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Transparency in the Corporate Governance of State-Owned Enterprises in Latin America

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**Public Policy and Productive Transformation Series
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Public Policy and Productive Transformation consists of a series of documents aimed at disseminating relevant experiences and cases in Latin America as a tool for producing knowledge for the implementation of best practices in the field of business development and productive transformation.

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Foreword

Productive transformation has been one of the areas that CAF, as a development bank of Latin America, has fostered as a necessary condition for reaching high and sustainable development in the region.

The experience and expertise generated in each project during the last few decades have made the Institution a Latin American point of reference in areas such as competitiveness, corporate governance, local and business development, and productive inclusion.

The public policies necessary to drive productive transformation are based on the development of those capabilities aimed at the implementation of good practices and specific supports for improving business management and productivity. Thus, CAF makes its knowledge and expertise available and offers efficient support to a variety of sectors while, at the same time, it creates documentation and does research on success stories that are relevant for the region.

“Public Policy and Productive Transformation” consists of a series of documents aimed at disseminating those experiences and success stories in Latin America as an instrument for spreading the knowledge that CAF makes available to the countries in the region so that better practices with respect to business development and productive transformation practices can be implemented.

L. Enrique García
Executive President

Executive Summary

It is of critical importance to undertake reforms of corporate governance in Latin America's state-owned companies (SOEs) in order to improve their management and impact since these companies are extremely important to the development policies of the region but have historically rendered poor results. Despite the importance of these factors, there are very few studies focused on outlining the trends in SOE corporate governance or on providing a regional approach, in particular, that would make it possible to identify the areas where further action and changes are necessary. Therefore, we have introduced a Corporate Governance Transparency Index based on the information available on the websites of 105 companies from 13 countries in the region that enable us to identify some of the major governance shortcomings of these companies. We found that the greatest deficiencies are concentrated in the mechanisms used in establishing the Board of Directors and information disclosure. Furthermore, the differences in the corporate governance of companies with different characteristics associated with their type of ownership, participation in bond markets and stock markets was evaluated. An analysis of the characteristics of SOE corporate governance in each one of the countries included in the sample is provided.

Keywords. corporate governance, state-owned companies, Latin America, Board of Directors, disclosure of information, minority shareholders.

Introduction

The state-owned companies (SOEs) in Latin America are still playing an important role in the economy of most of the countries in the region in spite of the privatization wave that characterized these companies and reduced their relative importance during the 1990's. Two decades later, these companies are still critical stakeholders in the provision of various public services and remain key players in sectors that are considered top priority or strategic by the various governments. Furthermore, in some cases, these companies participate actively in capital markets through debt issuance or even equity participation since they are listed on local and international stock markets. Likewise, the state firms that have been able to extend their operations into the international sphere in order to become "Multilatinas" are not few in number. Although not all SOEs can be included as part of this trend, those that have successfully brought about these changes have often achieved them due to institutional improvements that have been encouraged through changes in their corporate governance practices.

In many cases, the creation of SOEs in most Latin American countries stemmed from the need to find ways to confront the various economic and social bottlenecks their development faces. However, there is evidence that the expected impact has been limited, mainly because the SOEs show historical results across a wide spectrum that ranges from very good examples of responsible management to cases that can be classified as failures when they are compared with the objectives for which they were created. It is also true that cases biased towards the least favorable end are the most common ones (Rondinelli, 2005; Indreswari, 2006). In this regard, there is a consensus among scholars and public policymakers that the incorporation of certain improvements in corporate governance may be one of the determining institutional factors that could strengthen these companies. These improvements would make it possible to optimize their management and shield it from political interference, thus, guaranteeing its sustainability and expanding the capacity to generate economic and social value (Irwin and Yamamoto, 2004; Kato and Long, 2005; Aivazian et al, 2005; World Bank, 2007; Kim and Chung, 2008; Andres, Guasch, and Lopez, 2011; Mbo and Adjasi, 2013). Meanwhile, international organizations such as OECD (2006, 2011, 2013), the World Bank (2006), and CAF (2010, 2012) have made extensive efforts to propose guidelines and identify strategies to improve the performance of SOEs and ensure a more efficient management. These guidelines are recommendations that work as a foundation for orienting public policies and management decisions that contribute to consolidating the corporate governance of SOEs and, therefore, improving their performance and transparency.

However, in spite of the existence of many documents that present recommendations and identify good practices as well as many others that introduce case studies, few of them have focused on delving into understanding the current trends in corporate governance in the region so that specific reforms in the areas with the greatest deficiencies can be identified and included in the public policy agenda. In fact, there is no comprehensive effort focused on examining the mechanisms by which these companies report the information associated with their structure of corporate governance nor understanding the internal dynamics under which SOEs are governed with special emphasis on how their Boards of Directors operate.¹ This paper proposes a Corporate Governance Transparency Index for SOEs in Latin America in order to answer the question of how these companies report their corporate governance practices and identify those areas in which greater efforts or reforms are required.

The Corporate Governance Transparency Index explained in this document has been prepared using the public information available on the respective websites of 105 state-owned companies from 13 countries in the region.² Establishing a measurement of the quality of SOE corporate governance based exclusively on formal and nonmaterial components may turn out to be imperfect as it does not bring together all the management dynamics in these companies. However, even though this indicator does not measure the quality of a company's corporate governance as well as an exhaustive due diligence procedure would, it is still of great analytical value since transparency and disclosure of public information are good *proxies* of the degree to which companies are in compliance with good corporate governance practices. Likewise, although transparency and disclosure of public information do not give information about the internal dynamics under which certain strategic and managerial decisions are made, they can be analyzed as a real sign of willingness to carry out reforms that lead to better practices of business management. The tendency to reveal easily accessible information that will make evaluating the principles that govern the management and operation of these organizations possible is an unmistakable sign, although certainly incomplete, of the interest in increasing the economic and social value of these companies. Given the difficulties of learning the details about the internal dynamics linked to the operations of both the Board of Directors and the shareholders' meetings, the Corporate Governance Transparency Index emerges as a valid mechanism for identifying some trends in SOE corporate governance.

In addition, building a Corporate Governance Transparency Index for SOEs allows for an analysis of the differences that exist in the presence of certain institutional and corporate characteristics. In this regard, we evaluate the differences registered among the SOEs in each of the countries included in the sample, the characteristics of mixed ownership companies

1 It should be noted that in the different countries and legislation around the region, the highest governing body in the companies is known by different names such as Board of Directors, administrative board, executive council. In this document, it will be referred to as the Board of Directors.

2 The complete list of companies is available in Appendix 1. The data were gathered between May and June 2014 and later revised on three occasions in September 2014, December 2014, and between January and February 2015.

vis-a-vis those of companies solely owned by the government as well as the distinctions that exist between companies listed on capital markets and those which are not. The document has been structured as follows: i) Exploration of some of the conflicts of interest in the SOEs and the role that corporate governance plays in mitigating them; ii) Study of the importance of SOEs both globally and in Latin America; iii) Introduction to the construction of the Corporate Governance Transparency Index, the sample evaluated, and the results obtained; and iv) Suggestions for some public policy recommendations in the field of SOE corporate governance in the region.

Conflicts of Interest and the Importance of Corporate Governance in SOEs

State ownership of companies has been advocated from different perspectives. Among these, the provision of public services stands out. SOEs have often been seen as a mechanism that is an alternative to regulations in the cases of market failure, especially in the presence of natural monopolies or high barriers to start ups as well as for developing activities of social interest in which individuals take part at sub-optimal levels. In addition, SOEs may offer an alternative for the provision of goods with positive externalities in which the spillover effects are favorable to the operation of society as a whole such as in the fields of public health and basic education (Kowalski et al, 2013).

In theory, state ownership makes it possible to overcome some market failures, take advantage of greater economies of scale, and generate higher levels of provision of goods and services even with prices that are lower than those set by private companies which do not necessarily submit to a mandate of social well-being. Likewise, the creation of SOEs has been justified by arguments in favor of countries' productive diversification, especially developing ones, where private investment can be inhibited by a business environment marked by a high perception of risk or asymmetric information. In this kind of context, SOEs are often used as mechanisms for controlling the industrial policy of some sectors of the economy that are thought to have a high potential for growth (World Bank, 2006; Christiansen, 2013).

Nevertheless, the viability of SOEs is not only determined by their theoretical justification. There is a set of institutional factors that can inhibit or affect the proper development of SOEs as companies. Experience shows that in spite of the fact that there are theoretical reasons that justify their creation, they do not always achieve the desired results. When the legal and policy framework related to the governance of SOEs is analyzed, a number of elements are identified that must be dealt with.

First of all, the legal and regulatory framework under which SOEs are governed should be addressed. In many cases, there is no clear separation of functions on the part of the government when the triple role it plays is taken into account: it can simultaneously operate as owner, regulator, and enforcer of regulations, plus play an additional role as consumer of the services provided by SOEs. This opens up the possibility of preferential treatment that may generate market distortions (Kowalski et al. 2013). Another aspect within the regulatory framework refers to their equality of conditions with respect to the private sector since SOEs often have special legal regimes with regulations that are unlike those applicable to the private companies that provide the same kinds of services as well as easier access to financing and the availability of bailout mechanisms in situations of possible bankruptcy. These types of

“soft constraints” can create incentives for not operating under market conditions as well as limitations on innovation resulting from the reduced competitive pressures to which SOEs are subject. Thus, their ability to generate social or economic value is diminished.

Second, reference must be made to the role of the state as an informed and active owner as well as to its relationship with other stakeholders linked to the management of SOEs. These companies have an intrinsic, expanded problem of agent-principal or, as defined by Christiansen (2013), a problem of “Third Agency” between management (agent), the owner-state (secondary principal), and the citizens (principal). To the extent that there is no clearly identified designated representative of the ownership who exercises his functions as such, situations could be generated in which the management does not pursue the objectives and requirements set up by the mandate under which the SOE was created. Moreover, there is the difficulty of identifying the citizens as owners of last resort and, indeed, in following a mandate intended to protect their interests. This conflict of interest grows in response to the problem of poor collective action that characterizes dispersed groups and which often translates into insufficient civilian oversight of SOEs.

Many authors have noticed these complications, and even Toninelli (2000) considered the SOEs a case of “Agents without Principals” as he introduced the concern that this type of company may be “captured” by managers who are seeking their own individual goals. The opposite case, but one that is equally pernicious, may take place when the designated representative of the ownership of the SOE tries to affect ordinary managerial actions directly in order to obtain particular benefits, even when these actions are detrimental to the sustainability of the SOE over time (Bozec et al, 2002; Shaw, 2008 cited by Mbo and Adjasi, 2013).

It is also possible to have a common problem of agency where different designated representatives of the ownership put forward opposing strategies of action intended to meet individual goals. As a result, the operational efficiency of the company is affected. For example, the case of an SOE where the ministry of finance and a sectorial ministry (energy, communications, housing, etc.) participate is a common one. In this case, the former seeks to maximize financial returns while the latter seeks to expand the social impact (Menozi, Gutierrez-Urtiaga and Vannoni, 2010).

The need for reforms in corporate governance emerges in part from the existence of these conflicts of interest which cannot be solved through contracts because the transaction costs that would be incurred could become prohibitive (Hart, 1995). However, the notion of the conflicts of interest in SOE management has detractors since, given the social impact these entities have, other scholars have pointed out the need for a broader vision. The theory of *stakeholders* set forth by Freeman (1994) is based on the idea that the different groups of stakeholders who interact with the company have certain values and desires that should be harmonized by management. Hence, from this theoretical perspective, both the corporate

organization and the companies' operating results should have a relationship with the different values of the groups that hold some interest in the company. The problem in SOE management results specifically from the multiplicity of relevant stakeholders who, in many cases, demand the alignment of conflicting interests such as maximizing social impact and obtaining the highest financial return. In this regard, it is important to mention that the long-term objectives of SOEs should be explicitly stated in their incorporation documents in conjunction with the strategic orientation role that should be played by the Board of Directors. As a result, providing specific indicators for continuous measurement of the impact of SOE management could become especially useful for preventing opportunistic maneuvers that jeopardize its viability and performance.

Changes in corporate governance should then induce companies to align the particular interests of the many social stakeholders who are involved in the activities of the SOEs as owners, directors, managers, employees, users, and citizens (Wicaksono, 2009).

Another viewpoint in opposition to the idea of conflicting interests is that of the *Stewardship Theory* by Donaldson and Preston (1995). This theory states that the companies' managers are good public servants and seek to cooperate with each one of the company's stakeholders in order to achieve common goals. Thus, a cooperative relationship between the Board of Directors, management, and other stakeholders should lead to better business results (Wicaksono, 2009; Mbo and Adjasi, 2013). However, the problem in this case is that the mechanisms for appointing the Board of Directors and management may be dependent on political criteria, which could bring about pressure to prioritize the guidelines defined by those who appointed them to their positions at the expense of company results.

In this regard, a third factor related to the proper operation of the corporate and liaison body established between owners and management, i.e., the Board of Directors, should be taken into account. This body plays a strategic role in harmonizing conflicts and the need to build a long-term vision. However, to ensure its effectiveness and independence in decision-making, the Board of Directors must be protected from political influence, especially due to the existence of political cycles that overlap electoral periods (OECD, 2013). To achieve this goal, there are several mechanisms that must be considered. In terms of exercising ownership, it is possible to make this practice professional through the creation of state *holdings* or Centralized Property Units (CPU). In terms of the Board of Directors, it is necessary to devise selection mechanisms that are robust, transparent, and consistent over time; facilitate the staggered appointment and removal of directors; and include external, independent directors. Furthermore, excluding people who are directly related to the executive branch from positions on the Board of Directors is regarded as a favorable factor. Meanwhile, other people who have governmental functions should be nominated based on their qualifications for said positions. Likewise, it is necessary to make the effort to put together a Board of Directors with an appropriate mix of knowledge, skills, and experience to achieve the goals established by the

company. Therefore, establishing some criteria for the selection of directors, such as level of education or experience in the sector, contributes to establishing a minimum level for choosing candidates. Ultimately, however, the selection must be based on the knowledge or experience considered critical to complement that of the team already in place. In this regard, OECD (2013) notes that it is common to place restrictions on the nationality of the directors, especially in sensitive or strategic sectors such as energy or national security. In these cases, the effort should be made to ensure that such limitations do not significantly reduce the availability of the best candidates to fill these positions. As a final point with respect to the Board of Directors, it is important to do periodic evaluations of the managers' performance as well as to offer competitive salaries based on the performance of their duties rather than on other predetermined criteria such as attendance or number of interventions.

