr. Khimid Ando, CEO Mitsubishi	Director	Phone
17.	Mr. Hammad Altaf Khan	Ex-Legal Manager	In Person

Annex 2: International Benchmark of Investment Promotion Institutions

When assessing PBTI's corporate governance and focusing on the crucial role its Boards and chief management staff plays therein, it is valuable to take a look at the corporate governance of other very successfully managed investment promotion institutions (IPI's) throughout the world. This annex presents PBIT's five homologue institutions which at present globally rank among the best IPIs and highlights some particularities of their individual corporate governance which might be of interest for PBIT.

I. IDA Ireland (www.idaireland.com)

Why Ireland?	Ireland is the fastest growing economy in Europe and, in 2015, has achieved the highest growth in GDP within the EU (6.9 %). Among investors, the country is renowned for the ease of doing business (WBG Doing Business 2016, 17th rank), a very industry-friendly taxation regime, an easy access to European markets, developed infrastructure, availability of skilled human resources – the Irish education system is considered as one of the best worldwide –, and an industrial (cluster) policy helping new business to get easily connected to cutting-edge companies already based in Ireland. These advantages are confirmed by a positive track record for return on investment. Originally founded in 1949 and re-established in 1994, IDA Ireland is an autonomous Statutory Agency set up under the Irish Industrial Development Acts and operates under the aegis of the Minister for Jobs, Enterprise and Innovation who is empowered to provide funds to discharge its obligations, to issue general policy directives and to seek information on the Agency's activities. IDA Ireland is widely recognized as one of the most successful IPIs in the world and, in 2015, has been distinguished as one of the top global investment promotion agencies by the professional investors' magazine Site Selection. IDA Ireland is acting very ambitiously since, in 2014, it has adopted the strategy *"Winning: Foreign Direct Investment 2015 - 2019*". Its key targets are the creation of no less than 80,000 new jobs through 900 new investments and a 30 – 40 % increase in investments carried out in regional locations. According to the annual report, in 2015 alone IDA Ireland's clients made 213 new investments and created almost 19,000 new jobs.
Mission and role	As the publicly owned Irish inward investment promotion agency, IDA Ireland is the main body responsible for the attraction and development of foreign direct investment and partners with existing foreign investors to

	grow their businesses in Ireland. It offers a wide range of investment support services to potential investors, including fact finding, funding, site visits and property solutions. In offering its services, IDA puts a strong focus on further developing core industries, in particular healthcare, biotechnology, ICT, financial services and logistics, helping new business to partner with already established firms.
Board of Directors	**The Board of Directors is composed of 13 members (12 + the CEO), including 3 female and 10 male members.** 3 Board members (including the CEO) are public officials whereas the other 10 private sector representatives bring both management skills and specific knowledge on targeted key industries, being specialists in healthcare, ICT and logistics. The Board has put in place 6 committees which meet on a regular basis, in charge of: (1) Audit, Finance & Risk; (2) Property; (3) Regional Development; (4) Sectoral Development; (5) Management Development and Remuneration; and (6) Management Investments. The latter has the delegated power to approve grants up to 500.000 €. **In 2015, the Board held 10 ordinary and 2 special meetings.** It operates to best practice corporate governance principles following the guidelines set out in the Irish 'Code of Practice for the Governance of State Bodies' issued by the Department of Finance, both in its own activities and in its use of committees. The Board is responsible for setting the broad policies of the organization and for overseeing its operation. It performs these functions directly and through the operation of focused Board Committees. Responsibility for the implementation of policy rests with executive management.
Particularities	IDA Ireland's Board has statutory authority to approve grant aid up to the levels set out in the Industrial Development Acts and to recommend grant aid above these specified levels to Government. In accordance with the Ethics in Public Office Acts, 1995 and 2001, IDA Ireland Board Members furnish a Statement of Interests to the Secretary and to the Standards in Public Office Commission. In accordance with the 'Code of Practice for the Governance of State Bodies', IDA Ireland fully complies with Government policy on the pay of Chief Executives and State Body employees and with Government guidelines on the payment of fees to Board.
Take-aways for PBIT	• IDA has a clear focus on investments in a number of core industries and ensures that this is adequately reflected in the composition of the Board of Directors by including members with relevant knowledge and experience.

	• IDA has put in place a well-balanced Board of Directors regarding the presence of up to date relevant knowledge – on specific key industries and management – as well as the proportionality of women/men. • IDA Ireland pays much attention to ensure maximum transparency and accountability as to the overall performance of the agency and the role of the board and its Directors, by this ensuing trust of government authorities, business partners and potential investors. • The Board operates on the basis of an adopted and published multi-annual strategy with clear target goals which is focused on the aspect of inclusiveness as to create jobs, by this ensuring that people effectively benefit from foreign direct investments.

II. Department for International Trade (www.gov.uk – no individual website)

Why UK?	The UK is a high income country with an extraordinarily competitive economy and a relatively lean business administration, ranking 6th in the 2016 WBG Doing Business Report. The country benefits from attractive tax rates, the use of English, a reliable legal system, as well as UK's membership of the European Union, factors that traditionally make the UK an attractive location for foreign investors. However, according to most economists, UK's upcoming exit from the EU is more than likely to negatively affect this good performance in future. **Established in 2003 as UK Trade and Invest (UKTI), UK's foreign investment promotion agency was replaced by the Department for International Trade (DIT) recently in July 2016.** UKTI was a joint, non-ministerial Government Department which reported to the Secretaries of State for the Department for Business, Innovation and Skills (BIS) and the Foreign & Commonwealth Office (FCO). UKTI had its own objectives and also contributed to the objectives of both parent departments. Before replacement, UKTI managed to achieve outstanding results in terms of foreign investments and job creation. In 2015 to 2016, UK attracted a record number of inward investment projects (2,213, +11%) and actively contributed to achieving the second highest number of jobs created or safeguarded in UK's history (116,000). UKTI then helped to secure 4 out of 5 of the projects that created these jobs. Simultaneously, the country managed to maintain its status as a top European destination

	for investment from emerging markets, in particular from China and India. In early 2016, UKTI served as a model for the future development of PBIT and the British agency had been the object of a comparative analysis for inspirational purposes to PBIT that suggested reinforcing the collaboration between the two agencies. For these reasons, a closer look is taken at the corporate governance of UKTI and, where relevant information and data is available, also at the changes introduced in the course of its replacement by DIT.
Mission & role	DIT's mission is to help bringing investment to the UK by increasing inward investment opportunities. At the same time, the department is in charge of helping to increase exports from the UK and to increase overseas demand for UK's exports. However, the focus of the new department lies in bringing trade and investments closer together and, in the department's own words: *'developing, coordinating and delivering a new trade and investment policy to promote UK business across the globe'*. This is to include developing and negotiating free trade agreements and market access deals with non-EU countries, negotiating multilateral trade deals (focused on specific sectors or products as well as providing operational support for exports and facilitating inward and outward investment.
Board	***Please note: since the DIT is under restructuring and did not yet officially disclose any public corporate information, we refer to UKTI's corporate governance of UKTI for the purpose of this benchmark since it was taken as a model for the purpose of the comparative analysis.*** The corporate governance structure of UKTI presented numerous particularities when compared to its homologue institutions in other countries. As a Non-Ministerial Public Department, UKTI was headed by the **Trade and Investment Board with 11 members – the Minister, 4 executive members, 4 non-executive members and 2 representatives of other government institutions**. In 2016, this number was reduced to 8. The Board included the CEO of UKTI – as an ordinary member and also the only woman on board –, met on a quarterly basis and was chaired by the Minister for Trade and Investment in person. It brought together the work of two key departments in the Minister's portfolio, ensuring UKTI and UK Export Finance work closer together through the delivery of a shared strategy on Trade and Investment. Providing strategic and operational leadership to UKTI was assigned to

