

8th DFI Corporate Governance Group Meeting



March 4-6, 2014
Washington, D.C.

CAF: Guidelines for a Latin American Corporate Governance Code



Andrés Oneto

CAF – Latin American Development Bank



CAF: 44 years in Latin America -

From an Andean to a Development Bank of Latin America

1990



Bolivia
Colombia
Ecuador
Peru
Venezuela

5 countries

2000



Bolivia
Colombia
Ecuador
Peru
Venezuela
Argentina
Brazil
Panama
Paraguay
Uruguay
Costa Rica
Chile
Jamaica
Mexico
Dominican Rep.
Trinidad & Tobago

16 countries

2012



Spain
Portugal

Argentina
Bolivia
Brazil
Colombia
Ecuador
Panama
Paraguay
Peru
Uruguay
Venezuela
Costa Rica
Chile
Jamaica
Mexico
Dominican Rep.
Trinidad & Tobago

18 countries



CAF's Corporate Governance Program

Current activities include:

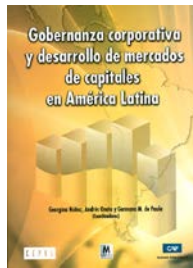
Documents: CG Guidelines, manuals, white papers and investigation documents

Tools: E-Learning Platform to train Credit Officers in CG issues.

Promotion: (i) Sponsorship and participation in seminars of CG in the region; (ii) Sponsoring of the Peruvian and the Colombian CG Country Codes.

Implementation: Co- financing the implementation of good CG practices in more than 100 enterprises of different types (family owned, listed, SOEs, financial).

Training: Organization of workshops for consultants and Credit Officers on principles and methodologies for the implementation of CG practices.



The Review of the Guidelines

2004



2013



Reasons for the Update

- Global financial crisis (2008)
- Experience acquired through effective implementation process (2005-2012)
- A regional scope of application



Five key aspects of concern

LINEAMIENTOS
PARA UN CÓDIGO
LATINOAMERICANO
DE GOBIERNO
CORPORATIVO

Elaboration:
IAAG

Consolidate
complex
business
realities

- Economic groups
- Transition process in family owned businesses
- Weak Architecture of Control

Shareholders
that do not
exercise their
rights

- Shareholders General Assemblies that do not work properly

Ineffective
Board of
Directors

- Profiles
- Capabilities
- Dynamics
- Clarity of responsibilities

Incomplete
or ineffective
regulation

- Lack of understanding of CG
- Key aspects not regulated

Weak
supervision

- Slow transition towards supervision models based on risk.
- Limited resources



Guidelines for a Latin American Corporate Governance Code - GLACGC

- Takes in consideration the OECD principles of CG
- Recipients are companies of any nature
- Voluntary application by companies
- Supports regulators in the elaboration of standards, searching an equilibrium between self regulation and regulation.

OBJECTIVES

1

Create a true CG culture in Latin America.

2

Offer recommendations based in internationally accepted standards on CG

3

A tool that can improve competitiveness when implemented in companies



Methodology of the GLACGC

43 Guidelines + 133 Recommendations

LINEAMIENTOS
PARA UN CÓDIGO
LATINOAMERICANO
DE GOBIERNO
CORPORATIVO

	Guidelines	Recommendations
Rights and Equitable Treatment of Shareholders	5	16
Shareholders' General Assembly	12	25
Board of Directors	15	56
Architecture of Control	6	27
Transparency in financial and non financial Information	5	9
Appendix: Company Groups	7	7