Likewise, the mechanisms used in appointing the general manager or Chief Executive Officer (CEO) and other members of upper management may follow some of the abovementioned guidelines. These work as mechanisms to curb political influence on the operation of SOEs given the leading role that the general manager has when the mandate and guidelines defined by the Board of Directors are implemented.

A fourth factor to be considered when analyzing the corporate governance of SOEs has to do with transparency in the publication and dissemination of their reports. The policy of information disclosure must be clear, timely, and comparable in order to ensure that the different stakeholders involved will easily be able to do oversight and monitoring of these companies' management. This is of particular relevance in the case of state-owned companies since they make use of governmental resources and are intended to fulfill a social or strategic role. To this end, it is imperative that the SOEs regularly provide consolidated information on planning and management; comply with the International Financial Reporting Standards (IFRS); and have a system of internal and external auditing as well as instruments for prompt communication with users and citizens, especially in the case of public utility companies. Moreover, the existence of indicators and principles for the submission of the financial, social, and implementation results of the policies is regarded as favorable for facilitating a precise and expedited assessment of SOE actions.

Finally, it should be noted that a number of companies have adopted mechanisms for mixed ownership, which is a practice that can offer distinct advantages from the governmental standpoint: the inclusion of private shareholders may be associated with improvements in efficiency and productivity – even if the government retains control. In addition, the political costs that the government must face may be smaller in comparison to full privatization since more progressive changes are facilitated (OECD, 2012). However, these cases raise the need to incorporate equal treatment for all shareholders. This treatment has to be evaluated in all cases in which the shareholders participate regardless of whether the minority participation is

the result of co-ownership between the central government and other governmental bodies, including sub-national entities, or is due to direct inclusion of private investors. In both situations, provisions to protect minority shareholders must be introduced.

If all of the above is taken into account, ensuring the success of an SOE becomes a complex issue since it involves overcoming various dilemmas that stem from the governmental ownership of assets. The implementation of good practices of corporate governance involves a process of reforming the legal and regulatory framework, the managerial habits at SOEs, the strategic operation of the Board of Directors, and real commitment on the part of the shareholder or owner in its application. That is why corporate governance reforms may lead to improvements in the operating conditions of SOEs as they increase the economic or social return on investment, reduce dependence on transfers from the state, and translate into a more efficient allocation of the government's limited financial resources. Likewise, if the ultimate goal is to list the companies on the stock exchange either through the sale of a minority stake in the company or full privatization, corporate governance reforms can significantly increase the future revenue earned by the state. Several cases show how changes in corporate governance intended to improve the operation and efficiency of SOEs can have a crucial impact on the sale price of either minority stakes or the total privatization of some of these companies.

Furthermore, to the extent that SOEs hold a position of importance and visibility within the countries and sectors in which they operate, these companies should exemplify the best practices of the government. That is why they are called on to become examples of compliance with legal regulations as well as of providing products or services. In contrast, corporate governance failures in a state-owned company can reduce the government's credibility and undermine the legal framework (CAF, 2012). Thus, the institutional reforms linked to SOE corporate governance become part of the debate, as a pragmatic rather than an ideological issue, in order to provide a solution for some of the intrinsic conflicts of these ownership systems. These reforms are not easy to implement. However, they are feasible if there is the political will on the part of the State as a shareholder and the willingness of the SOE management.

Importance of SOEs in Latin America and in the World

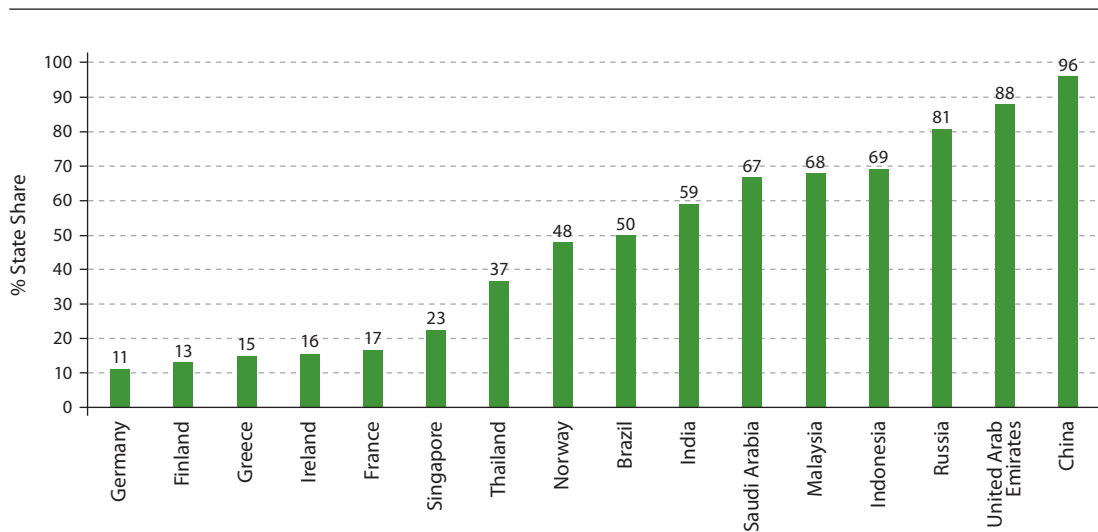
Some recent measurements indicate that SOEs account for 20% of total investment and 5% of global employment and, in some countries, they even represent as much as 40% of the gross domestic product (World Bank, 2007, cited by Mbo and Adjasi, 2013). In addition, state companies are usually very large. As Kowalski et al (2013) indicate, more than 10% of the companies included on the list of the 2,000 largest companies in the world (Forbes-2000) are state-owned. The SOEs represent over 10% of the sales of the companies included on this list and amount to more than 6% of the global GDP. In a similar fashion, when the number of state-owned firms that are among the ten largest companies in each country is taken into consideration, it is clear that SOEs are heavily concentrated in developing countries since the top eight countries with the greatest governmental participation in their largest companies are developing or transitional countries. As seen in Graph 1, China, the United Arab Emirates, and Russia take the leading positions on the list with 96%, 88%, and 81% respectively for state control of companies in their top 10. Brazil, meanwhile, ranks eighth in this category with SOEs holding a 50% share.

In the specific case of Latin America, this phenomenon seems to be recurrent since the Ranking of the 500 Largest Companies in the region prepared by AmericaEconomia (2009-2013) shows 40 of these companies to be SOEs and that they are heavily concentrated in the top positions.³ In fact, in the latest edition of the ranking, Petrobras (Brazil), PDVSA (Venezuela), and PEMEX (Mexico) took the top three places with combined sales of over US\$388 billion in 2012 and total assets of more than US\$705 billion in the same year. Meanwhile, other SOEs such as Petrobras Distribuidora (Brazil) and Ecopetrol (Colombia) are also included among the ten largest ones.

These observations are consistent with the notion that the government usually reserves a monopoly position for itself, or at least one of control, in productive sectors, such as energy, that are considered strategic and other sectors where the structures tend to be monopolistic as a natural consequence of the need to operate on a large scale such as in the electric power or public utilities sectors. Consistent with this reality, Kowalski et al (2013) shows the high prevalence of state-owned companies in the energy and mining sectors, where more than 43% of the mining services companies are state-owned as are 35% of those involved in mining coal and lignite or 34% of those in the area of drilling for oil and natural gas (see Graph 2). Public companies also have a large share in other sectors such as those of providing public

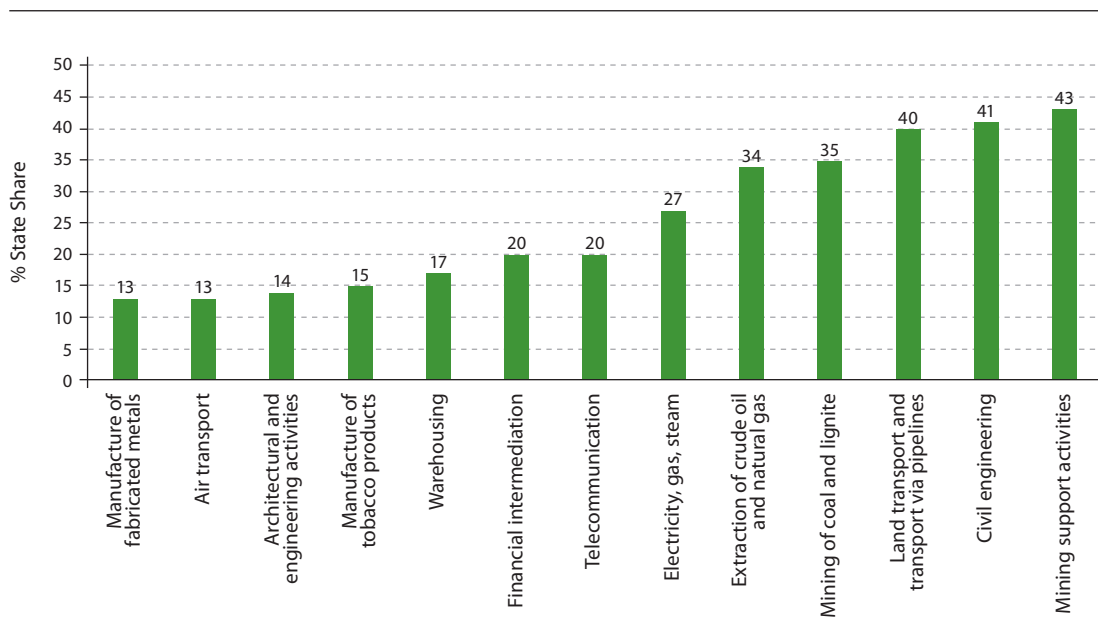
³ In the latest edition, of the 500 most important companies in the region, 40 were SOEs. Of these, 13 are among the top 100 and 5 companies are in the top 10.

GRAPH 1. PERCENTAGE OF STATE SHARE OF THE TEN LARGEST COMPANIES BY COUNTRY



Source: Kowalski et al (2013)

GRAPH 2. PERCENTAGE OF STATE SHARE OF COMPANIES INCLUDED IN FORBES-2000 BY ECONOMIC SECTOR



Source: Kowalski et al (2013)

utilities (27%), financial services (20%), and telecommunications (20%). Companies that are representative of all these economic sectors likewise hold significant positions on listings such as that published by AmericaEconomia and in the sample evaluated in this document.

However, SOEs are attractive due to their size and potential economic or social impact and the fact that, on occasion, their share in the local and international capital markets is significant whether this is through equity shares such as in the cases of YPF in Argentina, Banco do Brasil and Petrobras in Brazil, or ECOPETROL and ISAGEN in Colombia; or through a share of the fixed income market where the most prominent cases are PEMEX (Mexico), Petrobras, Banco do Brasil and BNDES (Brazil), CODELCO (Chile), Ecopetrol (Colombia), and PDVSA (Venezuela), etc. These instruments for inclusion in the financial markets may have a dual function. They can increase the resources available to the company but they can also contribute to pushing through improvements in its corporate governance by accepting the discipline and regulating mechanisms in those markets.

SOE Corporate Governance Transparency Index

In order to assess the trends in corporate governance in Latin America, we built a Corporate Governance Transparency Index, which, through the use of public information, makes it possible to understand the reported situation of a defined but significant number of SOEs in the region. The index is based on information available between May and June 2014⁴ on the websites of 105 state-owned companies from 13 countries in the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Paraguay, Uruguay, and Venezuela. It should be noted that two criteria were considered in selecting the SOEs for the sample. The first was one that enabled us to define which government organizations could be considered SOEs and the second was the size of the SOEs. Regarding the first criterion, we referred to CAF (2012), so that the sample would include institutions that are classified within any of the following four categories:

- SOE created in order to meet public policy objectives.
- SOE responsible for providing public utilities (for instance, water, electricity, gas, etc.).
- SOE created exclusively to provide goods or services required by the state (for instance, military suppliers).
- SOE responsible for earning revenue for the state and competing with the private sector on equal terms.

It is important to emphasize that the intention of this document is not to do an exhaustive analysis of all the good practices in SOE corporate governance since not all the information required for a comprehensive review is freely accessible. To that end, this index should not be understood in any way to be an indicator that analyzes the effectiveness in complying with corporate governance practices. It is even possible that SOEs characterized by good practices did not register good results on the index. The reason behind this would be that such information was either unavailable on the companies' websites or difficult to access and, therefore, its transparency was affected. Thus, the index must be analyzed more from a reference point of view than a factual one. In any case, this index still has value as a tool for identifying some of the general deficiencies that could be found in these kinds of entities and for making some policy recommendations in that regard.

The index consists of five pillars based on the OECD (2006), World Bank (2006), and CAF (2010) guidelines for SOEs: i) the legal and regulatory framework to which SOEs are subject; ii) the

⁴ Afterwards, the database was revised in September and December 2014 and January through February 2015 to minimize possible errors. Any error that remains is the full responsibility of the authors.

degree to which the designated representative of the ownership effectively exercises his role; iii) the existence and equitable treatment of minority shareholders (if any); iv) transparency and disclosure of information; and v) appointment of the Board of Directors.

Each one of these sub-indices is made up of different questions (see Appendix 3) with a value of one point each. Subsequently, this initial result is transformed into a ten-point base. Finally, the standardized results of each sub-index are added together in order to obtain a general indicator of corporate governance based on 50 points. Each one of the sub-indices is broken down as follows:

I. Legal and regulatory framework

Regarding the first pillar, it is evident that a structure of clear rules as well as supervision and effective accountability can improve the management and performance of companies, and especially, of state-owned firms. As a consequence, the separation of state ownership from other governmental functions such as regulation or furtherance of industrial policies that could cause conflicts of interest due to overlapping roles is essential. Similarly, it is important to maintain a regulatory framework that encourages fair competition with private companies in cases where this situation exists. Therefore, SOEs should not have special benefits such as tax breaks or credit lines under special conditions, which could affect the terms of competition within the sector where they participate and reduce the incentives for efficient management. Thus, four associated questions are included: (i) whether or not the regulatory agency stands in the position of a shareholder, (ii) whether or not the SOE is organized based on public or private law, (iii) whether or not it is granted special benefits, and (iv) whether or not it publishes the legal framework to which it is subject, including its by-laws.