	the **Executive Committee** (Board). The Board was chaired by the CEO and, in 2015, comprised 19 members, including seven executive, seven non-executive and five representative members, among those only three women. This number was cut down to 11 in early 2016, simultaneously increasing the number of female board members to 4. The Executive Committee met on a monthly basis, operated within fixed terms of reference and was responsible, together with its delegated subcommittees, for ensuring the effective management of UKTI through: (1) approving the annual business plan and monitoring performance against these plans; (2) agreeing the reallocation of resource at fixed points during the year, and approving UKTI advice to Ministers for each Autumn Statement, Budget and Spending review; (3) business planning and reporting – providing challenge and advice; (4) financial management; (5) overseeing UKTI's capability and skills to deliver its objectives; and (6) monitoring and approving operation strategies including estates and ICT, as advised by its operational committees.
Particularities	UKTI disposed of an Audit and Risk Assurance Committee (ARAC) as a sub-committee of the Board. Its role was to support the Board and Accounting Officer in monitoring the corporate governance, risk management and control systems in UKTI and to advise on their effectiveness. Amongst other things, this was performed through the review of the work of Internal Audit and also the National Audit Office (NAO). The ARAC operated under terms of reference and was comprised entirely of independent members, two of whom were non-executive board members, as to ensure independent scrutiny. The Executive Committee had established its own sub-committees on an annual basis, in charge of operations, IT and human resources (2015).
Take-aways for PBIT	• In terms of corporate governance, UKTI presented the disadvantage of the executive and the governing functions not being strictly enough separated. The two distinct boards were too large for ensuring them to work with maximum efficiency and included an insufficient number of private sector representatives. UK Government obviously recognized this failure and took the right step to abandon this governance model for DIT as its new official IPI. Time will tell if establishing the DIT as a government department and not an autonomous agency is the right step • UK ensures a good coordination among public authorities through different advisory boards in shaping a joint strategy that covers both, inward investment and export promotion. Such a holistic approach

	including different government bodies at policy and executive level as well as private sector expertise appears much convincing. • Likewise Ireland, UK Government rightly puts job creation through foreign direct investments in its focus.

III. Investment Support and Promotion Agency of Turkey – ISPAT (www.invest.gov.tr)

Why Turkey?	Turkey is an important investment and trading partner of Pakistan and, as the only country, benefits from a specific unit at PBIT (Turkey Cell) which is devoted to promote Turkish investments in the Province of Punjab. Although the country went recently through a turmoil following the putsch attempt in July 2016, from which it did not fully recover yet, the Turkish economy still remains strong and offers multiple opportunities for foreign investors, boosted by an economic growth with an average annual real GDP growth of 4.7 % during 2002-2014. The country ranks 55th in the 2016 WBG's Doing Business Report. ISPAT was established in 2006 as a legal entity with administrative and financial autonomy and directly attached to the Turkish Prime Minister's Office. It is in part subject to civil law rules. It Over the recent years, ISPAT's performances were highly ranked, in particular those regarding the volume of inward investment as well as the range and quality of services it delivers to its clients. In 2015, ISPAT helped attracting 16.8 billion USD of foreign direct investment to Turkey. According to the World Bank report (2012), among 189 investment promotional agencies, ISPAT ranked as 13th in the world in terms of 'General Performance Assessment', and 7th for the quality of its website which is available in 12 languages. In 2014, ISPAT took over presidency of the World Association of Investment Promotion Agencies (WAIPA), the umbrella organization for 175 IPIs from 130 countries. Since its establishment, ISPAT has signed more than 50 memoranda of understanding with different organizations from various parts of the world.
Mission & role	As a classical IPI, ISPAT provides consulting and coordination services for foreign and domestic investors, business facilitation, site selection support, investment delegation visits, project launch services, partnership development assistance and aftercare services.

Board	According to the Turkish *Law on the Incorporation of ISPAT*, the agency is governed by a Consultancy Board chaired by the Prime Minister in person. Other Board members are the President of ISPAT, other Ministries assigned by the Prime Minister and representatives from private sector. The Board convenes at least once in a year upon call of the Prime Minister. Its responsibilities include developing investment support projects and promotion strategies, issuing recommendations for improving the effectiveness of ISPAT's activities, for assessing ISPAT's annual activity plan and for designating the contribution level of the relevant institutions and corporations on the subjects included in the ISPAT's annual activity plan. Although, strictly according to the law, the Board merely issues *recommendations*, in practice, its role is crucial in governing ISPAT since the Prime Minister chairs the Board and designates the CEO who is responsible towards him for management and delivering of services in compliance with, *inter alia*, recommendations of the Consultancy Board.
Particularities	Although the Turkish law explicitly confers upon ISPAT the status of an administratively and financially autonomous agency which is partly governed by private law rules, its corporate governance is more comparable to that of a government department than to a private corporation, with all major decisions being left de facto to the Prime Minister. The style of governance follows a very strict hierarchy and, regarding international corporate governance standards, lacks transparency. ISPAT seems to be accountable to the Turkish government only and does not publish any financial statements, accounts or any other detailed information regarding its overall performance. There is neither any information on its board members and other key executives publicly disclosed, since ISPT makes use of its website for commercial purposes only.
Take-aways for PBIT	• Despite the success of ISPAT in attracting foreign investment, the agency's corporate governance is very weak since there are no clear functions assigned either to the Consultancy Board or the President (CEO) of ISPAT, a lack of transparency and accountability. Due to this, one can hardly tell in how far ISPAT's success is on its own merits or whether it should be fully attributed to the Turkish Government steering every step of the agency. In times of the actual political turmoil, ISPAT will have to strive hard to show a distinguished profile of its own, particularly important for attracting and convincing foreign investor to choose Turkey.

	• ISPAT is the only of the five agencies which has been created on the basis of its own Law. This is quite remarkable and, at first glance, gives the agency an individual standing among other well-established government agencies. In practice however, this law does not seem to be opposable to the Prime Minister, depriving its autonomy from any value.