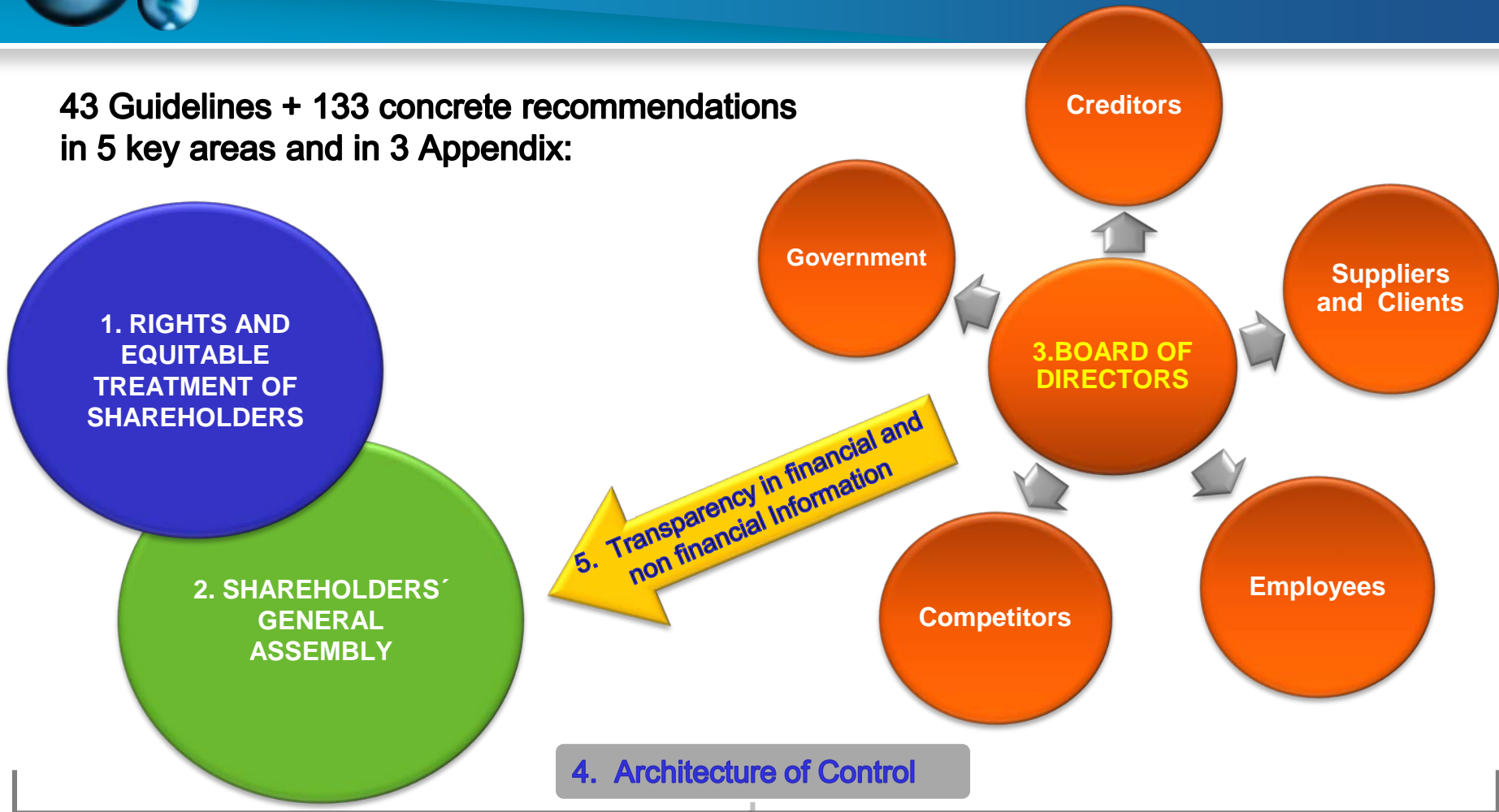
- **Guidelines:** broad CG principles.
- **Recommendations:** concrete application of CG principles that allow an effective implementation in companies.