II. Who exercises state ownership

The effective discharge of the role of ownership requires, first of all, the existence of an identifiable agency capable of exercising the ownership of the company at the level of the central government. This agency could be a specialized ministry (Finance, Development or Industry, to name a few), a specific directorate of a municipality at the level of sub-national government, an independent agency or a coordinating entity under any of the above mentioned units. If there are multiple companies, another alternative is to have a Centralized Property Unit, which brings the ownership of SOEs together in a single body. This pillar seeks to gather information on whether the governmental shareholder is clearly identifiable and competent to exercise effective ownership of the company.

III. Equitable treatment of minority shareholders

In some cases, state-owned companies have been opened to joint ownership with the private sector to undertake capital expansions for investment projects for which the SOE does not have the resources required or as a mechanism for encouraging the introduction of reforms intended to improve the management of the company. In any case, an equitable treatment of

all shareholders should be ensured, whether controlling or minority, governmental or private, to facilitate the disclosure of information and guarantee that they participate in the decision-making and receive business benefits based on the share they hold in the equity. Thus, the third pillar breaks down the companies in the sample into those that have a minority stake and those that do not. As a result, the disclosure of the percentage share that the various shareholders hold in the capital as well as the publication of the rights and obligations of minority shareholders is explored. In cases where there are no minority shareholders, the calculation of this sub-index is omitted and the results of the other four pillars are added up. Finally, this figure is adjusted to a fifty-point base to allow for comparison with other companies in the sample.

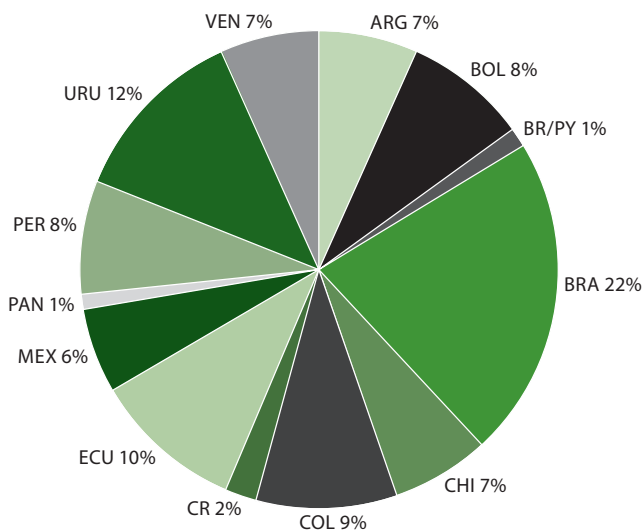
IV. Transparency in information disclosure

One of the best mechanisms for furthering efficient management in SOEs is information disclosure that makes it possible to evaluate the economic and social impact of the company regularly, credibly, and comparably so that deviations from the defined targets can be corrected and, if necessary, sanctioned expeditiously and appropriately. Therefore, the fourth pillar evaluates the frequency of the audits to which the company is subject as well as whether or not the audit is carried out by an independent agency. It also considers the publication of documents of interest such as financial statements with notes, strategic plans, annual management reports, and other management reports (social-environmental impact or on social responsibility, for example), all of which include guidelines for presenting results and a code of good corporate governance. In addition, the use of international accounting standards that facilitate comparison with other institutions and the existence of channels for contact, consultation, and complaints as a means of communication with other relevant stakeholders, such as citizens and users are also explored, especially in the case of public utility SOEs.

V. Appointment of the Board of Directors

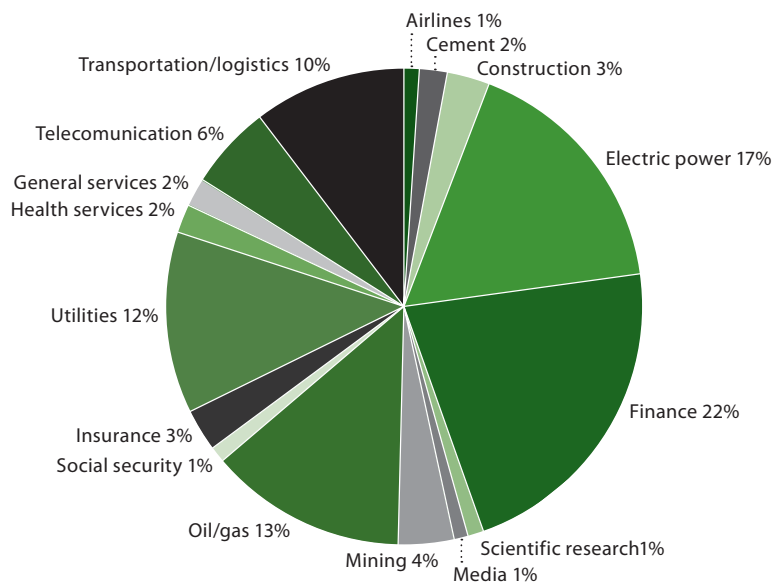
Finally, the Board of Directors should have the authority and independence as well as a balance of knowledge and experience that allow it to define, autonomously and effectively as well as with a long-term vision, the policy guidelines established by the owner, by which the performance of the management will be evaluated. Therefore, the fifth pillar seeks to assess the mechanisms by which the Board of Directors is structured, the processes used to appoint directors, if there are requirements for their selection, if removal mechanisms are stipulated, if the specific tenure is established, and if staggered appointments to the Board of Directors are required. Also, it evaluates whether or not the profiles of the board's members and the existence of independent directors are included. Finally, this pillar explores whether or not the regulations of the board are included explicitly or as part of the statutes, who elects the general manager (or CEO), and the rotation of that position over the past 5 years.

GRAPH 3. DISTRIBUTION OF THE SAMPLE BY COUNTRY



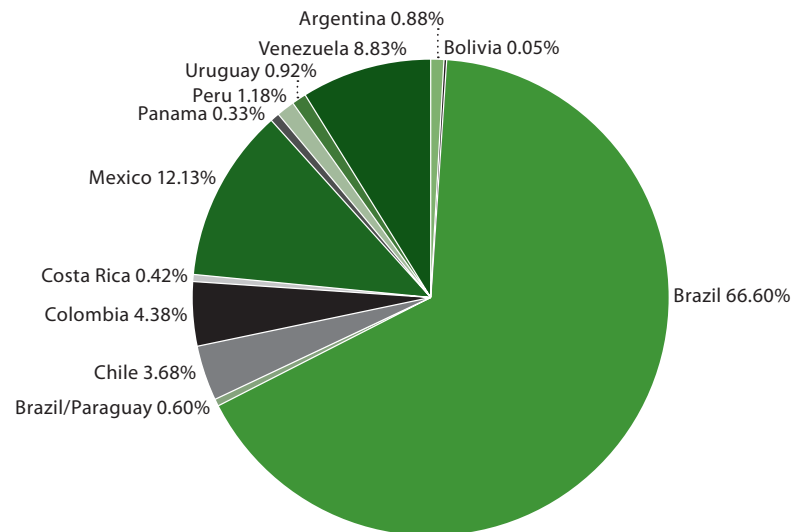
Source. Prepared by authors. 100% = 105 companies

GRAPH 4. DISTRIBUTION OF THE SAMPLE BY ECONOMIC SECTOR



Source. Prepared by authors. 100% = 105 companies

GRAPH 5. DISTRIBUTION OF THE ASSETS OF THE SAMPLE BY COUNTRY IN 2013



Source. Prepared by authors based on the financial statements of the companies. 100% = US\$2,840 billion

Description of the sample

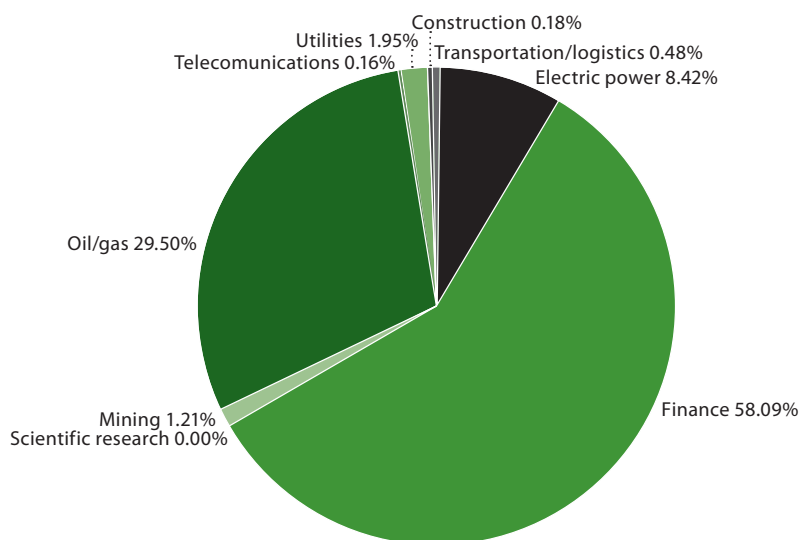
The sample consists of 105 state-owned companies from 13 countries in Latin America,⁵ where the degree of participation and importance of the SOEs in Brazil, Uruguay, Ecuador and Colombia stand out. These SOEs account for more than half of the cases with 22%, 12%, 10%, and 9% respectively (see Graph 3). The relevance of some sectors where government participation is significant in Latin America is noticeable among the SOEs evaluated here. These sectors include financial services, which represents 22% of the companies in the sample while others such as electricity (17%), oil and gas (13%), and utilities (12%) also have a considerable share (see Graph 4).

Moreover, while it is true that the most common ownership pattern is that in which the state has 100% ownership, 28% of the companies included in the sample have some kind of private participation. In addition, 17% of the total number of companies are listed on a local or international stock exchange and 43% issue bonds.

Furthermore, knowing the size of the companies through some of their financial data may be revealing. However, of the 105 companies included in the sample, only 55 have disclosed their December 31, 2013 financial statements at the initial data collection point, which confirms a

⁵ Argentina, Bolivia, Brazil, Colombia, Chile, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela.

GRAPH 6. DISTRIBUTION OF THE ASSETS OF THE SAMPLE BY ECONOMIC SECTOR IN 2013



Source. Prepared by authors based on the financial statements of the companies. 100% = US\$2,840 billion

concern regarding poor disclosure of information with respect to SOE management. Together, these SOEs have more than US\$2,840 billion in assets, US\$557 billion in equity, and are responsible for gross sales that amount to US\$703 billion. In this group, the Brazilian companies stand out as they account for more than 66% of the total assets in the sample, followed by the firms in Mexico and Venezuela due to the large investments associated with their oil companies (see Graph 5). In terms of gross revenue, these three countries also lead the ranking. Brazil's SOEs had sales valued at US\$286.5 billion in 2013 (41% of the total) while those in Mexico and Venezuela came to US\$166.7 and US\$135 billion respectively.

Regarding the composition by economic sector, banking and finance brings together more than 58% of the assets in the sample worth US\$1,650 billion (see Graph 6). Among these SOEs, two giant Brazilian companies are notable: Banco do Brazil with assets of US\$605 billion and BNDES, which has another US\$364.5 billion. Second, the oil and gas sector has assets of US\$838 billion and includes three large-scale companies, Petrobras (Brazil – US\$349.7 billion), PDVSA (Venezuela – US\$231.1 billion), and Pemex (Mexico – US\$160.45 billion). It should also be noted that this sector is responsible for 67% of the total sales of the SOEs analyzed. In contrast, the financial sector has 19% of the total income of the sample.

Corporate Governance Trends in Latin America

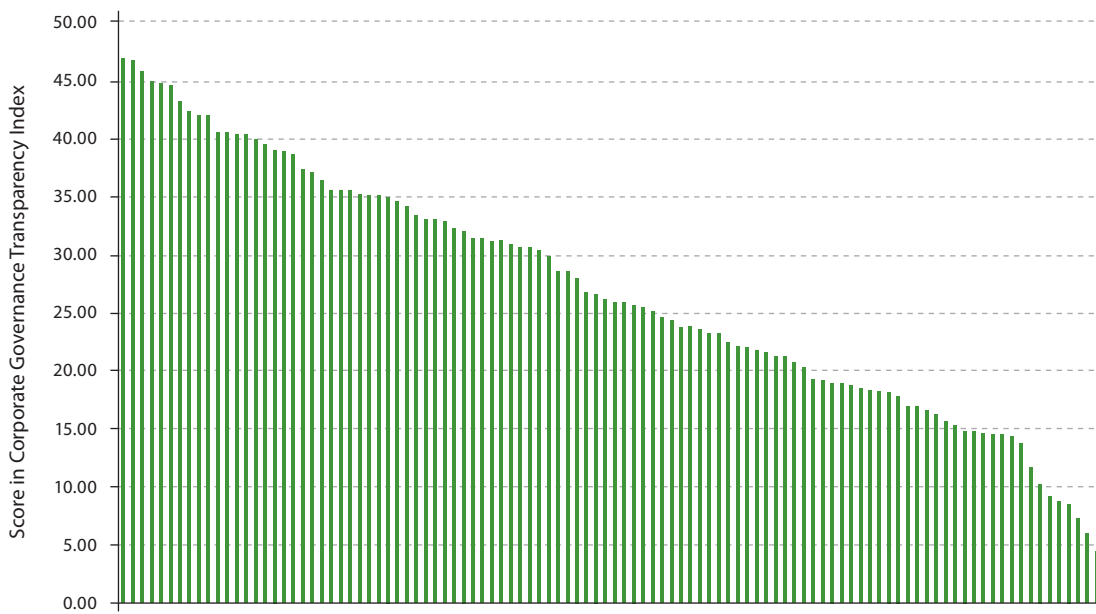
General trends

When evaluating how state-owned companies in Latin America report on their corporate governance practices, significant contrasts and opportunities for improvement have been observed. First of all, the index reveals results that vary within very wide ranges since there are SOEs with scores that go from 3.33 points (ASSE, Uruguay) to 47.17 points (ECOPETROL, Colombia). In addition, more than half of the cases were only able to comply with half of the required aspects given that the distribution median is 25.94 out of a maximum of 50 points (see Graph 7). Overall, the distribution of the results resembles a normal distribution in which the majority of them are concentrated between 16 and 35 points on the scale but with particular emphasis on the segment between 31 and 35 points (see Graph 8). In this sense, it is important to note that to the extent SOEs make adjustments related to the information evaluated by the index, which were not published at the time this study was undertaken, they will be able to improve their position in the index.