IV. Business Sweden (www.business-sweden.se)

Why Sweden?	Sweden consistently stands out as one of the globally most competitive, productive and innovative countries in the world. The economy is highly developed and stable, offering to foreign investors a well-trained and multinational labour force and smooth business procedures. Sweden is home to world-leading companies and clusters, playing the role of a global leader of innovation in key sectors such as clean tech, ICT, life sciences, automotive and materials science industries. Ranking 8th in 2016 WBG's Doing Business report, Sweden is globally perceived as a highly attractive investment and market place. Together with Ireland, Sweden ranks among top three when comparing job value creation by incoming foreign investment projects (Report on Global Location Trends, 2015). Moreover, Sweden is largely perceived as a model society when it comes to setting the framework and ensuring good governance, transparency, anti-corruption and gender equality on all levels. Business Sweden was founded in 2013 by a merger of the Swedish Trade Council and Invest Sweden. The predeceasing agency, Invest Sweden, had been established in 1995 as a public agency subordinated to the Swedish Ministry of Foreign Affairs. Now owned jointly by the Swedish Government and the Swedish business community, represented by the Swedish Foreign Trade Association, Business Sweden is a public-private-partnership created with the goal of providing access to contacts and networks at all levels.
Mission & role	Business Sweden's purpose is to help domestic companies reach their full international potential and foreign companies to invest and expand in Sweden. In the scope of attracting foreign investment, it offers basic investment promotion through information and responses to particular requests, reporting on foreign investments globally and in Sweden. In parallel, the agency is engaged in classic investment promotion, i. e.

	marketing abroad of investment opportunities in Sweden, targeting relevant industries, advanced information and support to foreign investors in the investment process. All services of Business Sweden are provided in close collaboration with regional and other relevant actors throughout Sweden. Business Sweden is not a member of the World Association of Investment Promotion Agencies (WAIPA).
Board	**Business Sweden disposes of a 10-member-board, composed of 6 public officials and 4 private sector experts.** Board members are appointed by the Swedish government – including the Chair of the Board – and the industry for one-year-terms. With five women and 5 men, the Board presents perfect gender equality.
Particularities	According to Swedish legislation, the composition of the Board stipulates to include one representative of the employees, usually a staff of the agency. This approach, so far quite uncommon for IPIs, follows the so-called dualistic or 'northern style' of corporate governance, according to which stock companies are traditionally run by two distinct boards, an Executive Board (Directorate) composed of several members (no CEO, but a Chairperson of the Executive Board) and a Supervisory Board. Where the number of employees exceeds a specific number, it is mandatory for the respective company to have its Supervisory Board composed by up to 50% representatives of the employees.
Take-aways for PBIT	• Business Sweden may serve as a good model for the growing trend to give private businesses more influence in IPIs. In Sweden, private sector representatives are particularly well chosen for their significant expertise in the key industrial sectors that matter for foreign investment. • Business Sweden is the most autonomous corporate structure taking the form of a Public-Private-Partnership, by this securing the influence of the Swedish business community. Since such partnership requests Government's trust, the agency pays much attention to comply with its strict accountability and transparency obligations. • The composition of the board in terms of men/woman as well as public/private representatives is well balanced, appointing a representative of employees is an interesting step, although this might be more suitable for large agencies only.

V. New Zealand Trade & Enterprise (ww.nzte.gov.nz)

Why New Zealand?	New Zealand traditionally occupies top positions in international rankings on safety, stability, anti-corruption, access to finance and the ease of business. The country has a very competitive economy, benefits from relative low taxes and labour costs and offers a highly skilled and educated workforce. The country has concluded numerous free trade agreements and benefits from its geographic location close to driving economies in South-Eastern Asia. Moreover, a free and independent media ensures transparency in the corporate and Government decision-making processes. Accordingly, New Zealand was ranked 2nd in the WBG Doing Business Report (2016) and 4th in the Global Investment Index (2015), assessing the attractiveness to foreign investors. Inward investment is promoted by the NZTE, New Zealand's economic development and trade promotion agency. Established in 2003, it offers strategic advice, access to networks and influencers, research and market intelligence, and targeted financial support to help businesses on their international journey, and works to promote and support the growth of New Zealand business overseas. The agency has 10 offices in the country together with 50 representations around the world.
Mission & role	NZTE's mandate is twofold and the agency is actively supporting exports and providing a wide range of services for domestic businesses going international and, at the same time, it is helping potential investors to find and take advantage of opportunities in New Zealand. This includes assistance in relocating a business to New Zealand, establishing 51 greenfield operations, investing in and working with domestic companies in global ventures. In terms of services for investors, NZTE provides general and customized reports on investment opportunities, costs and regulatory processes, facilitates site-selection, provides information and facilitates access to other Government assistance programmes. NZTE is not a member of the World Association of Investment Promotion Agencies (WAIPA).
Board	**NZTE's Board is composed of 5 male and 4 female directors appointed for a 3-year-term in office.** The Board provides governance over the strategy and future operating intentions and is assigned with the task of overseeing and monitoring NZTE's organizational performance.

	All 9 board members have extensive business and international knowledge. At least **7 Board Members, including the Chairperson, are representatives of the private sector.** The Board operates on the basis of a charter that documents its intentions and general approach to the fulfillment of its governance responsibilities, including a code of conduct and rules regarding disclosure of interests. The Board established 3 permanent committees to deal with specific matters: (1) Audit and Risk; (2) Human Resources and Remuneration, and (3) International Growth Fund. As the need may arise, other ad-hoc committees are regularly set up to deal with specific issues. Each of the committees is guided by its specific terms of reference
Particularities	Two Chief executives representing the Ministry of Business, Industry & Employment (MBIE) and the Ministry of Foreign Affairs and Trade (MFAT) act as special advisors to NZTE's Board. The Board complied with the demand to focus on key strategic themes and priorities to drive increased performance in all areas of the organization, and this following a Performance Improvement Framework (PIF) which was put in place by the government for all public bodies in New Zealand. PIF provides a valuable platform to inform and shape the discussions and strategic direction that the Board will implement for NZTE's ongoing success.
Take-aways for PBIT	• NZTE has the most advanced composition of the board with a high percentage of female directors and a very low participation of public officials. In exemplary manner NZTE ensures that all its board members have extensive experience in running private businesses. • The Performance Improvement Framework imposed by the Government on all public agencies is a very interesting tool in securing that the agency constantly meets its strategic and managerial targets. Parts of such a PIF could be introduced when it comes to implementing and monitoring future changes at PBIT.

