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EXTERNAL CORPORATE GOVERNANCE GUIDELINES 2026

Corporate Governance

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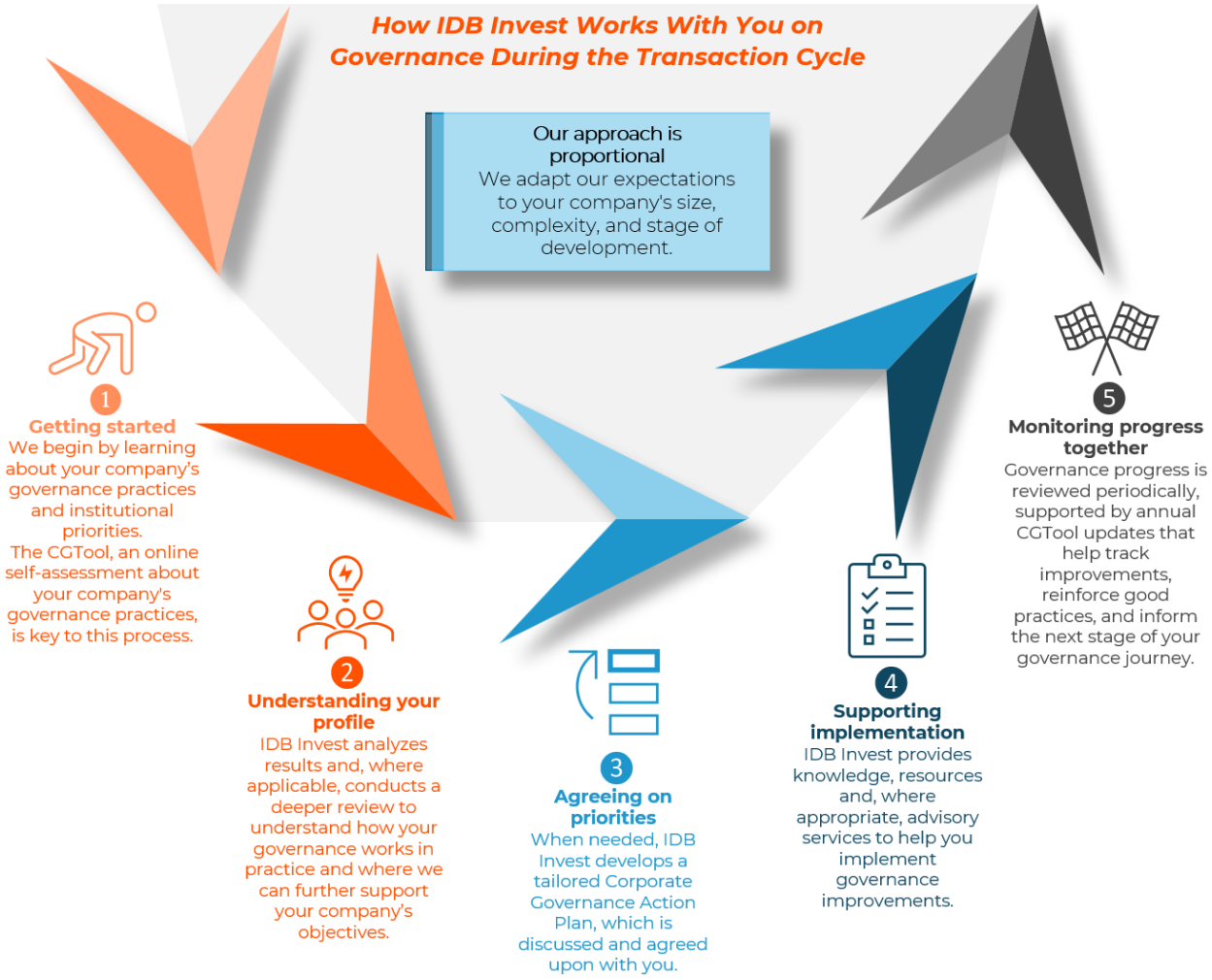
About the Authors | **Cefeidas Group**

Cefeidas Group is an international advisory firm that helps its clients advance their objectives in Latin America. Cefeidas Group has worked with IDB Invest and IDB for over a decade. Cefeidas provides professional services in Public Policy, Risk & Strategy, Corporate Governance, Stewardship & Sustainability, and Strategic Intelligence & Research. www.cefeidas.com

At a Glance

IDB Invest is the private sector institution of the IDB Group. We partner with businesses and financial institutions across Latin America and the Caribbean through financing, advisory services, and knowledge resources. Corporate governance is central to this partnership, since well-governed companies are better equipped to manage risk, sustain performance, and generate positive outcomes for the region.

Here is how IDB Invest works together with companies and the five governance areas on which we focus:



Key Governance Practices

These practices highlight the governance areas that IDB Invest considers most important for supporting sound decision-making, effective oversight, and long-term value creation. They reflect the governance outcomes we seek to promote through our partnerships and provide a reference point for discussion and continuous improvement.

Good corporate governance is a journey, not a destination. These guidelines are a reference, not a checklist, which means that companies are not expected to have all these practices in place at the outset. Rather, IDB Invest works with each client to identify priorities and progressively strengthen governance in ways that are practical and achievable for their context.

Commitment to Corporate Governance	• Governance culture aligned with the Company's purpose, ownership structure, and decision-making practices. • Formalized governance documents (articles of incorporation, board and committee charters). • Code of ethics approved by the board, covering anti-corruption and conflicts of interest. • Corporate secretary ensuring effective board procedures.
Structure and Functioning of the Board of Directors	• Diverse board composition with complementary skills and experience. • Independent directors are free from material ties to the Company or its controlling shareholders. • Active board role in strategy, oversight, and sustainability. • Audit committee chaired by an independent director.
Control Environment	• Documented internal controls. • Risk management framework approved and monitored by the board. • Compliance function with direct access to the board. • Independent, risk-based internal audit function reporting to the board. • Annual external audit by an independent auditor.
Transparency and Disclosure	• Disclosure of governance structure and relevant policies. • Reporting on material environmental, social, and governance (ESG) factors. • Audited financial statements prepared under international standards (IFRS or GAAP).
Rights and Treatment of Minority Shareholders	• Clear ownership structures and shareholder agreements (as applicable). • Formal related-party transaction policy with conflict-free approval processes. • Change-of-control protections: tag-along rights, preemptive rights, and anti-dilution provisions.

About These Guidelines

Who are these guidelines for? These guidelines are intended for IDB Invest's current and prospective clients. They aim to clarify IDB Invest's expectations regarding governance, explain how such practices can align with a company's purpose and operating context, and outline how collaboration with IDB Invest can support the progressive strengthening of the governance framework over time.