When the index is analyzed by pillars, we see that the SOEs in the sample show deficiencies in all aspects of their corporate governance as observed in Graph 9. With respect to the first pillar that explores the regulatory framework, they obtained an average score of 6.69. This is the pillar with the best results when compared to the rest of them. An analysis of the components that this pillar is made up of indicates that almost 3 out of every 4 companies included in the sample report on the regulatory framework to which they are subject, 71% have a regulator other than the institution that represents the ownership, and 79% are not granted explicit, special tax benefits. However, the issue that stands out most emphatically in this pillar is that only a little more than 44% of the SOEs, e.g., fewer than half of them, are subject to private law. This means that there is heterogeneity in the legal structures of the SOEs that allows them to enjoy special regimes with regulations unlike those to which private sector companies are subject.

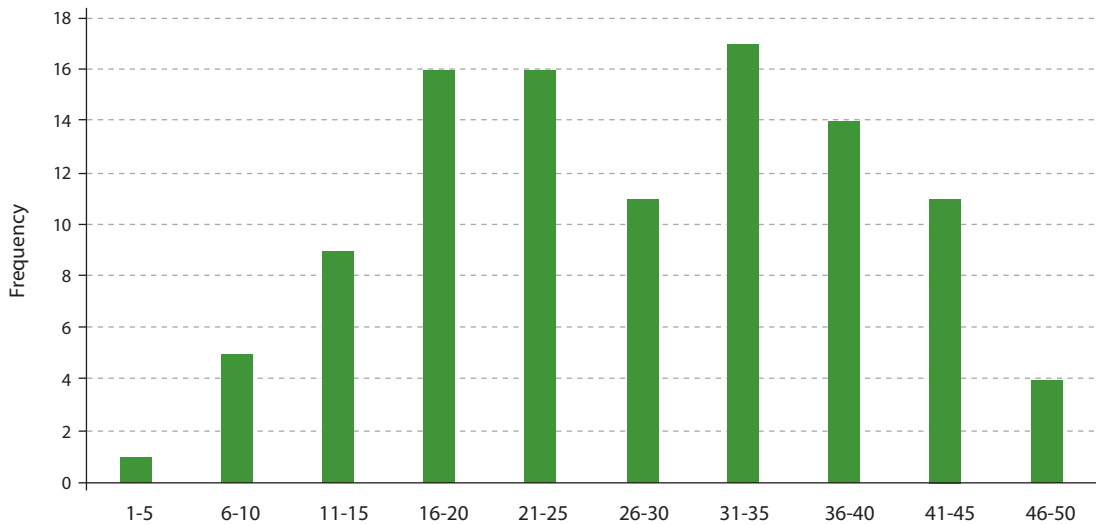
Of the 105 companies evaluated, 32 received the maximum score in this section. Among them some such as ECOPETROL, ISA, and ISAGEN (Colombia); Banco do Brasil, BNDES, and COPEL (Brazil); BICE (Argentina); and Mivivienda Fund and COFIDE (Peru) stand out. Note that 24 of these 32 companies have private shareholders and include all of the SOEs listed on stock markets. In contrast, the relatively widespread practice of granting special benefits to SOEs deserves mention as in the case of the tax breaks given to companies such as ENARSA (Argentina), YPF (Bolivia), INFONAVIT (Mexico), the Panama Canal Authority (Panama); and SLA, ANV, BHU, UTE, and the State Insurance Bank (Uruguay). Similarly, the practice of disclosing

GRAPH 7. DISTRIBUTION OF INDIVIDUAL RESULTS OF THE SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX



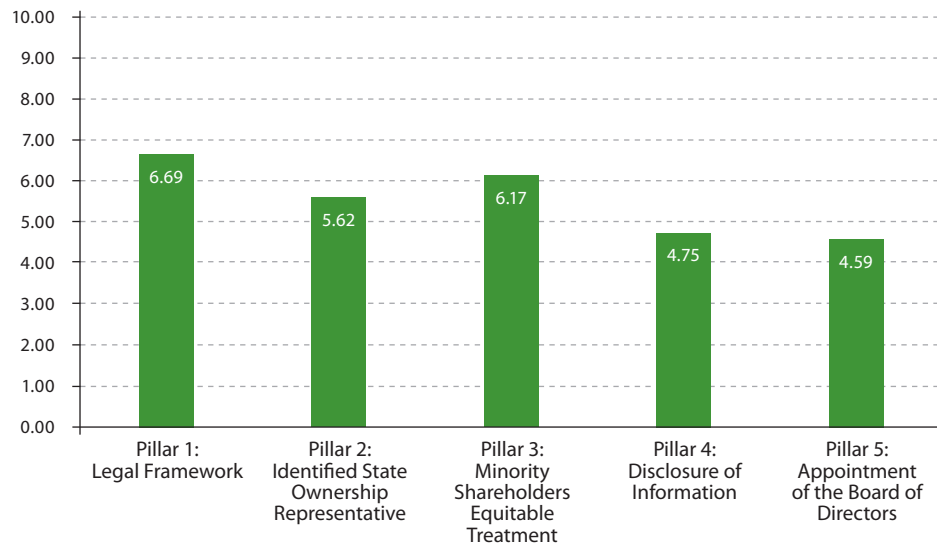
Source: Prepared by authors

GRAPH 8. DISTRIBUTION OF RESULTS OF THE SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY GROUP



Source: Prepared by authors

GRAPH 9. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY PILLAR



Source: Prepared by authors

the laws used to create SOEs should be noted even though the publication of their corporate statutes and other relevant legislation is pending. This means that some of the determining data that would be useful in an analysis of their corporate governance is not disclosed. In particular, there is a lack of information on one of the most important governing bodies: the Board of Directors.

The second pillar has to do with the clarity in identifying the designated representative of the ownership. This pillar registered an average score of 5.62 given that in 68% of the cases the owner is identifiable, but only 45% of the companies have ownership concentrated in an entity that is competent to exercise that ownership. The results indicate that the problem is twofold: first, in many cases, the ownership is ambiguously defined as resting in “the state”; and second, in many of those cases where a specific owner is identified, different levels of the government are designated as representatives of the ownership. Further, no specific administrative body is clearly identified as the one which is responsible for carrying out the actions that correspond to the rightful owner. As a result, the ambiguity in the designation of ownership rights persists.

To avoid these problems, an alternative is to create agencies that bring together the management of state-owned companies as has been the case of FONAFE Corporation in Peru. This is a company created in 1999 under public law. Its purpose was to concentrate the ownership and management of Peruvian state-owned companies under one centralized authority. This is an example of how a Centralized Property Unit allows for professional

ownership of these companies and thus contributes to the creation of corporate value. This legal figure makes it possible to adopt and strengthen good corporate governance practices in SOEs in Peru such as the definition of management guidelines and procedures as well as certain transparency requirements (CAF, 2012).

In addition, the existence and equitable treatment of minority shareholders, as assessed by the third pillar, received an average score of 6.17. The fact that of the total number of SOEs in the sample only 29% had minority shareholders should be considered. Among the SOEs that have minority shareholders, 97% disclose the ownership percentage of each one, but only 8 companies – all of them of mixed ownership and 6 of those listed on stock exchanges – publish the rights and obligations of their minority shareholders. It is noteworthy that of these 8 companies (Ecopetrol, ISA, ISAGEN, Banco do Brasil, Bancoldex, COPEL, Banrisul, and Banco Agrario) six are positioned above the 90th percentile in our scale of Corporate Governance Transparency.

The issues related to transparency in the disclosure of information also show ample room for improvement since the SOEs evaluated received an average score of 4.75 in the fourth pillar, which reveals that they comply with fewer than half of the conditions under evaluation. Moreover, only PEMEX (Mexico), which is undergoing a process of restructuring and liberalization, meets all disclosure requirements. Another 5 companies obtained 9 points in this section. ISA, Group of Public Companies of Medellin, and the Electric Power Company of Bogota (Colombia); Petrobras (Brazil); and Petroperu (Peru). It is notable that only ISA, Petrobras, and the Electric Power Company of Bogota are listed on stock exchanges.

To this end, while it is true that 9 out of 10 companies provide a means for communicating with their users through their websites or dedicated phone numbers, other aspects that perhaps have greater significance receive less attention. Despite the size and importance of the SOEs analyzed, only 62% are audited by independent firms annually while 70% publish their management reports. Likewise, 65% of them publish their financial statements with notes and 39% provide other management reports such as those related to sustainability or environmental impact. In addition, the results indicate that compliance is below 30% in other aspects: only 30% publish their strategy plans and 25%, their corporate governance codes. Furthermore, only 25% use international accounting standards that allow for comparison with similar companies, while 9% follow specific regulations with respect to the management indicators they apply in presenting their results.

Finally, the results of the pillar related to the appointment of the Board of Directors make it possible to identify certain elements that could be reformed so that the board can operate as an effective, collegiate body exercising the functions of planning and strategic guidance of management that SOEs require. In this pillar, the companies evaluated obtained an average score of 4.58, and none of them complied with all the conditions required. The best placed company in this pillar is Petroperu with 9.58 points; others such as Ecopetrol, COPEL,

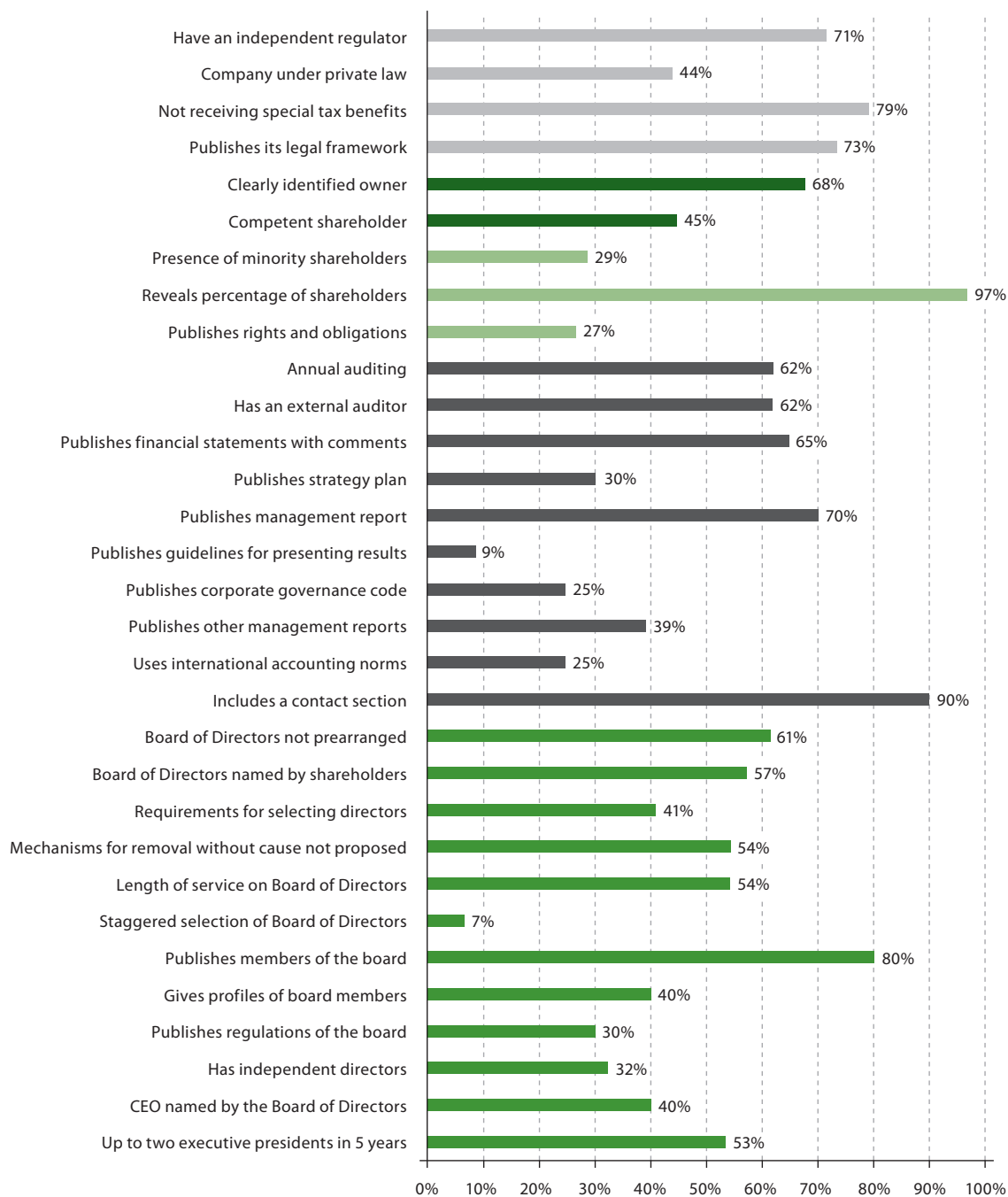
ELETRONBRAS, and the Panama Canal Authority also received high scores of 9.17 points. When the elements evaluated are studied in depth, we find that in 61% of the cases the Board of Directors is not “prearranged.” In other words, the laws under which the SOEs are governed do not automatically determine the public officials who will occupy the seats on the board based on their governmental positions. In addition, the board is appointed by the designated representatives of the ownership in 57% of the SOEs. In cases where shareholder meetings are held, the directors should be appointed in said meetings; otherwise, the sub-national entity or ministry with ownership in the SOE should be responsible for this task. However, there are still many cases in which the directors are directly appointed by the President of the Republic, or the positions, in many cases due to regulations in place, are held directly by the heads of some of the associated ministries. Likewise, only 31% of the companies have some independent directors. In some cases, their representation is associated with a specific percentage indicated in the bylaws, which ranges from 1 of 7 directors, as in the case of Banco Estado (Chile), to as many as 7 of 9 directors, as in the case of COPEL (Brazil).