Annex 3: Sample Board Charter

a. Purpose of terms of reference

These terms of reference set out the authority, responsibilities, and membership of the board of directors of (the 'company').

b. Authority

The board comprises the directors of the company, and derives its authority to act from the company's Memorandum and Articles of Association, and other laws.

c. Role of the board

The role of the board is to provide strategic guidance for the company and effective oversight of its management.

d. Board composition

1. The board will comprise directors with a broad range of commercial skills and experience, particularly in a field which is complementary to the company's activities or strategy, or with appropriate professional qualifications, and who are able to bring useful expertise to the board's discussions and decisions.
2. Board members must have a proven ability and capacity to make meaningful contributions to board strategy and policy and be able, through questioning and analysis of reports, to participate in the overseeing of the proper functioning of management.
3. The nominations committee will make recommendations to the board regarding the composition and remuneration of the board, and on any proposed board performance criteria.
4. The size of the board, currently nine members, will be determined [in accordance with the company's constitutional documents] to ensure efficient decision making
5. At least one-third of the board will comprise independent (as defined by the company), non-executive directors.
6. It is the current policy of the board that it will only appoint one executive director to the board, that being the chief executive officer. This policy will be kept under review by the board, considering the requirements of the board for further executive participation in board discussions.

e. Chairman

1. The chairman of the board will be elected annually by the board [and must be an independent non-executive director.]

2. The chairman must not be a former executive officer of the company.

f. Board committees

1. The board will establish committees as it considers appropriate to assist it in carrying out its responsibilities.
2. The board shall, as a minimum, establish the following committees and shall adopt charters or terms of reference setting out matters relevant to the authority, responsibilities, membership and operation of those committees:
   - an audit & finance committee;
   - a nominations committee;
3. The board may also appoint committees from time to time to consider such matters as large projects, capital strategies, major investments and commitments, and capital expenditure.

g. Delegation to management

The board delegates to the chief executive officer the authority and power to manage the day to day business affairs of the company subject to such specific delegations and limits that the board makes from time to time. The CEO has authority to sub-delegate such authority and power to such members of the management team as he/she shall determine from time to time.

h. Responsibility of the board

The board is responsible for:

1. Governance
   - establishing, reviewing and monitoring processes for corporate governance throughout the company, with due regard to all of the company's stakeholders and its role in the community.
   - building trust in the company through consistent behaviour, transparency and accountability;
2. Strategy
   - developing an in-depth understanding of each part of the company's business;
   - reviewing, approving and monitoring the company's strategic plans, and reviewing the assumptions and rationale underlying them;
   - taking decisions concerning the company's capital structure and its dividend policy;
   - reviewing, approving and monitoring major investments and strategic commitments;

3. Reviewing past performance
   - reviewing business results and monitoring budgetary control;
   - reviewing, approving and monitoring any necessary corrective actions and processes;
4. Integrity of external reporting
   - reviewing and monitoring the processes, controls and procedures which are in place to maintain the integrity of the company's accounting and financial records and statements, with the guidance of the audit & finance committee;
   - monitoring and receiving reports from the audit & finance committee in relation to internal controls, compliance with laws and regulations and requirements to which the company is subject, and internal and external audit reports;
   - reviewing and monitoring the reporting to members to ensure that it is objective, comprehensive, factual and timely information in the markets in which the company's shares may be listed;
5. Risk management
   - establishing, monitoring and reviewing the company's risk management processes;
   - reviewing and monitoring processes for the documentation and regular review and updating of the company's risk profile;
6. Management oversight, executive review, succession planning and culture
   - approving key executive appointments, and monitoring and reviewing executive succession planning;
   - reviewing and monitoring the performance of the CEO and senior management;
   - reviewing and approving executive remuneration;
   - approving all appointments of directors to the boards of subsidiaries and other controlled entities, and appointments made by the company to non-controlled entities;
   - monitoring and influencing the culture, reputation and ethical standards of the company;
7. Board performance
   - monitoring board composition, director selection, board processes and board performance, with the guidance of the nominations committee;

- monitoring and reviewing processes to assist directors in having sufficient time to devote to board matters to ensure that they discharge their duties effectively; and
- reviewing these Terms of Reference and their continuing adequacy from time to time.

i. Board meetings

1. Attendance
   - Directors are expected to prepare adequately, attend, and participate at board and committee meetings.
   - Directors will be provided with adequate materials on topics to be discussed at board meetings sufficiently in advance of the meeting date; board members will also be kept promptly informed of developments between board meetings.
   - The non-executive directors will meet informally on a regular basis, without the chief executive officer, or any other executive director or other member of management being present.
2. Board Agendas
   - Board agendas will be structured throughout the year to ensure that each significant responsibility of the board is addressed.
   - As part of the agenda, the board will review strategy and the achievement of financial and other goals. The board will receive a detailed overview of the performance and significant issues, including risk factors, of each business and support unit.
   - The board will receive detailed financial, operational and performance reporting presentations from senior management individuals during the year; management will be available to discuss the reports with the board.
   - The board will review the company’s long-term strategic plans and the major issues that it expects the company to face in the future during at least one board meeting each year.

j. Directors' remuneration

1. The nominations committee will review and make annual recommendations to the board on the level of directors' remuneration, taking into consideration, in respect of non-executive directors, the amount of time they give to the company, as well as the extent and complexity of their responsibilities, including serving on board committees.

2. Directors will be reimbursed all reasonable expenses incurred in carrying out their duties as a director. Any such expenses should be submitted to the board secretary for payment.

3. If a director wishes to undertake an activity which will lead to the incurring of an unusual expense, the director should consult with the chairman prior to such expense being incurred.

4. The remuneration and expenses paid to each director will be individually disclosed in the company's annual report to members.

k. Independence of directors

1. A director will be considered to be independent for the purposes of service on the board and board committees of the company if the director satisfies the standards adopted by the board from time to time to assist it in its regular 'independence' determinations. These standards will reflect appropriate independence requirements under applicable laws and regulations, and international best practice recommendations. A copy of the current standards is attached to these Terms of Reference.

2. An independent director must be independent of management and free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of his unfettered and independent judgement.

3. Each director must provide the board with all relevant information to assess his independence.

4. The determination of independence of a director will be made by the board on the recommendation of the nominations committee.

l. Appointment and re-election of directors

1. The process for appointing a director is that, when a vacancy exists, the board, assisted by the nominations committee, identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed by the board but must stand for election by the members at the next annual general meeting.

2. The company will provide a formal letter of appointment for each director setting out the key terms and conditions of his appointment.

3. The process for re-election of a director is in accordance with the company's Memorandum and Articles of Association and the SECP Code of Corporate Governance, which requires that directors' term of office shall be for three years, following which re-election is required.

4. Prior to each annual general meeting, the board will assess the performance of each director due to stand for re-election and determine if the board will recommend to the members that they vote in favour of the re-election, or otherwise, of each such director.

5. The board has set a limit of [10] years for which an individual may serve as a director, subject to an annual review after that period. The board regards this as an appropriate period of service. Directors who have served on the board for an extended period of time have gained valuable experiences, insights and historical perspectives regarding the company that would not be easily replaced.

5. The retirement age for directors is [70] years of age.

m. Induction and orientation

1. The nominations committee of the board, working with senior management, will provide an orientation programme for new directors in order to assist them in fulfilling their duties and responsibilities. The programme will include discussions with the chairman, the chief executive officer, executives and the internal and external auditors, the provision of reading material, tutorials and workshops. These will include details on directors' rights, duties and responsibilities, the company's strategic plans, its significant financial, accounting and risk management issues, its compliance programmes, its code of corporate governance, its code of ethics, and its management structure.

2. At the request of the nominations committee, senior management will conduct additional presentations for directors from time to time regarding the company, the factors impacting, or likely to impact, on its businesses, and to assist the non-executive directors in gaining a broader understanding and knowledge of the company. Directors are also encouraged to keep up to date on relevant topical issues.

n. Access to independent professional advice

1. The board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

2. Each director will have the right to seek independent professional advice at the company's expense, subject to the prior approval of the chairman.

o. Board performance and director evaluation

1. The board will annually review and evaluate the performance of the board. This assessment will involve consideration of all of the board's key areas of responsibility, and will specifically review areas where the board and/or management contribution may be improved.