A principles-based and flexible approach. IDB Invest recognizes that companies operate in diverse contexts — across different industries, sizes, ownership structures, and regulatory environments — and that governance evolves with each Company. These guidelines do not prescribe a one-size-fits-all model. Instead, they describe governance practices that, in IDB Invest's experience and in line with international standards, support long-term value creation, sound risk management, and sustainable development. IDB Invest applies the principle of proportionality, which holds that governance practices should be commensurate with a company's size, complexity, ownership structure, risk profile, and stage of development. What matters most is a demonstrated commitment to progressively strengthening governance over time.

Alignment with international standards. IDB Invest's governance methodology is aligned with the Corporate Governance Development Framework (CGDF). This means that companies working with other development finance institutions (DFIs) can expect a consistent and comparable governance framework across institutions. Our approach also draws on internationally recognized standards such as the G20/OECD Principles of Corporate Governance.

How these guidelines are organized. The governance areas covered in these guidelines are organized into five sections, aligned with the core attributes of the Corporate Governance Development Framework (CGDF): (A) Commitment to Corporate Governance, (B) Structure and Functioning of the Board of Directors, (C) Control Environment, (D) Transparency and Disclosure, and (E) Rights and Treatment of Minority Shareholders. These areas are interconnected: strong practices in one area reinforce good outcomes in others, and weaknesses in one area can amplify risks elsewhere.



IDB Invest and the CGDF

The CGDF provides signatory institutions, such as IDB Invest, with a common approach to evaluating and enhancing governance practices in their investee companies. For more information, visit the CGDF's website here.

A living document. These guidelines are reviewed periodically to reflect evolving best practices, regulatory developments, and lessons learned from our work with clients across the region. We welcome feedback from our clients and partners as part of this continuous improvement process.



Questions about these guidelines?

Contact your IDB Invest Investment Officer / Portfolio Management Officer or reach out to the **Corporate Governance team** here.

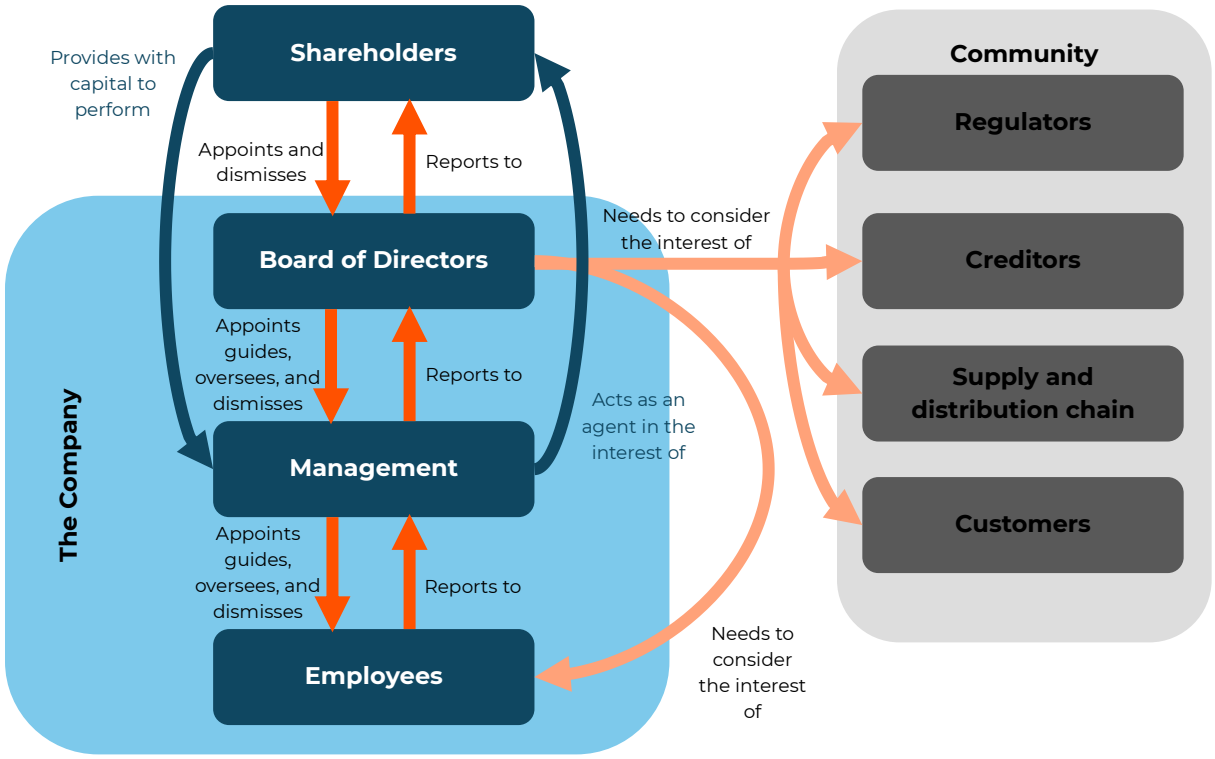
What is Corporate Governance?

Corporate governance refers to the **practices, processes, and structures by which companies are directed and controlled, in the interest of the Company and all shareholders, while taking into account the interests of stakeholders.**

At its core, effective governance defines how authority is exercised, how decisions are made and overseen, and how accountability is enforced across three key levels: ownership, the Board of Directors, and management. It provides the institutional foundation for reliable financial and non-financial reporting, effective risk management, and the implementation of sound environmental, social, and climate practices.

Good governance is a continuous process; companies at different stages will naturally have different practices in place. What matters is the commitment to strengthen governance over time, in a way that reflects the Company's context and supports its long-term objectives.

Corporate Governance key relationships framework



Why Corporate Governance Matters for Companies

Sound corporate governance practices directly benefit companies in several important ways. Companies with strong governance improve their operational performance through clearer separation of ownership and management, better decision-making processes, more effective succession planning, stronger internal controls and risk management, and increased transparency. They provide better protection for shareholders and key stakeholders by implementing clear rights, disclosure practices, and mechanisms for management oversight.

Well-governed companies also tend to act more strategically. They allocate and manage resources more sustainably, develop better relationships with their stakeholders, and build greater credibility in their markets. As a result, they are more likely to attract funding — both domestically and internationally — and may benefit from more favorable financing conditions and stronger market valuations, supported by greater transparency and institutionalization.

Good governance also lays the foundation for effective climate governance and sustainability governance. Boards that are capable, independent, and well-informed are better positioned to oversee climate-related risks and opportunities, integrate environmental and social considerations into the Company's strategy, and guide the Company through transitions aligned with global sustainability priorities.