Furthermore, in 41% of the cases, a series of requirements to ensure a suitable profile for these positions is called for including formal education, knowledge, business experience, citizenship requirements, and moral rectitude as well as other factors related to leadership and management skills. In addition, while 54% do not specify removal mechanisms without justified cause, another 54% of the companies define a specific tenure for directors.

Additionally, only 7% of the SOEs have a Board of Directors whose appointments are staggered in order to separate the election cycle in which political authorities are chosen from the cycle in which the directors are selected. This would reinforce the independence of the Board of Directors and, therefore, that of the SOEs. This is the case of YPF, YPFB, Petroperu, CODELCO, PEMEX, ENDE, and the Panama Canal Authority. The case of the Panama Canal may be instructive: upon its reorganization under the mandate of the Panamanian government in 1997, the decision was made to establish a board composed of nine directors who would serve terms of nine years each, but with the stipulation that three of them must be replaced every 3 years⁶ (CAF, 2012). Consequently, the election of new directors does not coincide with the electoral events in Panama, which ensures greater stability in the management of one of the strategic businesses in the Central American nation. It is also considered important to disclose the names of the members who make up the Board of Directors as well as their profiles. This occurs in 80% and 40% of the cases respectively. Regarding the role of the General Manager (or CEO), it would be expected that this appointment would be made by the board. This occurs in 40% of the cases as it is more common for the President of the Republic to make this appointment directly. Finally, although it is desirable to have some stability in management positions to ensure sufficient time to implement the changes and policies

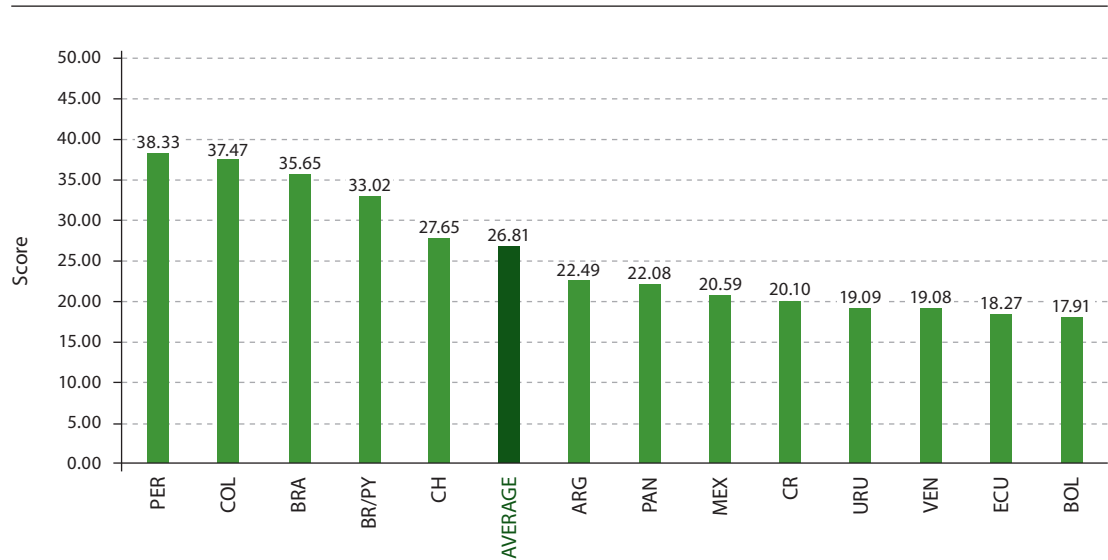
⁶ In 1997 when the reform process was carried out, three directors were elected for a period of 3 years, another three for a period of 6 years, and the last three will serve for a full period of 9 years as members of the Board of Directors.

GRAPH 10. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY ITEM



Source: Prepared by authors

GRAPH 11. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY COUNTRY



Source: Prepared by authors

required for the proper operation of SOEs, in more than half of the cases either there is no information about this or there is a high level of turnover with three or more individuals holding the position of CEO of the company for periods of less than five years.

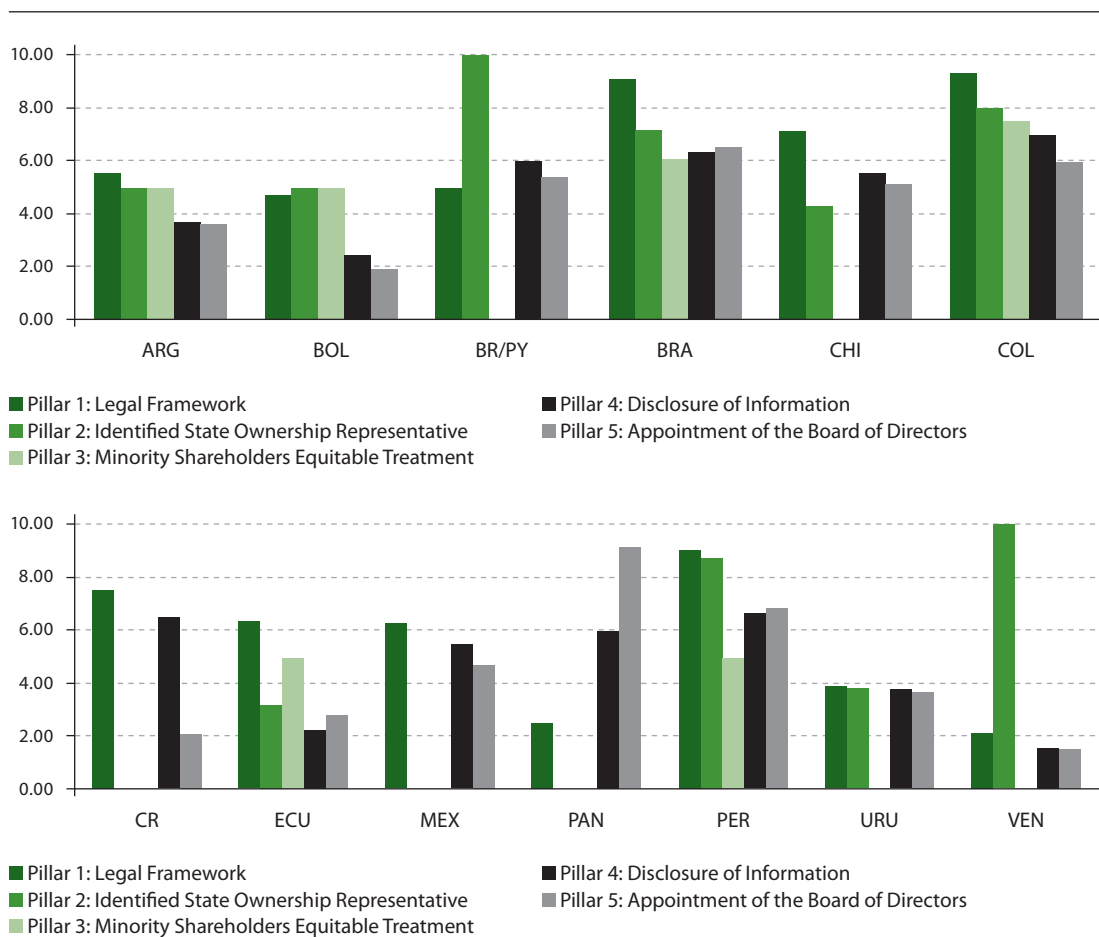
The individual results for each item evaluated may be consulted in Graph 10.

Trends by country

To the degree in which all of the SOEs that operate in each of the countries included in the study have not been analyzed, it is not possible to generalize the results by country. Nevertheless, given that the sample is significant, these results can be considered a good approximation.

Among the countries analyzed in the sample, the SOEs in Peru, Colombia, and Brazil are the leaders in reporting the best practices in corporate governance with average scores of 38.33, 37.47, and 35.65 respectively. These results are much higher than the average scores obtained by the SOEs of Uruguay, Venezuela, Ecuador, and Bolivia (See Graph 11).

GRAPH 12. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY COUNTRY AND PILLAR



Source: Prepared by authors

Likewise, according to Graph 12, differences can also be seen when each of the pillars that the index consists of is individually compared. With respect to the first pillar, which is associated with the regulatory framework, Colombia, Brazil, and Peru are the most notable with more than 9 points while at the other extreme, Panama and Venezuela only have 2.5 and 2.14 points respectively. However, this comparison changes noticeably for the second pillar since all of the SOEs in Venezuela have a designated and competent representative of the ownership, as a result of which it receives 10 points for this item. This is also true in the case of the Brazilian-Paraguayan consortium (BR/PY on the Graph) which is responsible for power generation in Itaipu. Regarding the third pillar, there is some type of minority participation in Brazil, Colombia, Argentina, Peru, Bolivia, and Ecuador but the treatment to these shareholders seems to be better in the Colombian SOEs which have received the highest scores in this segment: 7.50 points. In fact, Colombia has been considered one of the examples of good corporate

governance practices in Latin America due to its multiple efforts in areas such as minority shareholder treatment or the involvement of other stakeholders who are relevant in the management of these companies (Lehuede, 2013).

With respect to the pillar linked to transparency and disclosure of information, there are significant contrasts. At one extreme, Colombian companies receive a score of 7.00 while at the other, Venezuelan SOEs have an average score of 1.57 points. The companies in Peru, Costa Rica, Brazil, Panama, Chile, and Mexico show results that are better than the regional average (4.75 points) but still far from a high level. In many of these countries, there are laws that are oriented towards fostering disclosure of information. Nevertheless, it should be stressed that this must go hand-in-hand with the genuine desire of the designated entities to ensure that these laws are complied with.

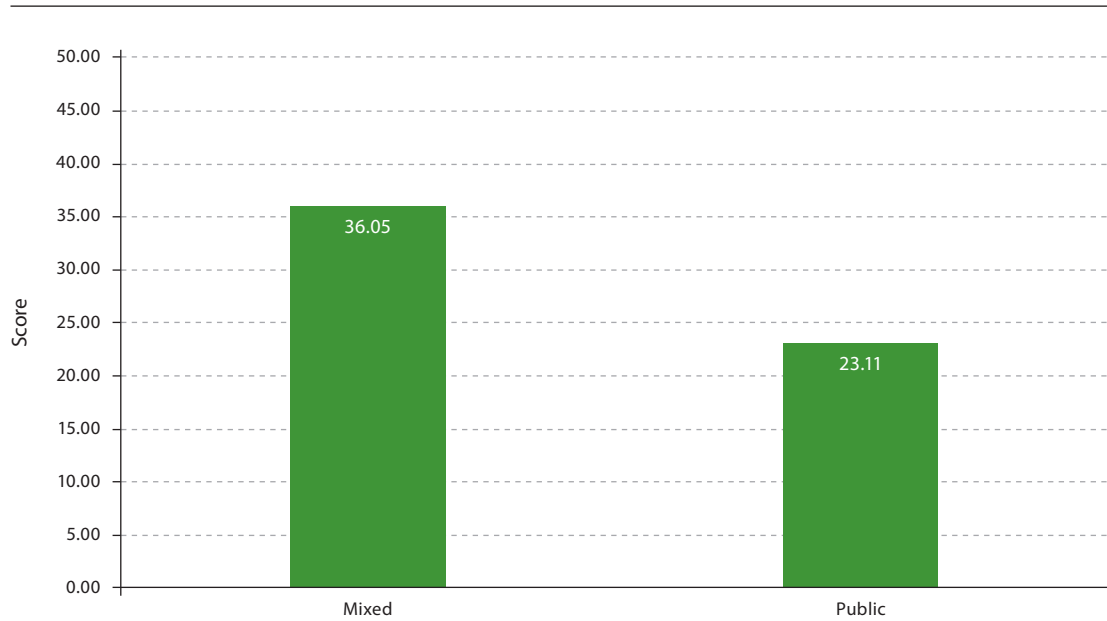
Last of all, the indicator for appointing the Board of Directors shows low results for the majority of the countries while companies in Panama (9.17 points) and Brazil (6.56) were the ones that received the highest scores. The SOEs in Peru, Colombia, and Chile comply with at least half of the criteria that are considered desirable in this section. In contrast, the SOEs in Venezuela and Bolivia have scores that do not even reach a score of 2 on the scale. This point is of especial concern due to the decisive role that the Board of Directors possesses as a collegiate body which is in charge of the planning and development of management guidelines for the SOEs.

Trends based on type of ownership

In some countries there are SOEs that have opened their financing structure to third parties whether they do it by incorporating minority shareholders directly or by issuing shares on the stock markets. This type of structure, which seeks and makes it possible to have additional financial resources without losing state control of the company, can reach the point where it acts as a mechanism for improving their corporate governance. The reason is that when companies are listed on the stock market, the rigorousness of the securities market is introduced, with respect to accountability and transparency of information. In addition, it forces the SOEs to adhere to the respective regulations.

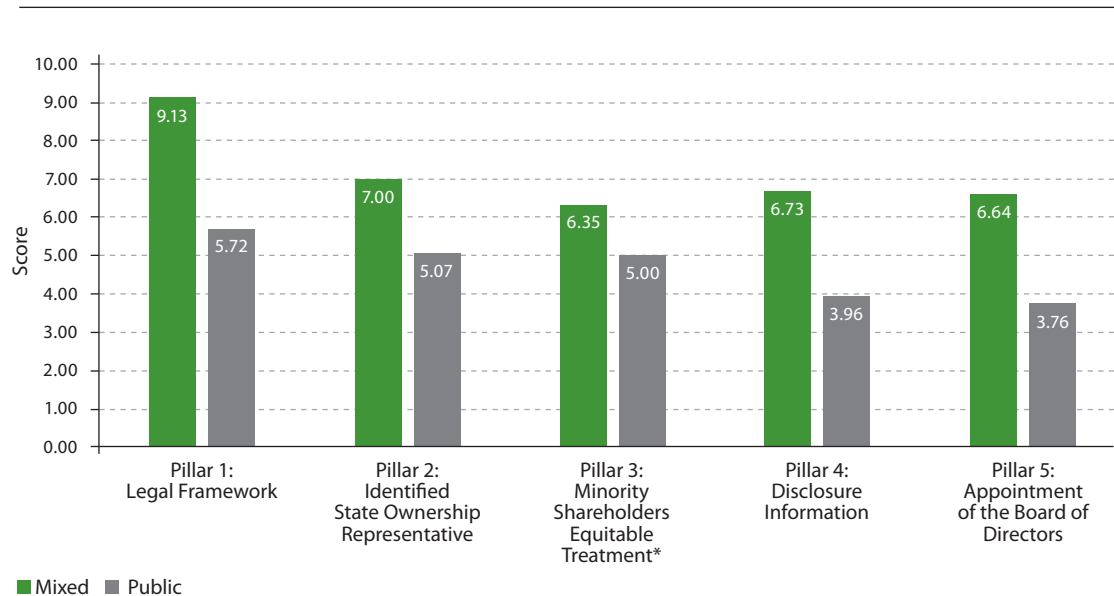
The governments may also have other reasons for including other private shareholders. Among these, partially protecting the management of the companies from future political pressures is the most important. Likewise, when the governments consider it a state policy, some of the reforms to corporate governance may be carried out as a first step to the process of partial privatization in order to ensure an increase in the funds the State will receive. However, such reforms should not be considered instruments that are exclusively intended for supporting privatization processes. The results of the sample point in this direction, since the companies with mixed private-public ownership show higher indices of corporate

GRAPH 13. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY TYPE OF OWNERSHIP



Source: Prepared by authors

GRAPH 14. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY TYPE OF OWNERSHIP AND PILLAR



Source: Prepared by authors. Note. (*) indicates that only the cases where there are minority shareholders were included

management than the wholly state-owned companies: 36.05 in comparison to 23.11 points just as can be seen in Graph 13 and Appendix 2. However, it should be understood that, due to the nature of the SOEs, it may not make sense for all of them to open their ownership structure to third parties, especially in the case of the SOEs that were created for the purposes of public policy.