2. At least once every year, the chairman of the board, assisted as needed by the nominations committee, will conduct a review of the performance and contribution to the board of each non-executive director. The board as a whole, assisted as needed by the nominations committee, will review the performance of the chief executive officer at least once every year. The chairman of the nominations committee will facilitate an evaluation by all directors of the performance of the chairman of the board.

3. The board will also annually review and evaluate the performance of the board committees, the senior management of the company, the relationship between the board and management, and matters of general corporate governance.

4. The nominations committee will recommend to the board the performance criteria (both measurable and qualitative) to be considered in these evaluation processes. An external independent consultant may from time to time be brought in to review and make recommendations on any aspect of the board's activities and performance.

5. The company will include in the corporate governance section of its annual report a statement as to whether a performance evaluation for the board and its members has taken place in the reporting period and how it was conducted.

6. A description of the process for performance evaluation of the board, the board committees and individual directors will be made publicly available and updated as required, by posting it on the company's website in a clearly marked corporate governance section.

p. Access to management

1. Board members will have complete and open access to members of management following consultation with the chairman and the chief executive officer.

2. As an intrinsic part of the board's responsibility of management oversight, board committees, specifically, will have access to and mandatory meetings with individual senior management in accordance with their respective committee terms of reference.

q. Board secretary

1. All directors shall have direct access to the board secretary.

2. The appointment and removal of the board secretary shall be a decision for the whole board.

r. Code of ethics

1. The operations of the company are governed by the company's code of ethics. All the code is important and covers every aspect of the company's daily business practices.

2. The code includes the requirement that the business be conducted ethically and with professionalism to achieve the highest standards of behaviour.

3. The code of ethics applies to all senior executives and employees of the company, as well as to directors, temporary workers and other independent contractors and consultants when engaged by or otherwise representing the company and its interests. In addition, this board Terms of Reference also governs the conduct of the board and each director.

s. Confidential information

1. The internal control systems are monitored and employee integrity is fostered to ensure that confidential information is not improperly disclosed outside the company or used for individual personal gain. The directors regard the confidentiality of customer information as highly important.
2. When the directors are serving on the boards of other companies and undertaking private transactions, they are to have regard to their confidentiality obligations at all times.

t. Conflicts of interest

1. Directors are expected to avoid any action, position or interest that conflicts with an interest of the company, or gives the appearance of a conflict.
2. A director who has a material personal interest in a matter that relates to the affairs of the company must give the other directors notice of such interest. Such notice should be provided in writing to the board secretary, who is to ensure that the notice is brought to the attention of the other directors.
3. When a potential conflict of interest arises, the director concerned should not receive copies of the relevant board papers and must withdraw from the board meeting while such matters are considered. Accordingly, the director concerned will take no part in discussions nor exercise any influence over other members of the board.
4. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his resignation after consultation with the chairman.
5. The company's hospitality and other services may be provided to non-executive directors under terms and conditions that would normally apply to the public.

u. Communications

The board believes that the chairman and senior management speaks for the company. Individual board members are expected not to meet or otherwise communicate with various constituencies who are involved with the company without prior consultation with the chairman and the chief executive officer.

These Terms of Reference are dated [ ] and supersede any board charter or terms of reference previously in force.

Annex 4: Sample Authority Matrix

Sample Authority
Matix.xls

Annex 5: Sample Audit Committee Charter

A. Establishment

The board of _________ [name of company] (the "Company") hereby agrees and establishes the audit committee of the board (the "Committee"), with all the powers and duties set forth in these Regulations and subsequent resolutions of the board. Certain capitalized or uncapitalized terms used but not defined in these regulations have the meanings given to them in the charter of the board.

B. Purpose

The board establishes the Committee to assist the board in overseeing the company's financial controls. In assisting the board to oversee the company's financial controls, the Committee will place particular emphasis on: (1) the integrity of internal controls and financial reporting; (2) the qualification and independence of the company's external auditor; and (3) the performance of the company's internal audit function and of its external auditor.

C. Composition and Qualification of Members of the Audit Committee

I. Composition

The board shall select three of its members to serve on the audit committee, [each] [at least one] of whom shall be "independent", as defined in Section B.I.d. of the charter of the board. One of such members shall be designated by the board as the Committee's chairman. The board shall ensure that all members of the Committee are financially literate and possess the professional skills and personal characteristics necessary to carry out their duties as members of the Committee. The board recognizes that it is desirable that at least one member of the Committee (preferably the Committee's chairman) be a financial professional, with accounting and auditing or related financial management expertise.

II. Chairman

The Committee's chairman:

a. Will be responsible to the board for the smooth conduct of the Committee's activities;

b. Will, after consultation with the board and the other members of the Committee, establish the agenda for each meeting of the Committee;

c. Will propose the Committee's annual calendar and program of activities for approval by the Committee;

d. Will authorize and request other members of the board, company management, employees and outsiders to be present and participate at meetings of the Committee as deemed necessary and appropriate to the conduct of the Committee's work;

e. Will, on behalf of the Committee, request information required by the Committee from company management, employees and others in the conduct of its work;

f. Will ensure that the activities and resolutions of the Committee are duly recorded, communicated to the board, and followed-up on;

g. Will organize and oversee the annual evaluation of the Committee's effectiveness; and

h. Will prepare such periodic reports of the Committee's activities as are requested by the board and, in any case, will prepare (for approval by the Committee) the Committee's annual reports to the board and members.

III. Chairman's Vote Breaks Tie

In the event of a tie vote of Committee members, the vote of the chairman has the deciding vote.

IV. Member Participation

Each member of the audit committee:

a. Will have voice and vote in all Committee matters (except as provided under "Committee Operating Principles," below);

b. May not designate substitutes;

c. Will keep the Committee informed of all matters that may affect their independence and ability to carry out their responsibilities as Committee members; and

d. Will carry out such tasks as the Committee may assign to such member.

D. Specific Duties of the Committee

I. External Audit Function

The audit committee shall:

a. Oversee the work of the company's external auditor, including reviewing the preparation and execution of the auditor's annual program of work for the company;

b. Review the terms of reference of the external auditor and report to the board and the annual general assembly the Committee's recommendations with respect to the audit engagement fees and the overall terms of service to be provided by the Independent external auditor;4

c. Review, on an annual basis, a report of the external auditor describing in detail any relationships the external auditor has with the company, its management, its members or any of their affiliates that may adversely affect such auditors' independence;

d. review, on an annual basis, a report of the external auditor describing in detail the external auditor's quality control procedures and practices, any material issues raised by its most recent quality control review or peer review, and any inquiry or investigation by governmental authorities or professional standards boards regarding any audits conducted by such auditors in the past five years, together with all steps taken to address such issues;

e. review in advance the terms of all non-audit services proposed by company management to be performed by the external auditor, assess such services in accordance with the company's policy regarding independent external auditor (attached as Annex 4 to the By-Laws of the board) and report to the board the Committee's opinion as to whether or not the company should engage the external auditor to perform such services;

f. evaluate, on an annual basis, the qualification, independence, and performance of the external auditor and report to the board and the annual general assembly meeting the Committee's opinion with respect to the adequacy of its performance and independence. Such report will include the Committee's recommendation on the reappointment or termination of the external auditor and, if required, such firm's replacement. In the event that the full board ultimately disagrees with the Committee's evaluation and recommendations, the Committee's report shall nonetheless be submitted to the general assembly and included in the agenda for such meeting.