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Why corporate governance matters for IDB Invest

Corporate governance is central to how we evaluate, structure, and monitor our partnerships.

As a lender, we need confidence that your company has the governance structures in place to manage risks effectively and honor its commitments. Governance weaknesses can be early indicators of credit deterioration and operational problems.

As an equity investor, the quality of the board, the clarity of shareholder rights, and the integrity of decision-making processes directly shape the value of our investment.

In both cases, our interest is aligned with yours.

Good Governance in the Business Context of Latin America and the Caribbean

Companies in the region share characteristics that make good governance both more challenging and more rewarding to accomplish:



Concentrated ownership is the norm, not the exception. Many companies in the region are controlled by a single shareholder, a family, or a small group of partners. While this can provide stability and long-term commitment, it also creates risks: decisions may reflect the interests of a controlling group rather than the Company as a whole, conflicts of interest are exacerbated, oversight can become blurred when the same individuals own, govern, and manage the business, and minority shareholders may lack an effective voice and protection. Sound governance provides the checks and balances needed to manage these dynamics constructively — separating ownership from management, establishing independent oversight, and protecting the rights of all shareholders.



Succession is a critical vulnerability. Family-owned businesses and founder-led companies — which represent a significant share of the private sector in the region — tend to operate through individuals rather than institutions, making leadership transition one of the most consequential governance challenges. Without a clear, well-prepared succession strategy, companies face disruption, internal conflict, and loss of institutional knowledge when key individuals depart. Governance provides the framework for

addressing succession proactively — planning for both expected and unexpected transitions, clarifying roles, and ensuring continuity at the leadership, board, and ownership levels.



Formalization and institutionalization are ongoing challenges. Many businesses in the region have grown rapidly, often outpacing the development of their governance structures. Companies that started as entrepreneurial ventures or family operations may still rely on informal processes, undocumented agreements, and personal relationships rather than formal policies, written charters, and structured decision-making. Governance helps companies bridge this gap — formalizing what works, creating accountability, and building the institutional foundations needed to sustain growth and attract external partners.



Access to capital depends increasingly on governance credibility. Companies seeking financing from international development finance institutions, commercial banks, institutional investors, or capital markets are increasingly evaluated not only on their financial performance but also on their governance practices. Investors and lenders look for evidence that the Company has the structures in place to manage risks, honor its commitments, and protect the value of their investment. Companies with weak or opaque governance face higher costs of capital, more limited access to funding, and reduced ability to attract co-investors. Strengthening governance is, in this sense, a direct investment in the Company's capacity to grow and compete.

Understanding these dynamics upfront is important because the governance areas described in the following sections are all connected to these fundamental themes. Each area addresses a different facet of the same core challenge: building a company that is well-directed, well-controlled, transparent, and fair to all its stakeholders.

How IDB Invest Works With You on Governance

IDB Invest has a dedicated Corporate Governance team that works alongside your Investment Officer (IO) or Portfolio Management Officer (PMO) throughout your partnership with us. Our role is to bring specialized expertise – helping assess governance practices and areas for improvement, support the development of tailored action plans, and provide resources and advisory services that help your Company strengthen institutional capacity over time.

This engagement follows a structured, collaborative approach to understand your governance framework, jointly define priorities, and support implementation in a practical way. The following sections outline the key components of this approach and how they work together to support your Company's governance development over time.

The Corporate Governance Assessment Tool (CGTool)

The CGTool is an online questionnaire that collects information about your Company's governance practices across the five areas described in these guidelines.[1] It is designed to be straightforward and can be completed by your Company's management or governance team. All questions have multiple-choice answers and a "tooltip" explaining each option.

This self-assessment tool provides IDB Invest with a structured overview of a Company's governance maturity and helps identify strengths and areas for improvement. It also provides a baseline that can be tracked over time, since the CGTool is submitted annually throughout the life of the partnership. This means that governance progress is visible and measurable. **Your answers to the CGTool are an essential input for IDB Invest's governance assessment.** Completing it promptly and accurately helps ensure a smooth and efficient process.

The Governance Assessment

IDB Invest assesses corporate governance in every transaction, but the depth of the assessment depends primarily on two factors: the type of transaction and the governance risk profile of the Company.

For certain types of transactions, such as equity and quasi-equity investments, capital markets transactions, and transactions involving state-owned enterprises, IDB Invest's Corporate Governance team conducts a comprehensive governance review from the outset. This is because these transactions, by their nature, involve a higher level of exposure and complexity that warrants a deeper assessment.

For other transactions, the CGTool results serve as the primary basis for determining the appropriate level of review. If the results reveal areas that require attention or a medium to high level of risk, IDB Invest may decide to conduct a more in-depth review.

When a comprehensive governance review is conducted, IDB Invest's Corporate Governance team reviews key governance documents, such as bylaws, internal policies, board charters, and codes of ethics, and conducts dedicated governance interviews with relevant company personnel. These interviews may include conversations with the controlling shareholder, board members, senior management, and key functions such as internal audit, compliance, and the external auditor. The goal is to develop a thorough understanding of how governance works in practice, not just on paper.

[1] The CGTool covers the five areas in seven sections to facilitate the client's work in answering the different topics.

A note for State-Owned Enterprises (SOEs)

SOEs face governance challenges that go beyond those of privately held companies. The intersection of public policy objectives and commercial operations can create tensions around clarity of purpose, management autonomy, and political insulation, all of which directly affect a company's ability to perform effectively and sustainably. For this reason, IDB Invest conducts a comprehensive governance review of every transaction involving an SOE and assesses additional attributes specific to SOEs: political insulation and clarity of purpose. IDB Invest has developed specific governance principles for SOEs to guide their governance approach.

A note for equity and quasi-equity investments

When IDB Invest participates as an equity or quasi-equity investor, the governance relationship is typically closer and more sustained than in a lending arrangement. Because IDB Invest has a direct stake in the Company's long-term value, governance considerations are embedded throughout the investment. As part of the investment structure, IDB Invest may seek representation on your Company's Board of Directors, either as a full board member or as an observer.

This presence is not about control. Board representatives act in accordance with their fiduciary duties to the Company and contribute independent judgment, international governance experience, and a long-term institutional perspective. Their role is to support the Company's strategic agenda, strengthen governance practices from within, and help promote sound decision-making aligned with sustainable value creation.

The terms of this engagement, including nomination rights, information access, and governance protections, are agreed with you as part of the shareholders' agreement. IDB Invest's Corporate Governance team works closely with board representatives and company leadership to support board-level engagement and provide ongoing governance knowledge and resources throughout the life of the investment.

