

7th DFI Corporate Governance Group Meeting



6-7 February 2013
Manila, Philippines

CG in State Owned Enterprises: Specific approaches and experiences from CAF



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1. Latin American Network on CG for SOEs

2. GC Guidelines for SOEs

3. Technical Assistance on Implementation of Good CG principles on SOEs

4. Final Considerations



Latin American Network on Corporate Governance of SOEs

- **Joint initiative with OECD** and local governments.
- Annual meeting (since 2011) as a **high-level regional hub for a structured policy dialogue** on corporate governance of SOEs.
- **Enhance SOE governance in Latin America** through an ongoing exchange of experience and knowledge on SOE governance policies, practices and reforms, **using CAF and OECD Guidelines as the main conceptual framework for discussion**.
- The Network provides a forum to leverage the experience of a range of governments and other institutions to **share knowledge on policy, institutional frameworks and best practices** to support corporate governance improvements in SOEs across the region.
- **The Second Meeting (2012)** involved the **active participation of ADB** who provided insights on the challenges and lessons learned from experiences of governments and SOEs outside of Latin America.



GC Portal for SOEs Network

- **Objective:**
 - ✓ Provide a tool for knowledge exchange among Network members
 - ✓ Restricted access only to registered members

- **Contents:**
 - ✓ Access to bibliographical material
 - ✓ On - line auto evaluation platform on GC for SOEs.
 - ✓ Events and activities for Network members

eventos.caf.com/gobierno-corporativo

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White Paper on Corporate Governance for SOEs

The Importance of Corporate Governance in State Owned Enterprises

Prepared for the Andean Finance Corporation (CAF)

CAF DEVELOPMENT BANK OF LATIN AMERICA

by Sodali and Governance Consultants S.A.¹

sodali ALIGNING INTERESTS GOVERNANCE CONSULTANTS

November 2012

¹ The primary authors are John Wlasek (Sodali), Lisa Schneider (Sodali) and Andres Bernal (Governance Consultants S.A.)

- Supports the proposition that SOEs should exemplify the best corporate governance principles and practices.
- Contents:
 - ✓ The Importance of CG in SOEs
 - ✓ Latin American CG Case Studies of SOEs
 - ✓ Conclusions

WP: Why Corporate Governance Is Important in SOEs

- **Maximizing the SOE Leadership Position.** Often the most important and visible public companies in emerging markets, and should take a leadership role as governance paradigms
- **Maintaining Long-term Business Perspective.** Often serve a dual purpose – earning profits for a sustainable business practice and serving the public interest – which can create potential conflicts-of-interest
- **Achieving Business Objectives.** CG can help SOEs to achieve a number of specific business objectives: (i) Clearer decision-making structures and processes; (ii) Greater transparency; (iii) More stable board and management; (iv) Tighter risk controls; (v) Reduced conflicts-of-interest.
- **Better Access to Capital.** For SOEs that are also listed companies or have other outside ownership.
- **Improving Relations with Minority Shareholders.** When the State is the majority and its decisions affect the interests of minority owners.



WP: Why States Should Support Corporate Governance Principles for SOEs

- **Credibility of the State.** SOEs occupy a position of exceptional importance and visibility in the communities and countries they serve. They exemplify the State itself.
- **Compliance with Global Norms.** Corporate governance principles and best practices have become the global norm.
- **Public Good.** Good corporate governance practices can reduce business risk and provide substantial benefits to SOEs.
- **Business integrity.** When the State supports and enforces CG standards in its own SOEs, it is effectively setting a standard of integrity for all companies -both domestic and foreign- that do business in the country.
- **Capital Market Efficiency.** Corporate governance standards increase access to global capital and reduce the cost of capital



WP: Cases of GGC in SOEs in Latin America

Each of these cases reflects and highlights a different issue of the dynamics of CG within SOEs:



- The role of the State in the implementation of best practices, in order to strengthen the CG structure and the establishment of the roles and responsibilities of the board.



- The role accomplished by the Property Control Unit as managers and promoters of CG in the respective SOEs.



- Commitment of listed SOEs, by having a first-class Board of Directors and the respect of minority shareholders rights.



- management skills of the local entity in establishing the adequate legal framework to exercise its property and management of CG within a conglomerate of companies



- Implementation of gradual systems for the election of Board members, as a mechanism that helps strengthening the autonomy of SOEs, in response to the inherent impact of the State's participation as owner.