g. review, on an annual basis, the company's policies on the selection of external auditor and its policy on rotation of its external auditor and audit partners, and report to the board the Committee's recommendations for any modification of such policies; and

[4] These Regulations assume that only the general assembly may appoint or dismiss the external auditor. If local law permits the board or the audit committee to directly appoint and dismiss the external auditor, the language providing for such powers may be substituted.

h. reviewing, no less than annually, with company management, the external auditor, and the internal auditing and financial control departments:

   i. Significant financial reporting issues and judgments identified and made in connection with the preparation of the company's financial statements;

   ii. Major issues regarding the company's accounting and auditing principles and practices, including key accounting policies, and major changes in auditing and accounting principles and practices suggested by the external auditor, the company's internal auditing and financial control departments or company management;

   iii. Any audit problems or difficulties encountered and raised by the external auditor in the course of its work for the company, including any restrictions on the scope of such activities or on access to personnel or information, and disagreements with company management or members of its internal auditing and financial control departments; and

   iv. Principles of accounting proposed or adopted by regulators or accounting authorities and brought to the attention of the external auditor, company management, the company's internal auditing or financial control departments or the board.

II. Internal Controls and Internal Audit Function

The audit committee shall:

a. Review with the company's chief financial officer (CFO), its internal auditing and financial control departments and any other interested parties, the quality and adequacy of the company's internal controls, including whether the company's management are communicating the importance of internal controls, evaluating the security of computer systems and applications and any contingency plans for processing financial and other information in the event of a computer systems breakdown;

b. Review with the company's CFO the preparation, execution and results of the company's annual internal audit work program, as well as any activities undertaken outside such annual program; and

c. Review with the company's CFO and report to the board on the adequacy of structure, responsibilities, staffing, resources and functioning of the company's internal auditing department, such review will include an annual evaluation of the performance and qualifications of the head of such department.

III. Financial Reporting

The audit committee shall:

a. Gain an understanding of the current areas of financial risk and how the company's management is managing such risks;

b. Consider, together with the external auditor and the internal audit department; any fraud, illegal acts, deficiencies in internal control or similar issues;

c. Review significant accounting and reporting issues, including professional and regulatory pronouncements and assess their impact on the company's financial statements;

d. Ask company management, the external auditor and the internal audit department about significant risks and exposures and the plans to minimize such risks;

e. Review any legal matters which could significantly impact the financial statements;

f. Review the annual financial statements and determine whether they are complete and consistent with the information known to Committee members and assess whether the financial statements reflect appropriate accounting principles;

g. Assess the impact of any complex or unusual transactions, such as restructuring charges and derivative disclosures, on the company's financial statements;

h. Consider and judgments made in preparing the company's financial statements, including any valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies;

i. Meet with company management and the external auditor to review the financial statements and the results of the audit;

j. Assess the fairness of the preliminary and interim statements and disclosures, obtain explanations from company management, the external auditor and the internal audit department on whether:

    i. Actual financial results for the interim period varied significantly from budgeted or projected results;

    ii. Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the company's operations and financing practices;

iii. Generally accepted accounting principles have been consistently applied;

iv. There are any actual or proposed changes in accounting or financial reporting practices;

v. There are any significant or unusual events or transactions;

vi. The company's financial and operating controls are functioning effectively; and

vii. The preliminary announcements and interim financial statements contain adequate and appropriate disclosures

[Note: the following provisions are only for public companies]

k. determine how company management develops preliminary announcements, interim financial information and analysts' briefings; the extent of internal audit involvement; and the extent to which the external auditor reviews such information; and

IV. Other Duties

The audit committee shall:

a. Review all reports provided to company management by the external auditor, in particular those regarding the adequacy and effectiveness of the company's internal controls ("management letters" or "deficiency letters"), monitoring the company's implementation of the recommendations included in such letters and reporting to the board on the adequacy of such implementation;

b. Review with the company's CFO the company's quarterly financial statements prior to their presentation by company management to the board;

c. Review the company's system for monitoring compliance with law;

d. Review the results of any investigation and action taken (including and disciplinary action) by company management regarding any acts of fraud or financial non-compliance;

e. Obtain regular updates from company management and legal counsel regarding compliance with law; and

f. Review, together with company management and any other parties that the Committee may deem appropriate, the details of any investigation, review or inquiry made by any public regulatory authority concerning the conduct of the company's activities or the preparation of its financial statements, and report to the board the results of such review.

E. Powers

The audit committee may undertake such investigations as the audit committee deems necessary to carry out its duties. The Committee may request and obtain whatever information it requires from any employee of the company. All employees of the company must promptly provide all requested information to the audit committee and must cooperate fully in any audit committee investigations. The Committee may require company management and employees to prepare written reports or to participate in Committee meetings in order for them to provide information or advice to the Committee.

The audit committee may obtain external independent advice and assistance as they deem advisable, including professional advice regarding accounting, audit and internal controls; legal and regulatory matters; and corporate governance. The audit committee may retain and compensate such professional service providers at the expense of the company.

F. Committee Operating Principles

Each member of the Committee will always act in an impartial, independent and objective manner, in the best interests of the company and in accordance with the company's articles of association, charters and by-laws. If a Committee member becomes aware that s/he has, or may have, a potential conflict of interest (as further described in the board charter), s/he shall fully disclose such conflict or potential conflict to the board and shall recuse himself from the Committee's consideration of such matter.

G. Reviewing Audit Committee Effectiveness Against the Charter

The Committee, by itself or with the assistance of outside advisors, will annually assess its effectiveness in performing its duties. Such annual assessment will include recommendations of the Committee for improvements in this charter and in the conduct of the Committee's activities. A report of the audit committee's effectiveness will be prepared for delivery to the board and the annual general assembly. The results of the annual assessment will also be presented by the Committee's chairman at a meeting of the board and the board will adopt, reject or modify the recommendations of the Committee.

H. Reporting

The Committee will provide the board with reports as provided in this Committee charter, as the board may request or as the Committee decides appropriate. In any case, the Committee will provide the board and the annual general assembly with an annual report of its activities, including the results of the annual review of the Committee's effectiveness.

I. Costs

The costs of operation of the Committee, including costs associated with the contracting of professional advisors to the Committee shall be evaluated and authorized by the board on an annual basis, and in no event will be subject to the evaluation and approval of the company's management.

J. Meetings

The Committee will meet as often as necessary. The Committee shall meet at least quarterly. Meetings may be conducted in person or via teleconference.