The Corporate Governance Action Plan (CGAP)

Based on the governance assessment, IDB Invest may develop a Corporate Governance Action Plan (CGAP) tailored to your Company. Not all transactions will result in a CGAP: it depends on the governance risk profile, the type of transaction, or if complex issues have been identified. When a CGAP is developed, it typically includes two types of actions:

- **mandatory actions,** which address material governance risks and are reflected as contractual obligations with defined implementation deadlines; and
- **non-binding recommendations**, which aim to further strengthen your governance framework beyond minimum requirements.

The CGAP is not developed in isolation. **IDB Invest discusses the proposed actions with you, including their scope, priorities, timelines, and deliverables.** The goal is to agree on a plan that is **realistic, actionable, proportionate to your Company's context, and genuinely useful.** Once agreed, the mandatory actions become part of the transaction's contractual framework, and your Company is expected to implement them within the agreed deadlines. IDB Invest monitors implementation throughout the life of the investment and supports progress through knowledge resources and, where appropriate, advisory services designed to facilitate effective implementation.

Even for transactions that do not trigger a comprehensive review and where the CGTool results indicate manageable risks, IDB Invest's Corporate Governance team might be involved, upon request, to develop a CGAP, supporting continued governance strengthening beyond minimum standards.

Governance Knowledge Resources

IDB Invest has developed an extensive library of corporate governance knowledge and resources designed to support companies at every stage of their governance journey. These include:

- **practical, annotated templates**, covering key governance documents such as board charters, codes of ethics, succession plans, and policies, that companies can use as a starting point when implementing governance improvements.
- **publications** that explore the connection between governance and specific strategic themes. In addition, IDB Invest has supported partner institutions in the region in developing governance resources.
- **case studies** drawn from IDB Invest's experience with clients across Latin America and the Caribbean that illustrate how governance improvements translate into tangible business outcomes.

These resources are available to clients through your Investment Officer or Portfolio Management Officer, and selected materials can be accessed on the IDB Invest website.

The CGDF Progression Matrix



To help frame where your Company stands and where it could go, IDB Invest uses CGDF's Corporate Governance Progression Matrix. This reference tool maps governance practices across progressive maturity levels—from basic to best practices. It is a practical tool that helps visualize your Company's governance journey and identify concrete, achievable next steps. Check the Matrix here.

Corporate Governance Advisory Services

Beyond assessment and action plans, IDB Invest's Corporate Governance team offers advisory services that can help your company implement governance improvements more effectively. These services may include governance diagnostics, policy drafting, capacity-building programs, board effectiveness assessments, and support in implementing board policies and procedures. IDB Invest also offers specialized Climate Governance products designed to help companies put climate governance into practice. In certain cases, corporate governance advisory support may also be available **upstream**, helping potential clients strengthen governance frameworks in preparation for future engagement with IDB Invest.

Companies interested in exploring these opportunities are encouraged to reach out to their Investment Officer and to IDB Invest's Corporate Governance team to explore available options.

Five Areas of Corporate Governance

The following sections describe the governance practices that IDB Invest considers most relevant for its clients, organized into five areas. Within each area, certain practices are highlighted as **foundational elements**: the structural building blocks that IDB Invest believes are essential for a sound governance framework. Additional elements are included where relevant to further strengthen governance in certain areas.

Together, these elements guide IDB Invest's governance dialogue with clients and may inform the development of a Corporate Governance Action Plan where appropriate.

Attention!

Not every practice will fit every company in the same way. IDB Invest applies the principle of proportionality: we work with each client to identify practices that are relevant and achievable given the company's size, complexity, and stage of development. Remember: good corporate governance is a journey, not a destination!

A. Commitment to Corporate Governance

A company's governance framework begins with a genuine commitment to being well-governed. This commitment sets the tone for everything else — from how the board functions to how the Company treats its shareholders. IDB Invest assesses this foundational commitment through several lenses: whether the Company has formalized its core governance documents, embedded ethics and integrity into operations, defined its purpose and values, and treats governance as something that evolves over time.

I. Formal Governance Documents

Governance commitments need to be formalized. IDB Invest expects companies to have foundational governance documents that provide structure, clarity, and accountability. At a minimum, this includes the Company's charter or articles of incorporation and, depending on the ownership structure, a shareholders' agreement.

As companies mature, IDB Invest expects them to develop additional written documents, such as board charters, committee charters, and an annual calendar of corporate events. For companies ready to formalize further, IDB Invest encourages adopting a written corporate governance code that articulates the Company's governance principles comprehensively.

For listed companies, adherence to local corporate governance codes — and transparent reporting on compliance — are important indicators of governance maturity.

II. The Corporate Secretary

One governance role that deserves special mention is the Corporate Secretary (or governance officer). This function ensures that the board operates effectively from an administrative and procedural perspective: preparing agendas, keeping minutes, facilitating communication between the board and management, managing the annual corporate events calendar, and ensuring compliance with regulatory requirements and the Company's governance framework.

Companies that lack this function often face disorganized board meetings, poor decision documentation, missed compliance deadlines, and weaker accountability. IDB Invest considers the appointment of a Corporate Secretary, with clearly formalized duties and responsibilities, an important step in strengthening governance architecture — particularly as the board's activities grow in scope and complexity.

III. Business Integrity: Code of Ethics

A commitment to corporate governance is inseparable from a commitment to business integrity. Companies that operate with clear ethical standards are better equipped to prevent fraud, corruption, and misconduct — risks that can cause severe financial, legal, and reputational damage (see Section C.III, Compliance and business integrity).

IDB Invest expects companies to have a Code of Ethics or conduct approved by the board and applicable to all directors, managers, and employees. The code should cover key areas, including the prohibition of bribery and corruption, the management of conflicts of interest, and the standards of behavior expected in dealings with third parties.

IV. Other Elements that Strengthen Governance Commitment

Corporate purpose and values. A clearly defined corporate purpose – one that goes beyond financial returns and speaks to the Company's role in the market, the economy, and society – provides strategic direction and helps align the interests of shareholders, the board, management, and employees. IDB Invest encourages companies to define their purpose and values in writing and communicate them clearly throughout the organization. At the most advanced level, the board regularly discusses purpose and values and translates them into concrete strategic measures.

Stakeholder engagement. How a company engages with its stakeholders — including employees, customers, suppliers, communities, regulators, and investors — reflects its governance maturity. IDB Invest encourages companies to adopt a stakeholder engagement policy approved by the board, including stakeholder mapping, differentiated engagement approaches, and grievance mechanisms for both employees and affected communities.