Elaboration: IAAG



Structure of the GLACGC

43 Guidelines + 133 concrete recommendations
in 5 key areas and in 3 Appendix:



Annex

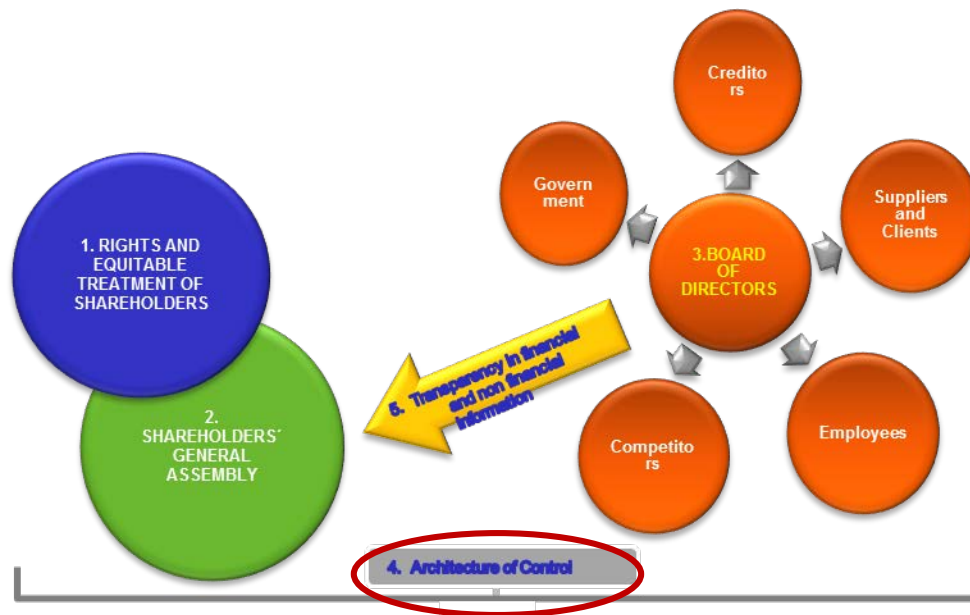
Corporate Governance for Company Groups

Responsibility of financial institutions in promoting CG

Corporate Governance for family owned companies

New Topics: Architecture of Control

Objective: Rely on an integral system of control that includes policies and procedures that provide reasonable assurance to achieve company objectives.



1. Environment of control
2. Risk management
3. Internal control system
4. Monitoring of the architecture of control (Internal and external audit).



New Topics: Annex I. CG for Corporate Groups

Objective: Understand that CG for corporate groups (Private and State owned), is an economic reality with a particular dynamic: the search of a common objective as a group and the particular objectives as individual companies.

- **A governance model for groups is proposed, based on 7 Guidelines for specific issues:**
 - ❖ Organizational structure of the group.
 - ❖ Board of Directors structure.
 - ❖ Unified treatment of the architecture of control of the group.
 - ❖ Transparency and disclosure of information.





New Topics: Annex III. Responsibility of financial institutions in promoting CG

Objective: Financial institutions can play a key role in promoting CG: (i) within the institutions; (ii) towards their clients.

- **Governance of financial institutions:** Optimum operation of these institutions rests on solid CG structures.
- **Governance on clients on the asset side:** Appraisal and management of governance risks on their clients can reduce their own reputational risk.
- **Methodology to evaluate CG compliance on clients:** Formally include CG appraisal into their credit risk methodologies and procedures.



E-Learning Platform on CG



The e-Learning platform is a training tool developed by CAF in accordance with the DFI Toolkit on CG.