Meetings may be called at the initiative of the Committee's chairman or upon written request to the chairman signed by two Committee members. The day, time and place of each quarterly meeting shall be set out in the Committee's annual calendar of activities. The chairman shall notify the members of the Committee of the day, time and place of any additional meetings of the Committee at least five business days in advance. The chairman will arrange for members of the Committee to receive an agenda and required background materials at least five business days prior to any meeting. A quorum for Committee meetings will require the presence (in person or via teleconference) of the chairman and at least one other member of the Committee.

The Committee will meet at least once each year with each of the external auditor, the company's CFO and the company's legal counsel, in each case in the absence of company management and any other employees of the company:

K. Minutes and Records

Minutes must be drawn up for every meeting of the Committee. The minutes will be signed by the chairman of the Committee and the minute taker and then will be added to the company's records. Each member of the Committee shall receive a copy of the minutes at or before the next meeting of the Committee.

Annex 6: Sample Board Evaluation Form

Part I: Board Evaluation

To be completed by each Board Member on a confidential basis. Scores can then be aggregated to help identify areas of concern and then prompt a board discussion to define specific improvement actions.

Section I: Authorities and General Information	Needs significant improvement	Needs improvement (2)	Adequate (3)	Consistently good (4)	Outstanding (5)
1. How would you rate the Board's role in protecting the Company's interests?					
2. How would you rate the Board's consideration of shareholder value in its decision-making process?					
3. How would you rate the other Board Members' understanding of their role, authority, and priorities?					
4. How would you rate the Boards' authority distinct from that of the CEO and the Annual General Meeting (AGM) in practice?					
5. How would you rate the Board Members' knowledge and understanding of the Company's values, mission, and strategic and business plans?					
6. How would you rate the Board's effectiveness in guiding and setting strategy?					
7. How would you rate the Board having the appropriate tools to properly oversee the operational and financial performance of the Company?					
8. How would you rate the Board in managing the performance and evaluating the CEO?					

Comments:

Section II:
Composition

	Needs significant improvement	Needs improvement	Adequate	Consistently good	Outstanding
1. How would you rate the size of the Board in terms of the number of Directors being consistent with the needs of the Company?					
2. How would you rate the effectiveness of the Chairman's leadership?					
3. How would you rate the Board in terms of designing, articulating, and implementing policies related to its composition (size, composition and mix-of-skills, breadth of experience, and other pertinent qualities)?					
4. How would you rate the Board's composition (in terms of competencies and mix of skills, including that of family members)? Is it suited to its oversight duties and the development of the Company's strategy?					
5. How effectively does the Board work together? Is the mix of Family and Non-Family Board Members optimal?					
6. To what degree do you feel that the Company's Independent Directors are truly independent?					

Comments:

Section III: Structure and Committees	Needs significant improvement	Needs improvement	Adequate	Consistently good	Outstanding
1. Does the Board have an appropriate number of Board Committees?					
2. How would you rate the effectiveness of the Board's Audit Committee? Does the Audit Committee provide useful recommendations allowing for better decision-making, and does this consequently make Board meetings more efficient and effective?					
3. Do you feel that the Members of the Audit committee have sufficient expertise on financial and controls issues?					
4. How well informed are Non-committee Members about the Audit Committee's deliberations?					

Comments:

Section IV: Working Procedures	Needs significant improvement	Needs improvement	Adequate	Consistently good	Outstanding
1. How well has the Board identified, prioritized, and scheduled key issues that should be reviewed on a regular basis?					
2. How well has the Board identified, prioritized, and scheduled the implementation of corporate governance improvements and are these reviewed on a regular basis?					
3. To what degree is information on the various agenda items provided to you well in advance of Board meetings, allowing you to properly prepare?					
4. Are you as a Director receiving proper information for good decision-making, i.e. is the information presented in a succinct manner, are key issues and risks properly highlighted, and do the materials also contain annexes with relevant detail for further study allowing you to understand and evaluate agenda items of the Board's meeting and take effective decisions?					
5. To what degree are Board meetings conducted in a manner that ensures open communication, meaningful participation, and timely and constructive resolution of issues?					
6. To what degree are the presentations given to you during the Board meetings sufficiently clear to make good decisions?					
7. To what degree is the Board meeting time appropriately allocated between Board discussion and management presentations?					
8. Do you have access to Senior Executives outside of Board meetings?					
9. To what degree has the Board identified the Company's key performance indicators to monitor managerial performance?					
10. To what degree does the financial information provided to you prior to Board meetings give you the necessary information to understand the important issues and trends in the business?					

11. Is the financial information presented in such a way as to highlight these important issues and trends?					
12. To what degree does the Board, together with Management, focus on risks that could have a significant impact on the Company?					
13. To what degree does the Board have a system for auditing the other, less significant risks that still have the potential under certain circumstances to influence significantly or negatively the Company's performance?					
14. To what degree is the Company's orientation program for new directors providing helpful information about Board processes and the Company?					
Comments:					

Section V: Duties and Liabilities	Needs significant improvement	Needs improvement	Adequate	Consistently good	Outstanding
1. To what degree have your duties of loyalty, care, and business judgment been sufficiently communicated to you?					
2. To what degree do Board Members spend sufficient time learning about the Company's business and understand it well enough to provide critical oversight?					
3. To what degree do you generally believe that Board Members ask appropriate, yet challenging and critical questions of Management?					
4. To what degree do Directors disclose personal interests in transactions and abstain from voting where appropriate?					

Comments:

Part II: Individual Director Evaluation

To be completed by the Board Chairman on a confidential basis.

1 = Needs significant improvement
2 = Needs improvement
3 = Adequate
4 = Consistently good
5 = Outstanding

	Professional Experience	Industry Knowledge	Specific Competency	Business Judgment	Strategic Vision	Integrity	Attendance	Meeting Preparation	Team Player	Active Participation	Overall Contribution
Director 1											
Director 2											
Director 3											

Director 4											
Director 5											
Director 6											

Annex 7: Sample Company Secretary Charter

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ARTICLE 1. GENERAL PROVISIONS
ARTICLE 2. ELECTION, TERM, AND DISMISSAL
ARTICLE 3. FUNCTIONS, DUTIES, AND RESPONSIBILITIES
ARTICLE 4. OFFICE OF THE CORPORATE SECRETARY

Article 1. General Provisions
The By-law shall regulate the Corporate Secretary's authority to help with the development of, compliance with, and periodic review of the Company's corporate governance policies and practices, ensuring that the Company and its governing bodies follow and comply with the Law, as well as internal corporate rules and policies as determined by the Company charter, the By-law, and other by-laws and internal documents; the preparation and conducting of the General Meeting of Members (hereinafter the GM), Supervisory Board meetings [and Executive Board meetings]; the establishment and maintenance of clear and effective channels of communications between the various governing bodies of the Company; the disclosure of appropriate information about the Company; the keeping of corporate records; the review of member requests; and the resolution of disputes involving the rights of members.