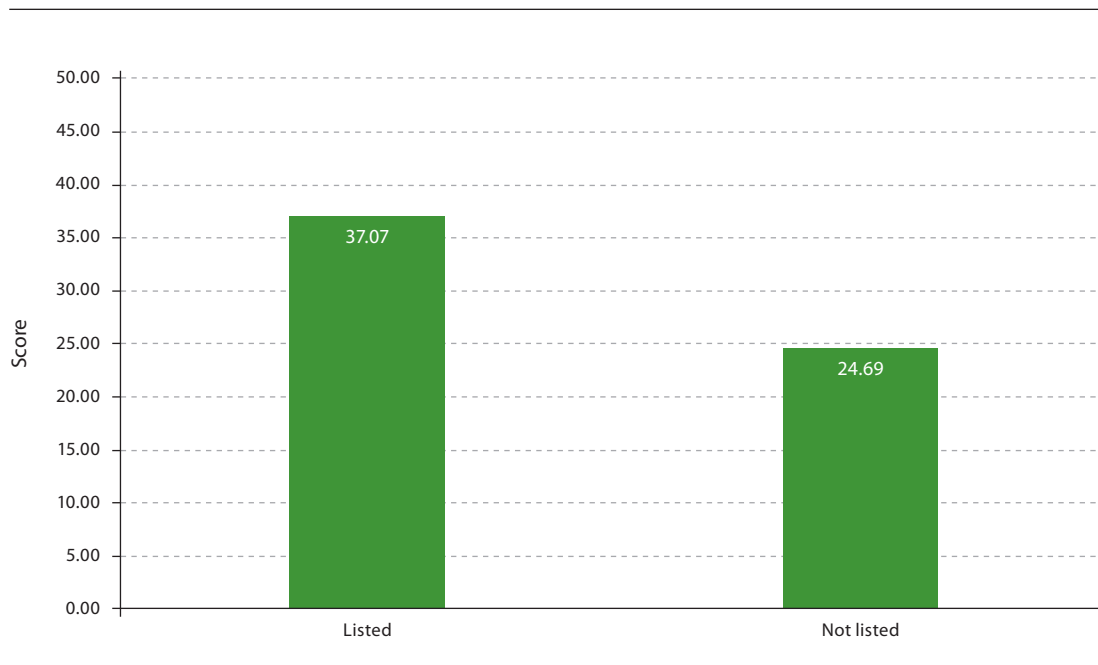
When each one of the pillars is analyzed individually (see Graph 14 and Appendix 2), equally significant differences are revealed. In the case of the legal framework, the companies with mixed ownership got 9.13 points in comparison to the 5.72 points that fully state owned companies earned. In the second pillar, mixed ownership companies got 7 points under the item of having an identified and competent state owner, while the fully state owned companies got 5.07 points. The third pillar, regarding the existence and treatment of minority shareholders, also reflects a better operation in the mixed ownership companies: 6.35 points in the case of the mixed companies versus five points for those that are completely state-controlled. Furthermore, with respect to pillar 4, a quite more transparent management is observed in the case of companies with mixed ownership since, in the disclosure of information section, they received 6.73 points in comparison to the totally state owned companies that only came to 3.96 points in this segment. It is clear that when private shareholders are included, the SOEs are forced to improve their criteria for disclosure of information. Finally, the fifth pillar, which is reserved for the appointment of the Board of Directors, offers results that are similar to the previous ones since the participation of private investors seems to be accompanied by better management operation from the Board of Directors. This is what is suggested by a performance of 6.64 points compared to the 3.6 points accumulated in the other case.

Trends of listed and non listed companies

Just as in the previous case, as could have been assumed, companies that are listed on the stock markets show better transparency in their corporate governance vis-a-vis the companies that are closely held. Among other reasons, this is due to the fact that the former are subject to a stricter process of monitoring and regulation from the investors, credit rating agencies, and regulators. Therefore, companies that are listed get an average score of 37.07 while the ones that are not listed on any stock market, whether local or international, end up with an average of 24.69 points (see Graph 15).

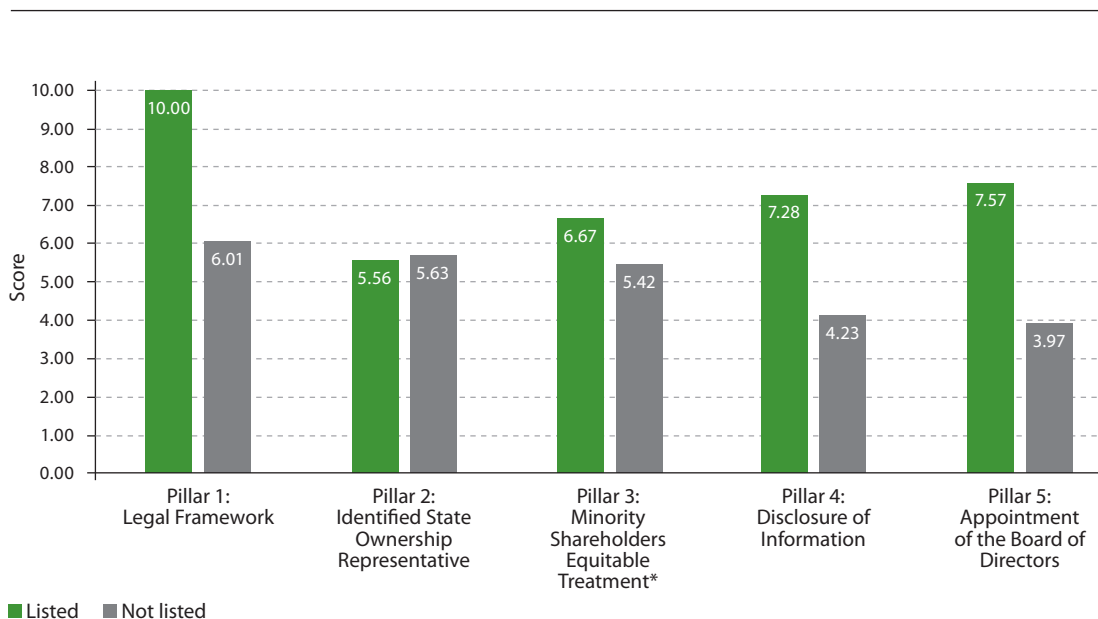
The details for each one of the pillars are given in Graph 16 and Appendix 2. With respect to the legal framework, the companies listed comply with all of the requirements established by the evaluation tool and consequently scored as high as 10 points. In contrast, closely held companies did not surpass 6.01 points on average. Regarding the possibility of having a designated and competent representative of the ownership, the difference is less that it is in other corporate governance pillars: 5.56 for the listed companies compared to 5.63 for the non listed ones. In the third pillar, just as is to be expected, the listed companies give their minority

GRAPH 15. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY PARTICIPATION IN STOCK MARKETS



Source: Prepared by authors

GRAPH 16. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY PARTICIPATION IN STOCK MARKETS AND PILLAR



Source: Prepared by authors. Note. (*) indicates that only the cases where there are minority shareholders were included

shareholders fairer treatment, as can be seen from their score of 6.67 points in comparison to the 5.42 that the non listed ones which have minority shareholders get, whether they are public or private. Respecting the fourth pillar, which refers to transparency in the disclosure of information, a significant difference is also seen. The companies that are listed provide a series of instruments for evaluating their management and this gives them 7.28 points in comparison to the 4.23 for the non listed ones. Last of all, the fifth pillar, which is associated with appointments to the Board of Directors, also shows marked differences between the two models of ownership, since listed companies have accumulated an average of 7.57 points compared to the 3.97 points for those that are not listed on any stock market.

Trends based on bond issues

Although the level of development of the financial markets in the region is limited, many of the state-owned companies in Latin America have ventured into capital markets by issuing bonds as an alternative mechanism for obtaining funds. In fact, 43% of the companies included in the sample get financing through both local and international fixed income mechanisms.

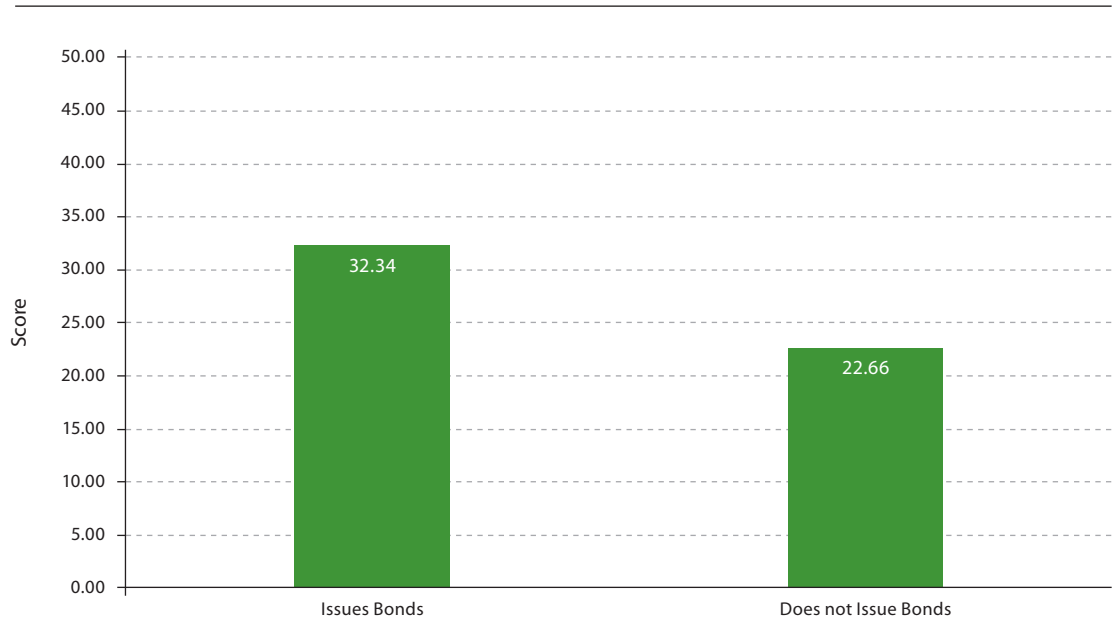
This trend is pertinent because of not only its extensive use but also the high numbers that are managed. For example, PEMEX, Petrobras, PDVSA, Banco do Brazil, and CODELCO together have issued bonds for more than 180 billion dollars. Of the total Latin American SOE debt, 57% has been rated between BBB+ and BBB- while 29% has fallen into the non-investment or junk bond categories. In this case, the PDVSA debt, which received a rating of CCC in December 2014, is the most notable.

In addition, bond market participation is particularly important for the study of SOEs because it can contribute to including new restrictions and favorable requirements for their corporate governance and hence their operating results. Nuñez and Oneto (2012, 2014) suggested that unsatisfactory practices of corporate governance in companies could discourage the expansion of the capital markets. In contrast, compliance with certain norms of governance contributes to improving companies' risk profiles, thus reducing the cost of their issues as well as converting them into an important element for structuring the relationships between the different stakeholders with the bondholders being included among those.

This favorable impact is the result of the stricter monitoring these companies are subject to, from the investors and credit rating agencies.⁷ To that effect, just as could be expected, those companies that issue bonds get better results on the Corporate Governance Transparency Index than those that do not issue them: 32.34 and 22.66 points (see Graph 17).

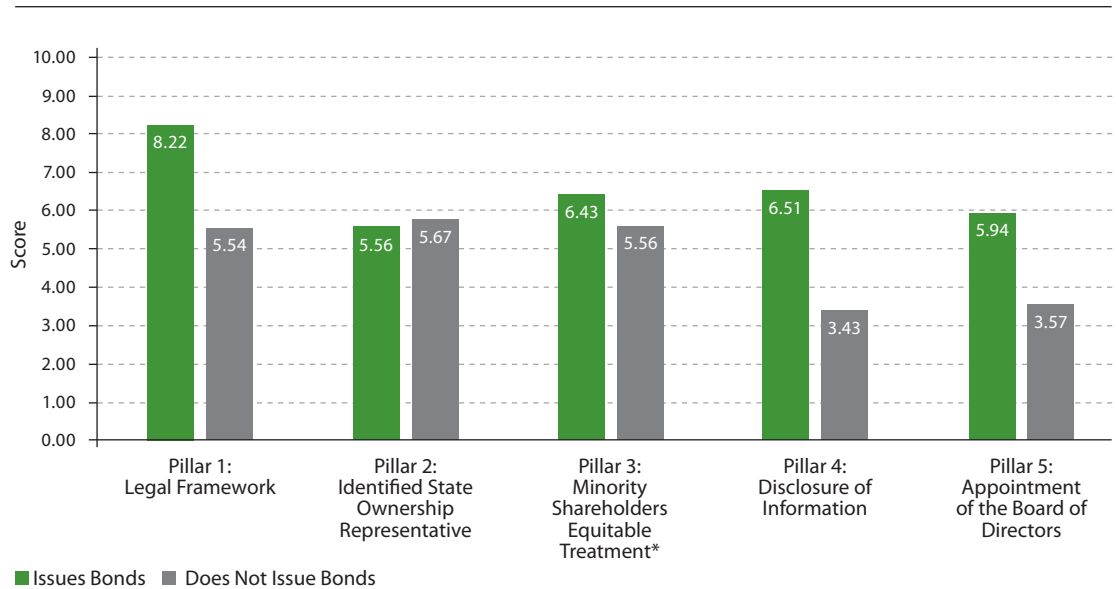
⁷ For a detailed study of how good practices in corporate governance can have an impact on financing costs for companies in developing regions see Avendaño and Nieto-Parra (2014).