A note for startups and scale-ups

Governance does not need to wait until a company is large or established. Starting early, even with simple, proportionate practices, builds the culture, the documentation, and the habits that will support the company as it grows, attracts investors, and takes on greater responsibilities.

Governance of sustainability and climate. Companies that integrate environmental, social, and climate considerations into their governance framework are better prepared to manage long-term risks and respond to growing expectations from investors, regulators, and society. The board and senior management should ensure that material environmental, social, and climate issues are identified, monitored, and incorporated into the Company's long-term strategic plan. Establishing a dedicated environmental and social function with direct access to senior management and the board, and providing ESG and climate training across the organization, further strengthens this capacity.

Periodic evaluation of the governance framework. IDB Invest encourages companies to periodically review and evaluate the documents, policies, and processes that comprise their governance framework. As the Company matures, this means appointing a Corporate Secretary to ensure ongoing compliance and having the board assess and update the framework at regular intervals—ideally every 1 to 2 years.

A Note for Family-owned Businesses

Family-owned businesses are a cornerstone of the Latin American and Caribbean economy, bringing long-term vision and deep commitment. At the same time, they face unique governance challenges arising from the intersection of family dynamics and business management. Effective governance means establishing clear boundaries between family matters and business decisions. Key considerations include:

Family protocol. A signed family protocol establishes guidelines for how the family relates to the business, including rules on family employment, succession planning, ownership transfers, and dispute resolution. IDB Invest considers it important that the protocol be signed by all generations with a stake in the Company, not only the founders.

Professionalizing the board. As family businesses grow, the board benefits from non-family members and independent directors who bring objective perspectives and credibility with external investors. An advisory board can be a useful first step.

Separating ownership, governance, and management. Clarity about who owns the Company, who governs it, and who manages it helps avoid confusion and conflicts of interest — especially when family members occupy multiple roles.

Succession planning. A clear succession plan — developed early and revisited regularly — protects continuity and reduces uncertainty for employees, investors, and other stakeholders.

Family governance bodies. Formal structures, such as a family assembly or family council, can help manage communication and align expectations among family members not involved in day-to-day management.

What matters most is a willingness to progressively formalize governance and put in place structures that allow the business to thrive across generations.

B. Structure and Functioning of the Board of Directors

The Board of Directors is the cornerstone of a company's governance structure. It sets strategic direction, provides independent oversight of management, and ensures resources are used in the best interest of all shareholders and stakeholders. A well-functioning board does not replace management — it complements it by bringing diverse perspectives and independent judgment to critical decisions.



For **IDB Invest**, the quality of a company's board is one of the strongest indicators of governance maturity and institutional resilience.

For smaller or earlier-stage companies, the starting point may be an advisory board or a small board with one or two external (not necessarily independent) members — what matters is that oversight exists and strengthens progressively as the Company grows.

I. Board Composition and Independence

The composition of the board directly shapes the quality of its decisions. A board that brings together members with diverse backgrounds, complementary skills, and relevant experience is better equipped to oversee strategy, challenge management constructively, and identify risks and opportunities that a more homogeneous group might miss.

Diversity. Diversity in its broadest sense — including gender, ethnicity, professional background, sector experience, geographic perspective, and age — contributes to better decision-making, improved resilience, and stronger stakeholder relationships. Boards that lack diversity may find their perspectives limited, hindering innovation and responsiveness to complex challenges.

Independence. Independent directors play a critical role in ensuring objective oversight and complementary knowledge. Their perspective helps avoid groupthink and protects the interests of all shareholders. IDB Invest expects companies to have at least some independent representation and encourages progressive increases toward stronger independence. As a reference, 30% of independent directors reflect an advanced practice, while 50% or more reflect best practice. Directors who have served more than ten years may no longer be considered truly independent, regardless of their original designation.



Diverse boards make better decisions.

IDB Invest encourages companies to pursue diversity in broader terms, but gender diversity is a priority: companies should set targets and track progress.

IDB Invest Independent Director Definition

An independent director has no material relationship with the company, its controlling shareholders, or management that could compromise independent judgment. To check IDB invest's Independent Director definition, click Annex I here.

II. Board Role in Strategy and Oversight

The board's most distinctive contribution is its ability to provide independent judgment on the Company's long-term direction, ensuring that strategic decisions are aligned with shareholder interests.

Strategic guidance and oversight. At a minimum, the board should approve the annual strategic plan presented by management. As governance practices advance, the board should discuss strategy at least quarterly and actively monitor implementation through key performance indicators (KPIs).

Oversight of the control environment. The board plays a critical role in overseeing risk management, internal audit, and compliance. It should receive regular reporting, at least quarterly, on these areas, either directly or through committees such as the audit committee. When the board lacks oversight of these functions, it cannot truly fulfill its supervisory role.

Board oversight of sustainability matters. Environmental, social, and climate considerations should be standing items on the board's agenda—not occasional topics addressed only in response to external pressure. The board should ensure that E&S risks and opportunities are assessed regularly and incorporated into strategy. At the most advanced level, these are integrated into enterprise risk management and linked to management remuneration. Having at least one board member with relevant environmental and social expertise and ensuring the board receives training on these matters strengthens oversight capacity.

A Note for Startups and Scale-ups: Building Board-level Governance Step by Step

The key is to begin building oversight structures early and evolve them as the company grows.

- **Early stages:** Founders typically rely on informal networks of mentors and advisors for strategic guidance. These relationships provide valuable support but do not carry fiduciary duties.
- **Traction stage:** Establishing an advisory board becomes increasingly important. Although advisory in nature, it should operate with clear rules: a defined number of members, regular meetings, an established agenda, and recorded minutes. This lays groundwork for a future formal board.
- **With new investors:** Investors often require board seats. Founders should manage these dynamics carefully, harmonizing rights across investment rounds and ideally consolidating arrangements in a single shareholders' agreement to avoid conflicting clauses.

III. Audit Committee

As companies grow in complexity, boards benefit from delegating specific oversight responsibilities to specialized committees. While the board remains ultimately accountable, committees allow for more focused discussions on critical topics.

The Audit Acommittee is the most fundamental board committee. It provides oversight of financial reporting integrity, risk management, and compliance with legal and regulatory requirements. It may also oversee internal audit and whistleblowing mechanisms. To be effective, the audit committee should be chaired by an independent director with financial or audit expertise, and a majority of its members should be independent. Executives should not serve as voting members.

IV. Board Processes and Meetings

The effectiveness of a board depends not only on who sits on it, but also on how it organizes its work. Well-structured meeting practices ensure directors have the time, information, and focus needed to make informed decisions.