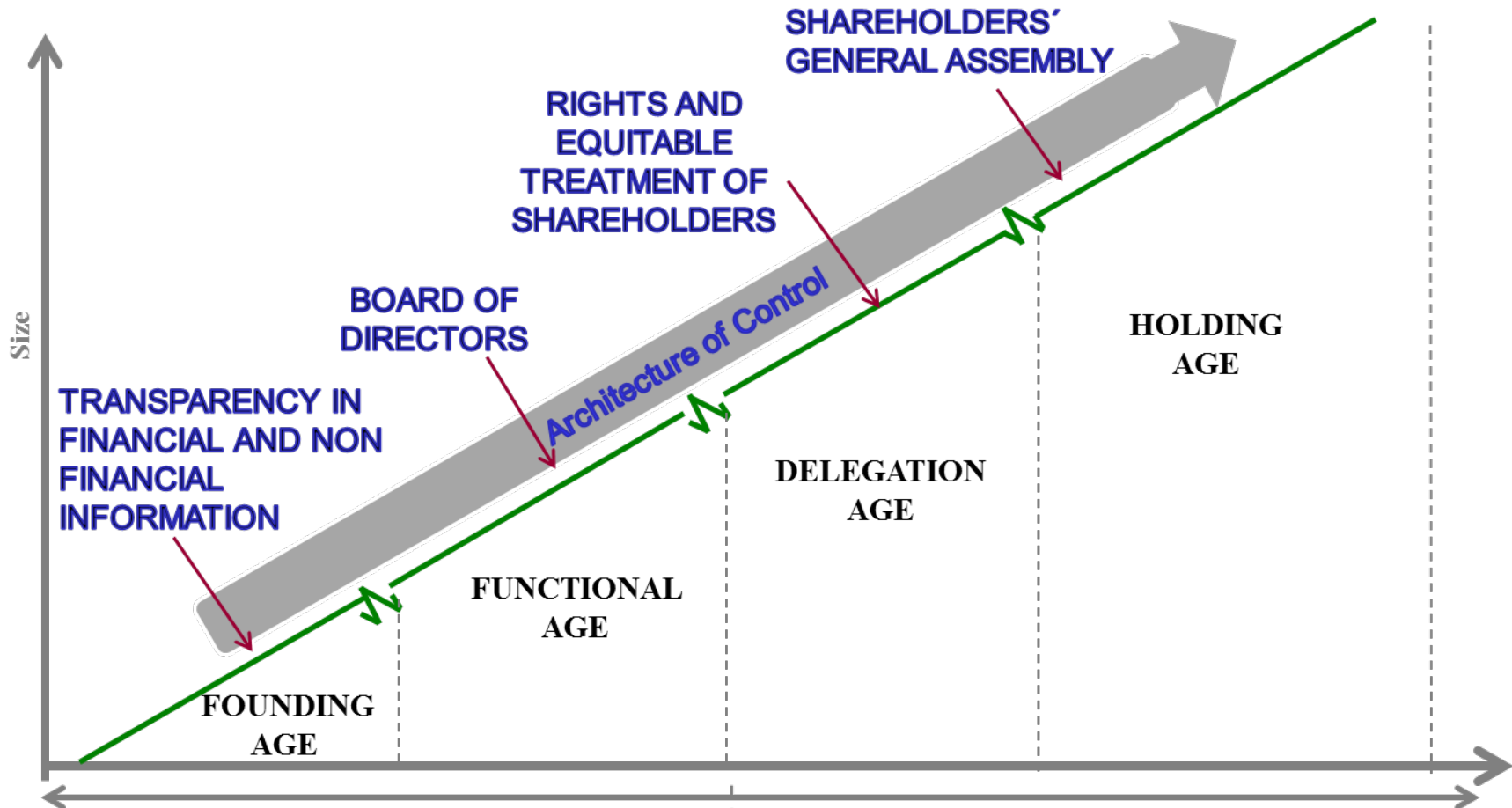
- Allow IOs to familiarize with the basic concepts of CG and the tools developed by CAF, providing a deep knowledge on CG.
- Train IOs in all key aspects related to CG, and its relevance through a credit investment analysis, using a proprietary methodology developed by CAF.
- Incorporate valuation and management of governance risk methodologies on clients to mitigate their own risk exposure.