GRAPH 17. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY BOND ISSUANCE



Source: Prepared by authors

GRAPH 18. SOE CORPORATE GOVERNANCE TRANSPARENCY INDEX BY BOND ISSUANCE AND PILLAR



Source: Prepared by authors. Note. (*) indicates that only the cases where there are minority shareholders were included

With respect to the sub-indices, the details on each one of the pillars can be seen in Graph 18 and Appendix 2. Regarding the legal and regulatory framework, companies that issue bonds get 8.22 points in comparison to the 5.54 points for those that do not. In contrast, it is notable that companies that do not participate in the fixed income markets get a higher score in the second pillar with respect to the presence of a designated representative of the ownership: 5.67 points compared to the 5.56 that the companies which issue bonds receive. Regarding equitable treatment for minority shareholders, the companies that place their bonds on the local and international markets comply with more than 60% of the requirements; as a result, they get a score of 6.43 points in comparison to the 5.56 points for those who do not issue bonds. The fourth pillar, in turn, shows a noticeable difference, since the companies that do issue bonds receive a score that is almost twice as high as the one received by those that do not: 6.51 points in contrast to 3.43 points. This significant difference in transparency could be due to the higher requirements for disclosure of information that investors and credit rating agencies demand. Last of all, in the appointments to the Board of Directors Pillar, the companies that participate in the fixed income markets got 5.94 points in contrast to the low rating of 3.57 points for those that do not.

Conclusions

In Latin America as well as in other regions around the world, SOEs still carry significant weight in both the economic and social areas and continue to be a tool that is widely used for the implementation of public policies. In order to comply with their mandates, the SOEs face a number of factors that may affect their management and, therefore, the results with respect to performance vary a lot. Several studies have pointed out the importance of reforming the corporate governance of the SOEs as a mechanism for minimizing the potential conflicts of interest and allowing them to fulfill the mandates they were created for.

Even when we cannot assume that the results of the study are valid for the entire SOE universe that operates in Latin America, the study gives us a baseline assessment of corporate governance of these entities in the region. First of all, the companies should offer pertinent, up-to-date, timely information that will make it possible for investors, users, citizens, and other significant stakeholders to effectively monitor their management. This is not happening in the case of the SOEs in Latin America. If we analyze the results of the sample, the SOEs receive 4.75 points out of 10 in the sub-index of transparency in disclosure of information based on the criteria evaluated. The companies that are fully state-owned receive scores that are even lower. Differences are also seen in comparisons at the country level because, while Colombia, Peru, and Costa Rica get an average of more than 6.5 points for their SOEs, Venezuelan companies barely reach 2 points on the scale, which suggests differences in the institutional context that could impair the commitment to disclose information. Thus, the transparency laws on state management that have been introduced in countries like Brazil, Colombia, and Peru, which also show the highest scores on our indicator, may have contributed to reinforcing the good practices of corporate governance in these countries.

Secondly, the results show problems in the mechanisms for appointing the Board of Directors. This topic is especially important since the board fills a key role as the corporate governing body which defines the long term strategy – always based on the mandate under which the SOE was created – that upper management will implement. They will also do active and periodic follow up on it. In order to carry out their functions, the board should be independent, protected from political pressure, and have an appropriate balance of skills and experience that will allow them to meet their economic and social goals without risking the company's sustainability over time. Unfortunately, with an average score of only 4.59 for the Board of Directors pillar, this is not a picture we see in our measurement of corporate governance transparency. There, the practice of appointing board members based more on political than

technical criteria is still evident, as is the existence of a limited number of independent members and the constant changes in the responsibilities of those in upper management positions, among other topics.

The pillars for legal framework and the existence of a designated and competent representative of the ownership also show flaws. However, these are lower in magnitude than those mentioned in the previous point. Last of all, the case of the existence and equitable treatment of minority shareholders deserves special note. Even if it is true that the state owner (and majority shareholder) should not exercise a position of disproportionate dominance over the minority shareholders, whether they are private or public, it turns out that the proportion of these shareholders is low in the sample and only eight companies publicly offer protection mechanisms by making the obligations and rights of the minority shareholders public. These companies are found among those with the highest scores on our transparency index for corporate governance.

Furthermore, the results also show that the presence of private minority shareholders (especially when the companies are listed on the stock market) can become a suitable mechanism for pushing through some reforms in SOE corporate governance: mixed ownership companies have better corporate governance practices, on average, in each one of the factors the index studied, and these results are even better when evaluating the companies that are listed on local or international stock markets. These results offer indications of some of the potential effects that listing some of the Latin American SOEs could have. It would act as a mechanism for increasing the credibility of the government that makes the reforms. It would make it possible to increase the resources available to carry out the desired projects or to reduce the state's contributions and facilitate the introduction of reforms in corporate governance that are conducive to more efficient management. At the same time, it would avoid undermining the state's ability to maintain control over the company's management and its orientation towards creating social and economic value as reflected in the mandate under which the SOE was established. Issuing bonds on the local and international securities markets is likewise associated with better transparency practices in SOE corporate governance although these results do not have the same effects that direct inclusion of third parties in the SOE's ownership structure does.

In any case, to the degree in which corporate governance contributes to improving SOE management, it is recommended that governments in Latin America introduce reforms that, along with other things, will enable them to: i) reinforce the decision-making mechanisms by clearly defining the strategic objectives to be pursued; ii) guarantee disclosure of pertinent and comparable information for an effective evaluation of the SOE management; iii) ensure the hiring and retention of sufficiently trained technical personnel for the company's different management and executive positions; iv) limit the state's interference in tasks that could compromise the company's management. Due to this, such participation should be restricted

to those prerogatives conferred on it as owner; v) standardize the regulatory and tax framework that the companies are subject to in order to prevent anti-competitive situations with respect to private sector companies; and vi) consider including private capital as a dual mechanism for improving the governing and monitoring of the SOEs as well as increasing the available resources in order to meet the SOE and state's goals if the government considers it a state policy.

The Corporate Governance Transparency Index proposed in this document is an attempt at a first step in an analysis of the trends of SOE corporate governance. Although it has been limited to the use of public information, it is of great value in explaining the willingness of the different governments to establish and secure good management practices in the SOEs in the region. At a time when the SOEs can be expected to continue being highly relevant to the social and economic spheres of Latin American countries, efforts directed towards understanding the possible deficiencies of these key players should be maintained in order to be able to include the reforms that would be conducive to ensuring more efficient and transparent corporate governance on the agenda of the region's public policies. Last of all, we invite the SOEs in the region to improve their mechanisms for transparency and reporting information so that a culture of good corporate governance is created that aligns the application of these practices with their publication.

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Appendix 1: List of companies included in the sample and results by pillar

Company	Country	Sector	Type of Ownership	Listed	Issues Bonds	PILLAR 1 Legal Framework	PILLAR 2 Identified State Ownership Representative	PILLAR 3 Minority Shareholders Equitable Treatment	PILLAR 4 Transparency	PILLAR 5 Appointment of Board of Directors	TOTAL SCORES
ECOPETROL	Colombia	Oil/Gas	Mixed	YES	YES	10.0	10.0	10.0	8.0	9.2	47.2
ISA	Colombia	Electricity	Mixed	YES	YES	10.0	10.0	10.0	9.0	7.9	46.9
ISAGEN	Colombia	Electricity	Mixed	YES	YES	10.0	10.0	10.0	8.0	7.9	45.9
PETROPERÚ	Peru	Oil/Gas	Mixed	NO	YES	7.5	10.0	NA	9.0	9.6	45.1
Sedapal	Peru	Utilities	Public	NO	YES	10.0	10.0	NA	8.0	7.9	44.9
Banco do Brasil	Brazil	Financial	Mixed	YES	YES	10.0	10.0	10.0	8.0	6.7	44.7
BNDES	Brazil	Financial	Public	NO	YES	10.0	10.0	NA	8.0	6.7	43.3
Bancoldex	Colombia	Financial	Mixed	NO	NO	10.0	10.0	10.0	7.0	5.4	42.4
COPEL	Brazil	Electricity	Mixed	YES	YES	10.0	5.0	10.0	8.0	9.2	42.2
BICE SA	Argentina	Financial	Public	NO	NO	10.0	10.0	NA	7.0	6.7	42.1
FURNAS	Brazil	Electricity	Mixed	NO	NO	10.0	10.0	NA	5.0	7.5	40.6
FONDO MIVIVIENDA S.A.	Peru	Financial	Public	NO	YES	10.0	10.0	NA	5.0	7.5	40.6
COFIDE	Peru	Financial	Mixed	NO	YES	10.0	10.0	5.0	8.0	7.5	40.5
Banrisul (Banco del Estado del Rio Grande del Sur)	Brazil	Financial	Mixed	YES	YES	10.0	5.0	10.0	8.0	7.5	40.5
Agrobanco	Peru	Financial	Public	NO	YES	10.0	10.0	NA	7.0	5.0	40.0
ELETRONORTE	Brazil	Electricity	Mixed	NO	NO	10.0	10.0	NA	5.0	6.7	39.6
Banco de la Nación	Peru	Financial	Public	NO	NO	7.5	10.0	NA	8.0	5.8	39.2
Banco Agrario de Colombia	Colombia	Financial	Mixed	NO	NO	10.0	10.0	10.0	4.0	5.0	39.0
VALEC	Brazil	Construction	Public	NO	NO	10.0	10.0	NA	6.0	5.0	38.8
CHESF	Brazil	Electricity	Mixed	NO	NO	10.0	10.0	5.0	7.0	5.4	37.4
CESP	Brazil	Electricity	Mixed	YES	YES	10.0	10.0	5.0	6.0	6.3	37.3
Empresa de Energía de Bogotá	Colombia	Electricity	Mixed	YES	YES	10.0	5.0	5.0	9.0	7.5	36.5

Transparency in the Corporate Governance of State-Owned Enterprises in Latin America.

Company	Country	Country	Type of Ownership	Listed	Issues Bonds	PILLAR 1 Legal Framework	PILLAR 2 Identified State Ownership Representative	PILLAR 3 Minority Shareholders Equitable Treatment	PILLAR 4 Transparency	PILLAR 5 Appointment of the Board of Directors	TOTAL SCORES
BancoEstado	Chile	Financial	Public	NO	YES	7.5	10.0	NA	6.0	5.0	35.6
Telebras	Brazil	Telecommunications	Mixed	NO	YES	8.8	10.0	5.0	6.0	5.8	35.6
Electroperu	Peru	Electricity	Public	NO	NO	10.0	10.0	5.0	6.0	4.6	35.6
Empresa de Telecomunicaciones Bogotá	Colombia	Telecommunications	Mixed	YES	YES	10.0	5.0	5.0	7.0	8.3	35.3
CEDAE	Brazil	Utilities	Mixed	YES	YES	10.0	10.0	5.0	4.0	6.3	35.3
Grupo de Empresas Públicas de Medellín	Colombia	Utilities	Public	NO	YES	10.0	5.0	NA	9.0	4.2	35.2
Enap	Chile	Oil/Gas	Public	NO	YES	7.5	10.0	NA	6.0	4.6	35.1
Sabesp	Brazil	Utilities	Mixed	YES	YES	10.0	5.0	5.0	8.0	6.7	34.7
Embrapa	Brazil	Scientific Research	Public	NO	NO	5.0	10.0	NA	7.0	5.4	34.3
COPASA	Brazil	Utilities	Mixed	YES	YES	10.0	5.0	5.0	6.0	7.5	33.5
Companhia Brasileira de Trens Urbanos	Brazil	Transportation/Logistics	Mixed	NO	NO	7.5	10.0	NA	4.0	5.0	33.1
Celesc	Brazil	Electricity	Mixed	YES	NO	10.0	5.0	5.0	6.0	7.1	33.1
ITAIPÚ BINACIONAL	Brazil/Paraguay	Electricity	Public	NO	YES	5.0	10.0	NA	6.0	5.4	33.0
Caixa Econômica Federal	Brazil	Financial	Public	NO	YES	5.0	10.0	NA	5.0	5.8	32.3
ELETRONBRAS	Brazil	Electricity	Mixed	YES	YES	10.0	0.0	5.0	8.0	9.2	32.2
PETROBRAS	Brazil	Oil/Gas	Mixed	YES	YES	10.0	0.0	5.0	9.0	7.5	31.5
Obras Sanitarias Del Estado (O.S.E.)	Uruguay	Utilities	Public	NO	NO	5.0	10.0	NA	6.0	4.2	31.5
CELGPAR	Brazil	Electricity	Mixed	YES	YES	10.0	5.0	5.0	5.0	6.3	31.3
PDVSA	Venezuela	Oil/Gas	Public	NO	YES	5.0	10.0	NA	5.0	5.0	31.3
EFE	Chile	Transportation/Logistic	Public	NO	YES	7.5	5.0	NA	6.0	6.3	30.9
YPF	Argentina	Oil/Gas	Mixed	YES	YES	10.0	0.0	5.0	7.0	8.8	30.8
Entel Bolivia	Bolivia	Telecommunications	Public	NO	NO	8.8	10.0	NA	5.0	0.8	30.7
Infraero	Brazil	Transportation/Logistic	Public	NO	NO	7.5	5.0	NA	6.0	5.8	30.4
Correios e Telégrafos	Brazil	Utilities	Public	NO	NO	5.0	5.0	NA	4.0	5.0	30.0