Annual calendar and agenda. A predefined annual calendar helps directors plan ahead and ensures that all critical governance topics — financial and non-financial reviews, risk assessments, compliance updates, strategic planning, and sustainability issues — are systematically covered. The agenda should distinguish between items that require a decision and those that are informative, allocating sufficient time to each. Agendas that include undefined items such as “miscellaneous” can indicate a lack of focus.

V. Board Evaluation

Regularly evaluating the board’s own performance is a sign of governance maturity. It fosters accountability, identifies areas for improvement, and helps the board remain effective as needs evolve.

Companies should conduct at least an annual self-assessment of the board’s composition and functioning. The evaluation should progressively expand to include the performance of individual directors, the board chair, and each committee.

Periodically — at least once every three years — the evaluation should be supported by an independent external party. Companies that have not conducted any board evaluation in the past three years face a higher risk of governance deficiencies going undetected.

The results should inform concrete actions, such as adjustments to composition, changes to meeting practices, or targeted training for directors. IDB Invest encourages companies to disclose their approach to board evaluations, including objectives pursued and changes made as a result.

VI. Management Oversight

A central part of the board’s role is overseeing senior management — particularly the CEO. This includes the processes through which management is appointed, evaluated, and held accountable.

CEO evaluation. The board should evaluate the CEO’s performance at least annually, using clearly defined KPIs aligned with strategic objectives. This ensures accountability, drives improvement, and provides the basis for compensation decisions. Companies where the CEO operates without a formal evaluation face a significant risk of misaligned incentives.

Succession planning. The board should have formally approved succession plans for the CEO and other key C-level positions, covering both contingency scenarios (unexpected departure) and long-term transitions. Comprehensive succession planning protects the Company from leadership disruptions and signals governance maturity — especially critical in family-owned companies, where succession may involve both leadership and ownership considerations.



Family Employment

For family-owned businesses where family members hold key positions, **IDB Invest** encourages the adoption – and disclosure – of a formal family employment policy. Such a policy establishes transparent criteria for hiring, performance evaluation, and compensation of family members, helping to mitigate conflicts of interest and perceptions of favoritism.

VII. Other Elements that Strengthen Board Governance

Board size, composition process, and commitment. While there is no single ideal number, IDB Invest considers five to nine members a generally effective range, depending on the Company's size, complexity, and committee needs. The method through which board members are selected matters as much as the result — boards whose composition is determined through a formal evaluation process or a skills matrix aligned with strategic needs demonstrate a more intentional approach to governance. Board members should also have sufficient time and focus to fulfill their responsibilities; members who sit on more than two external boards may struggle to dedicate the attention each Company requires.

Board leadership. The board's leadership sets the tone for how effectively it operates. IDB Invest considers it a strong practice for the board to be led by a non-executive, independent chair, as combining the roles of chair and CEO may limit the board's ability to exercise objective oversight. Where this is not feasible, an alternative is to appoint a lead independent director with clearly defined responsibilities — including coordinating with other non-executive members, collaborating on board agendas, chairing executive sessions without management, and being accessible to shareholders on sensitive governance matters such as CEO succession and board effectiveness.

Other board committees. Beyond the audit committee, companies may benefit from establishing additional committees proportionate to their size and strategy. These may include a risk committee (particularly important for financial institutions), an ESG or sustainability committee, a compensation committee to ensure independent scrutiny of management pay, and a nomination or governance committee to oversee board composition and succession planning. Depending on circumstances, some committees may be combined—for example, an Audit and Risk Committee or a Nominations and Governance Committee. For all committees, IDB Invest considers it important that roles and responsibilities be established in written charters, that they meet regularly and report to the full board, and that their structure and membership be clearly disclosed.

Board meeting practices. Boards should meet regularly, with a frequency of 4 to 12 meetings per year. Meeting notices and supporting materials should be distributed at least five business days before the meeting. The board's role and responsibilities should be formally defined in the bylaws and further detailed in a board charter. It is also valuable practice for the board to meet periodically without the CEO and other senior management to discuss sensitive matters candidly, including the evaluation of management performance.

Directors' compensation. Directors' compensation should be set in line with market standards, informed by benchmark studies conducted within the past 2 years. IDB Invest encourages transparency in director compensation and considers individual disclosure a leading practice.

CEO and senior management alignment. When the CEO and/or CFO have close family or business ties to the controlling shareholder, it can compromise their independence. IDB Invest encourages companies to establish independent oversight mechanisms, such as an independent board chair or a board committee to review and approve key executive actions.

Management compensation. Fair and transparent compensation structures that align pay with performance and long-term objectives are essential for attracting talent and ensuring accountability. Compensation should be set based on formalized criteria — ideally linked to KPIs under a remuneration policy, informed by benchmark studies. The board should approve CEO remuneration, and a dedicated compensation committee can provide the focused attention this task requires.

C. Control Environment

A strong control environment is the foundation of sound corporate governance. It encompasses the systems, processes, and structures that help a company safeguard its assets, ensure reliable financial reporting, comply with applicable laws and regulations, and achieve its operational objectives effectively. IDB Invest views the control environment as comprising five interconnected elements: the internal control system, risk governance and management, compliance, internal audit, and external audit. The sophistication of these controls should be adapted to the Company's context.

The "Three Lines Model": Coordinating the Defenses

For more advanced companies, IDB Invest encourages adoption of the "Three Lines Model," which provides a clear framework for coordinating risk management, internal control, and internal audit.

- The first line consists of operational management, which owns and manages risks and implements controls as part of day-to-day operations.
- The second line comprises risk management and compliance functions, which provide expertise, support, monitoring, and challenge on risk-related matters.
- The third line is internal audit, which provides independent assurance to the board and senior management on the effectiveness of governance, risk management, and internal controls.

Adapted from IIA, "The IIA's Three Lines Model" (2020)

I. The Internal Control System

Internal controls are the policies, procedures, and mechanisms that help a company prevent errors, protect assets, produce reliable information, and comply with laws and internal policies. Strong internal controls strengthen investor confidence and position the Company for sustainable growth; weak or informal controls leave it vulnerable to financial misstatements, operational disruptions, and regulatory penalties.

IDB Invest looks for internal controls that are documented and accessible to relevant personnel, comprehensive in covering all significant operational and financial processes, aligned with recognized standards such as COSO, ISO, or Basel frameworks, and monitored by internal audit and reviewed regularly by the board or audit committee — with corrective action taken on deficiencies identified, including those flagged in management letters from external auditors.



What is an internal control system?

An internal control system consists of the rules, checks, and balances that guide how work gets done across the organization. It includes processes for approving transactions, reconciling accounts, safeguarding assets, segregating duties, and ensuring that the company complies with its own policies and external regulations.

