7th DFI Corporate Governance Group Meeting



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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

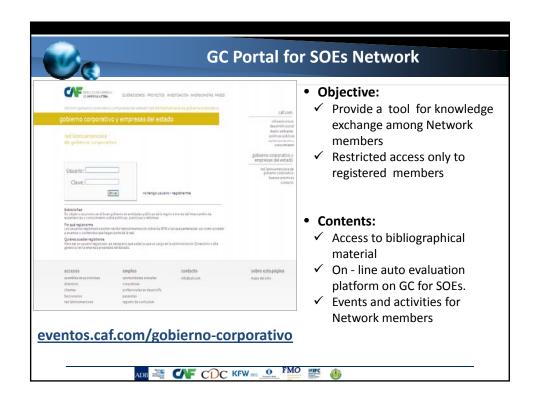


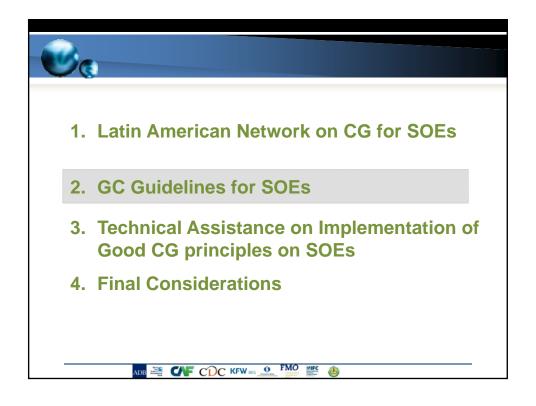
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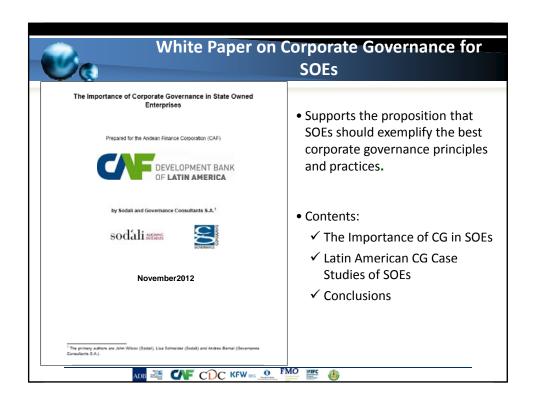
Latin American Network on Corporate Governance of SOEs

- 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.









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:

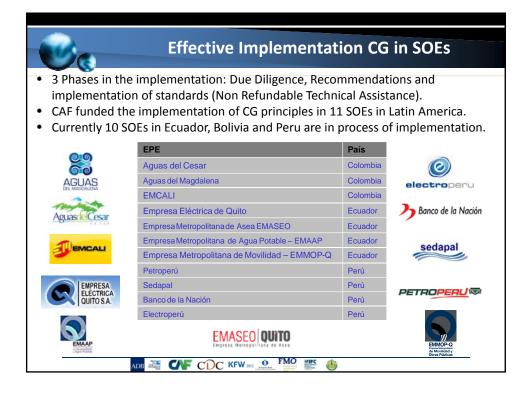
- Legal and Regulatory Framework (4)
- Ownership Function (6)
- Shareholders Rights (6)
- Shareholders' General Assembly (11)
- Board of Directors (20)
- Financial and Non Financial Information(9)
- Conflict Resolutions (1)





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

Objetives of the Evaluation Software

- 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.

Benefits for the SOEs

- 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.