Guidelines for the Corporate Governance of SOEs

- Based on the “OECD Guidelines on Corporate Governance of State-owned Enterprises” and CAF’s Guidelines for a Corporate Governance Code
- Define the components of governance best practices and makes recommendations

The document consists of 57 guides on the following dimensions:

- Legal and Regulatory Framework (4)
- Ownership Function (6)
- Shareholders Rights (6)
- Shareholders’ General Assembly (11)
- Board of Directors (20)
- Financial and Non Financial Information(9)
- Conflict Resolutions (1)



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Effective Implementation CG in SOEs

- 3 Phases in the implementation: Due Diligence, Recommendations and implementation of standards (Non Refundable Technical Assistance).
- CAF funded the implementation of CG principles in 11 SOEs in Latin America.
- Currently 10 SOEs in Ecuador, Bolivia and Peru are in process of implementation.

EPE	País
Aguas del Cesar	Colombia
Aguas del Magdalena	Colombia
EMCALI	Colombia
Empresa Eléctrica de Quito	Ecuador
Empresa Metropolitana de Asea EMASEO	Ecuador
Empresa Metropolitana de Agua Potable – EMAAP	Ecuador
Empresa Metropolitana de Movilidad – EMMOP-Q	Ecuador
Petroperú	Perú
Sedapal	Perú
Banco de la Nación	Perú
Electroperú	Perú










On-line auto evaluation platform on GC for SOEs

- Through specifically designed question to analyze and evaluate SOE's CG.
- For the exclusive use of Network member SOEs

<u>Objetives of the Evaluation Software</u>	<u>Benefits for the SOEs</u>
<ul style="list-style-type: none"> • Provide of information on the current situation regarding CG practices of SOEs in the region. • Facilitate Network SOEs with comparable information regarding CG dynamics in other companies in the region. • Knowledge building around SOE's CG in the region. 	<ul style="list-style-type: none"> • Provide with a methodology that fits specific classification and mandate of each SOE. • Provide comparable information regarding the good CG practice at a regional level. • Establish a CG risk level for each user SOE.





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Pending Challenges for SOEs

- In Latam there has been progress in the level of awareness on CG, however a number of challenges still remain:
 - ✓ State-Owners have undefined expectations on the economic, social and political goals, about the companies where they act as owners.
 - ✓ The absence of actors from the civil society and stakeholders that systematically monitor the governance practices of SOEs.
 - ✓ The lack of regulatory frameworks that recognize the special conditions of SOEs, allowing them to act in competitive conditions.
 - ✓ The low recognition and application of rules that tend for the protection of minority shareholders.
 - ✓ The deficiency in the process of selecting Board of Directors members, to fully empower this body and increase its level of professionalism and independence.
 - ✓ The low efficiency of accountability process which should contribute to preserve the sustainability of the EPEs and act as compromising processes of administrators.
- Through the use of a CG framework, States have the tools to engage into these challenges.
- States-owners (municipality, department, centralized property entity, etc.) must become active promoters of good CG practices.





CAF's Corporate Governance Program Site

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Noticias

Medellín fue la sede del Foro "Gobierno Corporativo en Empresas Estatales de Latinoamérica"
 22.09.2010 Empresas Públicas de Medellín (EPM), CAF, la OCECO, el Banco Mundial y el BID auspiciaron el Foro "Gobierno Corporativo en Empresas Estatales de Latinoamérica".
[Ver noticia en detalle](#)

Primer Concurso de casos de estudio "Desde la perspectiva de Gobierno Corporativo"
 20.07.2010 La convocatoria va dirigida a docentes universitarios y de institutos de educación superior.
[Ver noticia en detalle](#)

Proyectos y Convenios

Buen Gobierno Corporativo en los Negocios
 El proyecto tiene como finalidad analizar los principios de gobierno corporativo en Latinoamérica, evaluando su contribución con el desarrollo de mercados de capitales sólidos.

Proyecto de Modernización del Mercado de Valores y Creación de la Unidad Académica de Gobierno Corporativo
 Noviembre 2008, Ecuador. Área de Acción: Difusión y capacitación

Programa Nacional de Gobierno Corporativo
 Julio 2008, Venezuela. Área de acción: Aportes conceptuales y herramientas, difusión y capacitación

Publicaciones y Documentos

Guía Colombiana de Gobierno Corporativo para Sociedades Cerradas y de Familia
 Bogotá - Colombia, septiembre de 2009

Manual de Gobierno Corporativo para Empresas de Capital Cerrado
 Caracas - Venezuela, agosto 2006

Gobierno Corporativo: Lo que todo empresario debe saber
 Caracas - Venezuela, abril 2005

Lineamientos para un Código Andino de Gobierno Corporativo
 Caracas - Venezuela, marzo 2005

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Otros Programas de la VEDPP

Programa de Apoyo a la Inversión (PAI)

Estudios Económicos

Programa de Apoyo al Inversionista (PAI)

Para más información
<http://gc.caf.com>



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