II. Risk Governance and Management

Risk governance and risk management together form the Company's risk framework. Risk governance refers to how the board oversees the Company's approach to risk, while risk management is management's ongoing process for identifying, assessing, and addressing risks in day-to-day operations.

IDB Invest looks for companies that have a risk framework that is developed and implemented, with material risks clearly identified. The board should approve and monitor the framework, including the Company's risk appetite—a statement defining the level and types of risk the Company is willing to accept. The framework should include periodic risk assessments to identify relevant and material business integrity risks. Companies should designate a risk management leader; for more mature organizations, this means having a Chief Risk Officer (CRO) or equivalent with direct, unfettered access to the board or applicable board committee.



International Risk Management Standards

Adopting these standards demonstrates systematic risk oversight:

ISO 31000 provides principles for integrating risk management into governance and operations. To learn more, click here.

COSO ERM offers a framework for aligning risk management with strategy. To learn more, click here.

III. Compliance and Business Integrity

The Code of Ethics (see Section A.III) establishes the ethical standards a company commits to uphold. The practices described here are the operational mechanisms that bring those standards to life within the control environment.

Alongside the Code of Ethics, IDB Invest considers it important for companies to develop a well designed risk-based compliance and integrity program approved by the board. This means a structured approach to identifying and managing integrity risks in all of its operations (such as corruption, fraud, money laundering), including risk-based due diligence processes and a clear mechanism for addressing violations. Culture and tone from the top matters. Regular training on the compliance and integrity program — including the code of ethics — should be provided to all employees, management, and the board. Companies that train only selectively or less than once a year may lack the follow-through needed to embed integrity in the organizational culture. An effective whistleblowing channel— accessible to all employees and third parties, confidential, and protected against retaliation — that supports early issue detection and reinforces a culture that values ethical behavior. IDB Invest considers this an essential governance mechanism.

Oversight of related-party transactions is also an important component of the control environment, requiring coordination between governance bodies, compliance, and internal audit functions.

IDB Invest expects a compliance function proportionate to the company's risk profile, adequately resourced and empowered to function effectively, and to have direct, unfettered access to the board or applicable board committee. This independence gives the function the authority needed to escalate concerns when



International Compliance Standards

The ISO 37301 standard provides a comprehensive framework for establishing, implementing, maintaining, and improving a compliance management system. Adopting this standard can strengthen credibility with stakeholders and demonstrate a robust approach to regulatory and ethical compliance. To learn more, click here.



Multilateral Development Banks (MDBs) Business Integrity Principles

The General Principles for Business Integrity Programmes, issued by MDBs, provide guidance for implementing effective ethics and compliance practices across operations. Following these principles helps companies build trust with stakeholders and promote a culture of integrity. To learn more, click here.

necessary and ensures that compliance issues are not filtered before reaching the board. The board should ensure that corrective action is taken to address compliance violations and that the program works in practice. For companies with more mature levels of governance, the compliance function coordinates with internal audit and risk management as part of an integrated control environment. Finally, IDB Invest expects the program to be independently reviewed to ensure that it is working effectively.

IV. Internal Audit

While internal controls are part of day-to-day operations, the internal audit function provides independent, objective assurance that those controls are adequate and effective. This separation is essential: the people reviewing controls should not be the same people responsible for operating them.

IDB Invest looks for an internal audit function that is permanent and independent from operational responsibilities, reporting to the board (preferably through an audit committee), risk-based and operating on an annual plan that prioritizes areas of greatest risk, formalized through a charter that clearly defines its mandate and access rights, adequately resourced with professionally qualified auditors and sufficient budget, and coordinated with the external auditor to avoid duplication. Internal auditors should have unrestricted access to all company records, processes, and personnel necessary to complete their assessments.

For smaller companies, a fully independent internal audit function may not be practical from the outset. Periodic internal audits conducted by qualified external parties, with findings reported to the board, can serve as an appropriate starting point.

V. External Audit

The external audit provides an independent review of the Company's financial statements, enhancing their credibility and reliability. Unlike an internal audit, an external audit is performed by an independent third party, typically on an annual basis. IDB Invest expects companies to engage an external auditor to conduct an annual audit of financial statements, preferably with an internationally recognized auditing firm, and to have the financial statements prepared in accordance with international standards such as IFRS or GAAP.

The external auditor should provide an annual written management letter identifying any deficiencies in internal controls. Companies should act on these recommendations, with the board monitoring implementation. The board or audit committee should also review and ensure the external auditor's independence, including assessing long-standing relationships within the firm or team to maintain objectivity. Audited financial statements should be approved by the Annual Shareholders' Meeting within four months after the end of the fiscal year.



Supply Chain Integrity: Extending Controls Beyond Corporate Boundaries

A company's control environment should extend to its relationships with key suppliers, distributors, and other third parties. The company's reputation and operations may be significantly affected by the conduct of its business partners. Actively monitoring supply chain risks further strengthens this framework by enabling the identification and mitigation of potential vulnerabilities.

D. Transparency and Disclosure

Transparency — the timely, accurate, and complete disclosure of information — enables shareholders, investors, creditors, and other stakeholders to understand how a company is governed, operates, and manages risk. By reducing information asymmetry, transparent companies are better positioned to attract financing, build trust, and sustain long-term value creation.

IDB Invest assesses transparency across three dimensions: corporate disclosure, non-financial disclosure, and financial disclosure. The relevance and depth of each will depend on the Company's size, legal form, and stage of development — but all three contribute to a more credible and resilient governance framework.

Corporate disclosure. For many of IDB Invest's clients, governance-related disclosure is the most immediately actionable dimension of transparency. This includes making information available about the Company's purpose, mission, and values; its Code of Ethics and key governance policies; the composition and activities of the board and its committees; and the identity of ultimate beneficial owners. A comprehensive annual report with a dedicated corporate governance section is a strong vehicle for this disclosure.

Non-financial disclosure. Disclosing how the Company manages environmental, social, and governance (ESG) factors is an increasingly important dimension of transparency. Effective sustainability disclosure begins with the identification of the ESG factors most material to the business, those that may substantively influence value creation or pose significant risks over time.



Transparency builds trust

For non-listed companies, voluntary disclosure beyond what is legally required can be a powerful differentiator, signaling governance maturity and readiness to investors and development partners.



Integrating ESG into corporate reporting

As disclosure practices mature, companies benefit from integrating ESG and climate information into their broader corporate reporting, rather than treating sustainability as a separate exercise. This helps stakeholders understand how material ESG factors connect to financial performance, strategy, and risk management.