Incorporation of the GLACGC through the evolution of companies

Stages of organizations and the gradual incorporation of CG principles



CONTROL and OWNERSHIP together

Separation of OWNERSHIP and CONTROL



Aplicability of the GLACGC

LINEAMIENTOS
PARA UN CÓDIGO
LATINOAMERICANO
DE GOBIERNO
CORPORATIVO

Self regulation

FINANCIAL
PROVIDERS

COMPANIES

REGULATORS

Of Security
Markets

Of Banks

Of Public
Services

Of Companies

INSTITUTIONAL
INVESTORS

MULTILATERALS

BANKS

CAPITAL
MARKETS

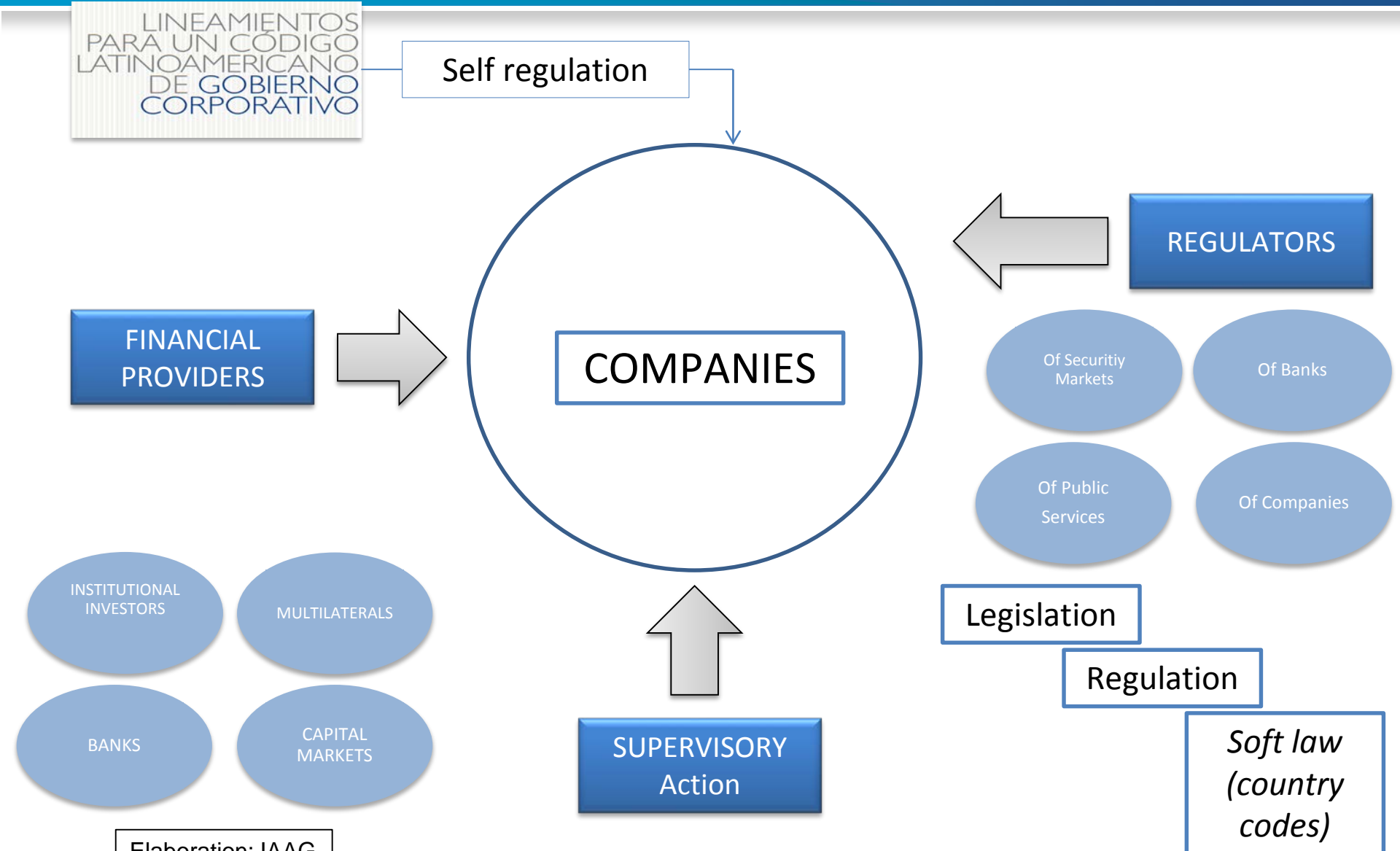
SUPERVISORY
Action

Legislation

Regulation

*Soft law
(country
codes)*

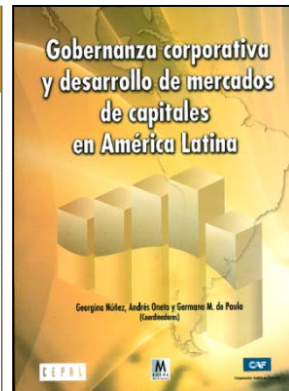
Elaboration: IAAG





Knowledge Sharinh: Documents and tools

- Guidelines for a Latin American Code of Corporate Governance
- Guidelines for the Corporate Governance of SOEs
- Corporate Governance: what every businessman should know
- Corporate Governance Manual for Privately Held Companies
- Guidelines of Corporate Governance for SMEs and Family Owned Companies
- Corporate Governance and the Development of Capital Markets in Latin America
- Corporate Governance and Risk Determination in Debt Instruments
- The importance of Corporate Governance in SOEs
- Software for self evaluation





Pending Challenges and Next Steps

- Our challenge is to **incorporate CG principles in non listed companies** (medium sized and family owned)
- **Promote CG and encourage the use of the Guidelines** as a tool of practical recommendations.
- Go beyond regulation making companies understand that CG is a voluntary and gradual process: **understand/accept/implement.**
- **Work with local financial institutions** in making them key supporters of CG among their clients.
- Continue **sharing our experience** among DFIs.



Gobierno Corporativo



www.caf.com/es/gobierno-corporativo