Company	Country	Sector	Type of Ownership	Listed	Issues Bonds	PILLAR 1 Legal Framework	PILLAR 2 Identified State Ownership Representative	PILLAR 3 Minority Shareholders Equitable Treatment	PILLAR 4 Transparency	PILLAR 5 Appointment Board of Directors	TOTAL SCORES
Banco do Nordeste	Brazil	Financial	Mixed	YES	YES	10.0	0.0	5.0	7.0	6.7	28.7
EPMAAP	Ecuador	Utilities	Public	NO	NO	7.5	5.0	NA	5.0	5.4	28.6
PEMEX	Mexico	Oil/Gas	Public	NO	YES	5.0	0.0	NA	10.0	7.5	28.1
CODELCO	Chile	Mining	Public	NO	YES	7.5	0.0	NA	7.0	7.1	27.0
Administración Nacional de Correos	Uruguay	General Services	Public	NO	NO	6.3	10.0	NA	1.0	4.2	26.8
Agencia Nacional de Vivienda (ANV)	Uruguay	Construction	Public	NO	NO	5.0	10.0	NA	3.0	3.3	26.7
YPFB	Bolivia	Oil/Gas	Public	NO	YES	2.5	10.0	NA	3.0	5.4	26.1
ENARSA	Argentina	Oil/Gas	Public	NO	YES	6.3	10.0	5.0	3.0	1.7	25.9
Banco de Previsión Social	Uruguay	Social Security	Public	NO	NO	2.5	10.0	NA	1.0	7.1	25.7
Empresa Eléctrica de Quito	Ecuador	Electricity	Public	NO	NO	7.5	5.0	5.0	3.0	5.0	25.5
Administración de Infraestructuras Ferroviarias (ADIF)	Argentina	Transportation/Logistics	Public	NO	NO	7.5	5.0	NA	1.0	6.7	25.2
Reficar S.A.	Colombia	Oil/Gas	Mixed	NO	NO	7.5	10.0	0.0	3.0	4.2	24.7
Emapag	Ecuador	Utilities	Public	NO	NO	7.5	5.0	NA	2.0	5.0	24.4
ENAMI	Chile	Mining	Public	NO	YES	7.5	0.0	NA	7.0	4.6	23.9
EMASEO	Ecuador	Utilities	Public	NO	NO	7.5	5.0	NA	2.0	4.6	23.9
Empresa Eléctrica de Guayaquil	Ecuador	Electricity	Public	NO	NO	7.5	5.0	NA	1.0	5.4	23.6
FONASA	Chile	Insurance	Public	NO	NO	7.5	5.0	NA	2.0	4.2	23.3
Administración Nacional de Puertos (ANP)	Uruguay	Transportation/Logistics	Public	NO	NO	3.8	10.0	NA	4.0	0.8	23.2
Banco Hipotecario del Uruguay	Uruguay	Financial	Public	NO	YES	7.5	0.0	NA	6.0	4.6	22.6
Autoridad del Canal de Panamá (ACP)	Panama	Transportation/Logistics	Public	NO	NO	2.5	0.0	NA	6.0	9.2	22.1
RECOPE	Costa Rica	Oil/Gas	Public	NO	YES	8.8	0.0	NA	8.0	0.8	22.0
Gas Transboliviano	Bolivia	Oil/Gas	Mixed	NO	NO	0.0	10.0	5.0	6.0	0.8	21.8
EMCALI	Colombia	Utilities	Public	NO	NO	6.3	5.0	NA	6.0	0.0	21.6
Infonavit	Mexico	Financial	Public	NO	NO	2.5	0.0	NA	7.0	7.5	21.3

Transparency in the Corporate Governance of State-Owned Enterprises in Latin America.

Company	Country	Sector	Type of Ownership	Listed	Issues Bonds	PILLAR 1 Legal Framework	PILLAR 2 Identified State Ownership Representative	PILLAR 3 Minority Shareholders Equitable Treatment	PILLAR 4 Transparency	PILLAR 5 Appointment of the Board of Directors	TOTAL SCORES
Banco de la República Oriental del Uruguay	Uruguay	Financial	Public	NO	NO	5.0	0.0	NA	7.0	5.0	21.3
EsSalud	Peru	Health Services	Public	NO	NO	7.5	0.0	NA	2.0	7.1	20.7
Comisión Federal de Electricidad	Mexico	Electricity	Public	NO	YES	7.5	0.0	NA	5.0	3.8	20.3
Nacional Financiera (NAFIN)	Mexico	Financial	Public	NO	YES	7.5	0.0	NA	5.0	2.9	19.3
Banco del Tesoro	Venezuela	Financial	Public	NO	NO	2.5	10.0	NA	2.0	0.8	19.2
ENDE	Bolivia	Electricity	Public	NO	NO	8.8	0.0	NA	1.0	5.4	19.0
Banco de Venezuela	Venezuela	Financial	Public	NO	NO	2.5	10.0	NA	1.0	1.7	19.0
Corporación de Fomento de la Producción (CORFO)	Chile	Financial	Public	NO	NO	5.0	0.0	NA	5.0	5.0	18.8
Boliviana de Aviación	Bolivia	Airlines	Public	NO	NO	7.5	0.0	NA	4.0	3.3	18.5
Aeropuertos y servicios Auxiliares	Mexico	General Services	Public	NO	NO	7.5	0.0	NA	3.0	4.2	18.3
FANCESA	Bolivia	Cement	Public	NO	YES	7.5	5.0	5.0	0.0	0.8	18.3
Grupo ICE	Costa Rica	Utilities	Public	NO	YES	6.3	0.0	NA	5.0	3.3	18.2
CANTV	Venezuela	Telecommunications	Public	NO	NO	2.5	10.0	NA	1.0	0.8	17.9
ANCAP	Uruguay	Oil/Gas	Public	NO	YES	3.8	0.0	NA	6.0	3.8	16.9
Bicentenario Banco Universal	Venezuela	Financial	Public	NO	NO	2.5	10.0	NA	1.0	0.0	16.9
EPMMOP	Ecuador	Construction	Public	NO	NO	6.3	5.0	NA	2.0	0.0	16.6
Telecomunicaciones de México	Mexico	Telecommunications	Public	NO	NO	7.5	0.0	NA	3.0	2.5	16.3
UTE	Uruguay	Electricity	Public	NO	YES	2.5	0.0	NA	5.0	5.0	15.6
Banco de Seguros del Estado	Uruguay	Insurance	Public	NO	NO	5.0	0.0	NA	1.0	6.3	15.3
Banco Industrial de Venezuela	Venezuela	Financial	Public	NO	NO	0.0	10.0	NA	1.0	0.8	14.8
EMAC EP	Ecuador	Utilities	Public	NO	NO	5.0	5.0	NA	1.0	0.8	14.8
CVG Alcasa	Venezuela	Mining	Public	NO	NO	0.0	10.0	NA	0.0	1.7	14.6

Company	Country	Sector	Type of Ownership	Listed	Issues Bonds	PILLAR 1 Legal Framework	PILLAR 2 Identified State Ownership Representative	PILLAR 3 Minority Shareholders Equitable Treatment	PILLAR 4 Transparency	PILLAR 5 Appointment of Board of Directors	TOTAL SCORES
Agua y Saneamiento S.A. (AySA)	Argentina	Utilities	Mixed	NO	NO	2.5	0.0	5.0	7.0	0.0	14.5
Empresa Pública Cementera del Ecuador	Ecuador	Cement	Public	NO	NO	7.5	0.0	NA	2.0	2.1	14.5
EP PETROECUADOR	Ecuador	Oil/Gas	Public	NO	YES	6.3	0.0	NA	4.0	1.3	14.4
COMIBOL	Bolivia	Mining	Public	NO	NO	0.0	10.0	NA	1.0	0.0	13.8
Telam (Agencia Nacional de Noticias)	Argentina	Media	Public	NO	NO	2.5	5.0	NA	1.0	0.8	11.7
AFE	Uruguay	Transportation/Logistics	Public	NO	NO	2.5	0.0	NA	4.0	1.7	10.2
Administración Nacional de Telecomunicaciones (ANTEL)	Uruguay	Telecommunications	Public	NO	NO	2.5	0.0	NA	4.0	0.8	9.2
Rocafuerte Seguros S.A.	Ecuador	Insurance	Public	NO	NO	5.0	0.0	NA	2.0	0.0	8.8
Banco Unión	Bolivia	Financial	Public	NO	NO	5.0	0.0	NA	1.0	0.8	8.5
Administración General de Puertos	Argentina	Transportation/Logistics	Public	NO	NO	0.0	5.0	NA	0.0	0.8	7.3
Ferrocarriles del Ecuador Empresa Pública	Ecuador	Transportation/Logistics	Public	NO	NO	2.5	0.0	NA	1.0	1.3	5.9
Servicios de Aeropuertos Bolivianos	Bolivia	Transportation/Logistics	Public	NO	NO	2.5	0.0	NA	1.0	0.0	4.4
Administración de los Servicios de Salud del Estado	Uruguay	Health Services	Public	NO	NO	0.0	0.0	NA	1.0	1.7	3.3

Appendix 2. Results for companies by pillar based on type of ownership, issuance of bonds, and presence on the stock market

Pillar / Type of company	Type of ownership		Issuance of bonds		Presence on stock market		Total sample
	<i>Mixed</i>	<i>Public</i>	<i>Issues bonds</i>	<i>Does not issue bonds</i>	<i>Listed</i>	<i>Non listed</i>	
PILLAR 1 Legal Framework	9.13	5.72	8.22	5.54	10.00	6.01	6.69
PILLAR 2 Identified State Ownership Representative	7.00	5.07	5.56	5.67	5.56	5.63	5.62
PILLAR 3 Minority Shareholders Equitable Treatment	6.35	5.00	6.43	5.56	6.67	5.42	6.17
PILLAR 4 Disclosure of information	6.73	3.96	6.51	3.43	7.28	4.23	4.75
PILLAR 5 Appointment of the Board of Directors	6.64	3.76	5.94	3.57	7.57	3.97	4.58
TOTAL	36.05	23.11	32.34	22.6	37.07	24.69	26.81

Appendix 3. Formation of the SOE Corporate Governance Transparency Index

The questions evaluated under each point of the transparency index for SOE corporate governance are described below. If the SOE meets the desired characteristic, one point is assigned. If, however, it does not meet that characteristic, it is given zero points. Since this is a transparency index, zero points are also assigned if no information can be obtained. In those cases where scores between those two (1 and 0) are allowed, this will be explicitly stated in each question:

First Pillar. Legal Framework

- There is an independent regulator, and it is separate from the state owner.
- The SOE is subject to private law.
- The SOE does not receive explicit special benefits (tax benefits, different regulations, loans at special rates, etc.).
- Publishes its complete legal framework including the law by which it was set up, corporate statutes, and other pertinent laws. If the corporate statutes are not furnished but the rest of the regulations are, 0.5 points are allotted.

Second Pillar. Identified State Ownership Representative

- An administrative entity of the state is clearly defined as the state owner. Ministries, sub-national governments, and Centralized Property Unit are included in this.
- The state shareholder is competent. It includes the various administrative units responsible for the state's areas of economic and financial planning management as well as the ministries or sub-national units responsible for the business area in which the SOE is involved.

Third Pillar. Minority Shareholders Equitable Treatment (this pillar is limited to those companies, whether public or private, that have minority shareholders).

- Discloses the shareholder structure of the company
- Publishes a document identifying the rights and obligations of the minority shareholders.

Fourth Pillar. Disclosure of Information

- There are audits at least annually.
- There are external audits.
- Publishes financial statements for the latest period with notes.
- Publishes a strategy plan.
- Publishes an annual management report for the latest period.
- Publishes a document containing the guidelines for presenting the earnings (losses) for the period and financial information.
- Publishes a good corporate governance code.
- Publishes other management reports (such as for example, the SOE's social or environmental impact).
- Uses international accounting standards.
- It includes a contact section, either dedicated telephone line or internet.

Fifth Pillar. Appointment of the Board of Directors

- The Board of Directors is not “prearranged,” i.e., members of the board are not named due to the positions they currently hold in government service.
- If a Shareholder's Assembly is held, this should appoint the Board of Directors. Otherwise, the ownership representative mentioned in the second pillar shall be the one responsible for choosing the board. If the representative of the ownership names only a limited number of the members, a half point is given, and if he does not, no points.
- Includes explicit requirements for the selection of board members (age, nationality, criminal records or business background, work experience, educational level, etc.).
- It does not present mechanisms for removing members from the Board of Directors without just cause.
- Specifies the length of time the board members shall hold their position as well as whether or not they may be re-elected after their period is up.
- Appointment to the Board of Directors is staggered, i.e., a portion of the board is replaced at pre-established intervals.
- Publishes the names of the members of the board.

- Publishes brief profiles of the members of the board.
- Explicitly publishes the rules of the Board of Directors. If these are included as part of the statutes, .5 points are assigned.
- There is at least one independent director.
- The general manager (or CEO) is named by the board.
- A maximum of two people held the position of general manager (or CEO) between June 2009 and June 2014.

Reforming the corporate governance of state-owned companies in Latin America is of critical importance for improving the management and impact these companies have. SOEs are extremely significant in the region's development policies, but historically, their results have been poor. In spite of the importance of these factors, there are very few studies that have focused on outlining the trends in SOE corporate governance or offering a regional approach, in particular, that would make it possible to identify the areas where major actions and changes are necessary. Because of that, we have introduced a Corporate Governance Transparency Index based on the information available on the websites of 105 companies in 13 countries in the region that allow us to identify some of the main governance flaws in these companies. We found that the major deficiencies are concentrated in the mechanisms for choosing the Board of Directors and information disclosure. Furthermore, the differences in the corporate governance of companies with different characteristics associated with their type of ownership, participation in bond markets and stock markets is evaluated. An analysis of the characteristics of SOE corporate governance in each one of the countries included in the sample is provided.

Public policy and productive transformation series

"Public Policy and Productive Transformation" consists of a series of documents aimed at disseminating those experiences and success stories in Latin America as an instrument for spreading the knowledge that CAF makes available to the countries in the region so that better practices with respect to business development and productive transformation practices can be implemented. The Series is aimed at policymakers, public sector agencies, business associations, political leaders, and relevant agents that participate in the process of designing and carrying out public policies related to productive development in the countries in the region.