IDB Invest encourages companies to report ESG information in accordance with recognized standards, such as the GRI Standards or the IFRS Sustainability Disclosure Standards. Business integrity topics — including anti-corruption practices and the effectiveness of compliance programs — should also be part of this disclosure.

Financial disclosure. Financial reporting provides stakeholders with the information they need to assess the Company's financial health and the quality of its management. IDB Invest expects financial statements to be audited annually by an independent external auditor (see Section C.V for expectations on external audit). For listed companies, IDB Invest considers it important to maintain publicly available financial and non-financial information, hold periodic communication with investors, and proactively disclose material facts that may impact the market or investors' decisions.

E. Rights and Treatment of Minority Shareholders

Protecting the rights of all shareholders — regardless of stake size — is essential for building trust, reducing conflict, and sustaining long-term value. IDB Invest pays close attention to how companies structure ownership, manage shareholder relationships, and safeguard the interests of non-controlling shareholders.

I. Clarity of ownership and shareholder agreements

A clear understanding of who owns and controls the Company is fundamental. When controlling shareholders are clearly identified and ownership structures are transparent, all stakeholders can better understand decision-making dynamics and the distribution of rights and responsibilities.

If a company has a shareholders' agreement in place, making it accessible to investors helps build confidence by clarifying how decisions are made, how disputes are resolved, and how shares can be transferred. Agreements that remain confidential can create information asymmetry and increase the risk of mistrust.

For family-owned businesses, governance arrangements may include family protocols that define how family members interact with the Company. Formalizing and sharing these arrangements contribute to a clearer governance environment.

II. Voting rights and share structures

Equal voting and economic rights across all share classes are widely viewed as best practice, as they reduce the risk of unfair treatment of minority shareholders. The principle of "one share, one vote" ensures that each shareholder's influence is proportional to their economic stake.

In practice, some companies — particularly startups and scale-ups — may use dual-class or non-voting share structures. When these exist, terms should be clearly established in the bylaws and disclosed to investors. Good practice recommends capping plural voting rights (e.g., at ten votes per share), including a "sunset clause" that limits their duration, and ensuring non-voting shares represent a limited portion of total equity.

Transparent and fair share structures help attract capital, minimize disputes, and preserve long-term shareholder alignment.

III. Protection in related-party transactions

Related-party transactions — dealings between the Company and its significant shareholders, directors, or affiliated entities — carry inherent risks of conflicts of interest. Without clear safeguards, there is a risk that value may be extracted from the Company to the detriment of minority shareholders.

Related-party transactions represent not only a shareholder protection issue but also a key governance and control risk, as weaknesses in their oversight may expose companies to financial, operational, and integrity risks.

Companies should establish a formal policy for related-party transactions that requires arm's-length pricing, disclosure of conflicts of interest, and a conflict-free approval process. Best practice includes requiring conflicted parties to refrain from voting on the relevant matter and enabling non-conflicted parties — including, where appropriate, the majority of minority shareholders — to decide.

Publicly disclosing the related-party transactions policy further demonstrates the Company's commitment to fair treatment and strengthens stakeholder confidence.

IV. Change-of-control protections

When a company undergoes a change in control — whether through a sale, merger, or other significant transaction — minority shareholders are particularly vulnerable to decisions that may not reflect their interests. Clear and enforceable policies for change-of-control situations help ensure that non-controlling shareholders are treated fairly.

Key protections include tag-along rights, which allow minority shareholders to participate in a sale on the same terms as the controlling shareholder, and preemptive rights, which allow existing shareholders to maintain their proportional ownership when new shares are issued. Anti-dilution provisions and fair exit mechanisms also contribute to a governance environment where all shareholders know their rights and can plan accordingly.

V. Other Elements that Strengthen Shareholder Rights

Participation in shareholder meetings. Shareholder meetings are the primary venue where owners exercise their voice. For these meetings to be meaningful, all shareholders should receive timely notice — at least 15 days in advance — along with the agenda, financial information, and guidance on how to participate and vote. Facilitating participation through accessible locations, virtual attendance where legally permitted, and proxy voting further strengthen shareholder engagement. IDB Invest encourages formalizing shareholder meeting practices in a charter.

Minority shareholders' right to representation. Giving minority shareholders the ability to elect at least one member of the board is an important safeguard that ensures diverse perspectives are represented in governance and prevents the board from being dominated by a single group. For non-listed companies, enabling minority shareholders to participate in board nominations — or, at a minimum, to suggest candidates — remains a valuable mechanism for building trust and attracting investment.

Dividends and economic rights. Shareholders have a legitimate interest in understanding how the Company distributes profits. A dividend policy — a formal document approved by the board setting out the criteria, frequency, and conditions for distributing earnings — provides predictability and demonstrates respect for shareholders' economic rights. IDB Invest encourages companies to disclose their dividend policy to shareholders.

Annex I: Independent Director Definition

Independent Director means a director who has no direct or indirect material relationship with the Company other than membership on the Board.

For example, according to an internationally recognized definition, is a person who:

a) does not hold a material interest in the Company, any of its shareholders, or respective Affiliates (either directly or as a partner, shareholder, director, officer or senior employee of a Person that holds such an interest);

b) is not, and has not been in the past 3 years, employed by the Company or its Affiliates;

c) does not have, and has not had in the past 3 years, a business relationship with the Company or its Affiliates (such as consultant, supplier, or customer), either directly or indirectly, and is not a director, officer or senior employee of a Person that has or had such a relationship;

d) is not affiliated with any non-profit organization that receives significant funding from the Company or its Affiliates;

e) does not receive and has not received in the past 3 years, any additional remuneration from the Company or its Affiliates other than his or her director's fee and such director's fee does not constitute a significant portion of his or her annual income, and does not participate in any share option, equity incentive, deferred compensation, retirement or pension plan of the Company or any of its Affiliates;

f) is not employed as an executive officer of another company where any of the Company's executives serve on that Company's board of Directors;

g) is not, nor has been at any time during the past 3 years, affiliated with or employed by a present or former auditor of the Company or any of its Affiliates;

h) is not a member of the immediate family, i.e., up to second degree (and is not the executor, administrator or personal representative of any such Person who is deceased or legally incompetent) of any individual who would not meet any of the tests set out in (a) to (g) (where he or she a director of the Company); and

i) has not served on the board for more than 10 years.

A Person shall be deemed to be "affiliated" with a party if such person (i) has a direct or indirect ownership interest in; or (ii) is employed by such party. "Material interest" shall mean a direct or indirect ownership of voting shares representing at least two percent of the outstanding voting power or equity of the Company or any of its Affiliates.