Article 2. Election, Term, and Dismissal
2.1. The Corporate Secretary shall be appointed by the Supervisory Board by a majority vote of Supervisory Board members (directors) participating in the meeting.
2.2. Any director may nominate a candidate for the position of Corporate Secretary.
2.3. The Corporate Secretary must have the necessary qualifications to properly carry out his duties.
2.4. A candidate nominated for the position of Corporate Secretary must disclose to the Supervisory Board information on:
2.4.1. Education and professional experience;
2.4.2. Personal references;
2.4.3. Share ownership in the Company;
2.4.4. Positions held in other companies;
2.4.5. Relationships with affiliated parties and business partners of the Company;
2.4.8. Other information that may affect his performance in carrying out the functions of the Corporate Secretary.
2.5. The Corporate Secretary shall be elected for the term of __ year(s).
2.6. The terms of the contract with the Corporate Secretary shall be approved by the Supervisory Board. The contract shall be signed by the Chairman of the Supervisory Board on behalf of the Company.
2.7. The Supervisory Board may dismiss the Corporate Secretary and appoint a new Corporate Secretary at any time.

Article 3. Functions, Duties, and Responsibilities
3.1. The Corporate Secretary shall assist the Supervisory Board [and its Corporate Governance Committee] in the development of, compliance with, and periodic review of the Company's corporate governance policies and practices.
3.2. The Corporate Secretary shall help ensure that the Company and its governing bodies follow and comply with the Law. In doing so, the Corporate Secretary will keep abreast of the latest legal and regulatory developments, as well as internationally recognized best practices, as they relate to corporate governance, and provide periodic updates and briefs to the Company's directors and managers. The Corporate Secretary shall work and coordinate closely with the Company's legal department in this context.
3.3. The Corporate Secretary ensures that the governing bodies follow existing internal corporate rules and policies as determined by the Company charter, by-laws, and other internal documents, as well as to change such rules and policies, or institute new ones where appropriate. The Corporate Secretary is to inform the Chairman of the Supervisory Board of all violations of corporate procedures in a timely manner.
3.4. The Corporate Secretary shall properly prepare and conduct the GM in accordance with the Law, the Company charter, and other relevant by-laws and internal documents of the Company following the decision on calling a GM. In the course of preparing and conducting a GM, the Corporate Secretary shall:
3.4.1. Ensure that the list of the members entitled to participate in the GM is properly prepared
3.4.2. Ensure that the persons entitled to participate in the GM are properly notified by preparing and sending (delivering) voting ballots to members, as well as properly notifying all directors, the General Director [and Executive Board members, the External Manager], Revision Commission members, and the External Auditor of the Company;
3.4.3. Prepare and ensure unrestricted access to all materials that shall be made available for the GM, and authenticate and provide copies of the materials upon the request of the persons entitled to participate in the GM;
3.4.4. Collect the completed voting ballots received by the Company and ensure their timely transfer to the Counting Commission;
3.4.5. Organize the minutes of the GM;
3.4.6. Ensure that the persons entitled to participate in the GM are informed of the voting results of the GM in a timely manner; and
3.4.7. Answer procedural questions during the GM, and take measures to resolve conflicts arising when preparing and conducting the GM.
3.5. The Corporate Secretary shall help the Chairman prepare and conduct the Company's Supervisory Board meetings in accordance with the Law, the Company charter, and other by-laws and internal documents of the Company.
3.5.1. The Corporate Secretary shall help prepare the annual schedule of Supervisory Board meetings and notify all directors of the upcoming meeting __ weeks in advance.
3.5.2. If necessary, the Corporate Secretary shall send (or deliver) voting ballots to all directors, collect the completed ballots and written opinions of the directors who were not physically present at the meeting, and transfer these to the Supervisory Board Chairman.

3.5.3. The Corporate Secretary shall ensure that Supervisory Board meetings are held in accordance with the procedures established in the By-law for the Supervisory Board;
3.5.4. The Corporate Secretary shall assist the Chairman in keeping minutes of the Supervisory Board meetings that reflect the location and time of the meeting, the names of the persons who participated in the meeting, the agenda of the meeting, quorum and voting results, and a description of decisions made by the Supervisory Board;
3.5.5. The Corporate Secretary shall assist directors in obtaining the information necessary to take informed decisions. [In accordance with the information policy of the Company] the Corporate Secretary shall provide directors access to transcripts and minutes of Executive Board meetings, orders of the General Director, and other documents of the executive bodies of the Company, minutes of meetings and reports of the Revision Commission, and the opinion and management letter of the External Auditor, as well as the Company's primary accounting documents and financial information pursuant to a decision of the Supervisory Board's Chairman.
3.5.6. The Corporate Secretary shall help organize induction trainings for newly elected directors to brief these directors on their duties and responsibilities, the procedures that regulate the operations of the Supervisory Board and other working bodies of the Company, the Company's organizational structure and officers of the Company, internal documents of the Company, applicable decisions of the GM and the Supervisory Board to their work as directors, and other information that may be required by directors for the appropriate discharge of their duties.
3.5.7. The Corporate Secretary shall inform and advise directors on legal requirements, charter provisions, and other internal corporate regulations that regulate their rights and responsibilities with respect to preparing and conducting the GM and Supervisory Board meetings, and ensuring for information disclosure.
3.6. The Corporate Secretary shall assist in establishing and maintaining clear communication between the various governing bodies, in particular between the Supervisory and Executive Boards. To this extent, the General Director, Chief Accountant, and other relevant parties/bodies must provide timely and accurate information upon the Corporate Secretary's request.
3.7. The Corporate Secretary shall ensure for the proper disclosure of information about the Company. In particular, the Corporate Secretary shall:
3.7.1. Ensure compliance with the requirements of the Law, the Company charter and by-laws, and other internal corporate documents on keeping and disclosing information about the Company;
3.7.2. Help ensure for the timely disclosure by the Company of information contained in the securities prospectuses, quarterly reports, annual report as well as information on all material facts that may affect the financial and business performance of the Company.
3.8. The Corporate Secretary should notify the Chairman of the Supervisory Board of any potential or real conflicts of interests among the Company's members, directors, or executives so that they can be dealt with appropriately, and act as a liaison in case of conflicts of interests among directors.
3.9. The Corporate Secretary shall keep the Company records and documents as specified under the Law, make these available to authorized parties, prevent un-authorized access,

and make copies of such documents. The copies of the documents must be authenticated by the Corporate Secretary.
3.10. The Corporate Secretary shall ensure that all member requests are properly processed by keeping records of all incoming member requests, transferring the requests to the relevant governing bodies and departments, and monitoring the timely and full response to such requests by the governing bodies and departments.
3.11. The Corporate Secretary shall have the right to obtain any information necessary for the proper discharge of his duties.
3.12. The Corporate Secretary shall act solely in the function of the Corporate Secretary and shall not perform any other duties in the Company.

Article 4. Office of the Corporate Secretary
4.1. To ensure the Corporate Secretary's performance of his duties, the Company shall establish the Office of the Corporate Secretary.
4.2. The staff of the Office of the Corporate Secretary (hereinafter staff) shall consist of __ employees that report directly to the Corporate Secretary.
4.3. The staff shall be appointed by the General Director upon the recommendation of the Corporate Secretary.
4.4. The staff must have the necessary qualifications to properly carry out their duties and responsibilities.
4.5. The staff may not at the same time be directors, managers, or employees of another company, or Revision Commission members.