

## Transparency and Accountability Frameworks for Latin American State-Owned Enterprises

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# TRANSPARENCY AND ACCOUNTABILITY FRAMEWORKS FOR LATIN AMERICAN STATE-OWNED ENTERPRISES

(Preliminary Working Draft)<sup>1</sup>

## Introduction

1. Since issuing *the OECD Guidelines on Corporate Governance of State-Owned Enterprises* in 2005, the OECD has been working actively to support improved SOE governance as a key factor in enhancing SOE performance and value, as well as in supporting sound public finances, economic growth and competitiveness.

2. An essential priority for implementing the Guidelines is to ensure a high quality of transparency and accountability. Effective frameworks for accountability and transparency are central to any sound corporate governance regime, giving substance to shareholders' and stakeholders' rights, and underpinning public trust by providing the information that is essential to the exercise of such rights.

3. Ensuring effective accountability is a particular challenge for state-owned enterprises due to their complex nature. As the preamble of the *Guidelines* notes, accountability of SOEs can be diluted by the absence of two major threats that are essential for holding management accountable in private sector corporations, i.e. takeovers and bankruptcy. The existence of vague, complex or contradictory objectives may further complicate accountability for SOEs, which often have both commercial and non-commercial objectives, some of which may not be fully and explicitly specified. Moreover, accountability for the performance of SOEs is often unclear due to complex chains of agents (e.g. management, boards, ownership entities, ministries, the government, parliament, and parliamentary and governmental oversight bodies such as comptrollers or national audit institutions). Structuring this complex web of accountabilities to ensure efficient decisions and good corporate governance is a major challenge.

4. To support such efforts, the OECD published in 2010 *Accountability and Transparency: a Guide for State Ownership*, providing detailed guidance and examples of OECD country experience in implementing relevant OECD recommendations. Using this publication as a reference, the Latin American Network on Corporate Governance of State-Owned Enterprises has adopted accountability and transparency as the principal theme for its 11-12 March 2014 meeting in Buenos Aires. The publication, which has also been translated into Spanish with the support of Argentina's Sindicatura General de la Nación (SIGEN), also served as the main reference for the development of a questionnaire that has been circulated to government ownership representatives of most participating Latin American governments. As of 21 February, 2014, eight governments (**Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay and Peru**) had provided responses, describing these countries' policies and practices in comparison to some of the main recommendations for accountability and transparency set out in the OECD Guidelines.

5. This synthesis report seeks to highlight some of the emerging trends and practices among Latin American countries as a reference for the Network's discussions. The annex provides a brief summary of the main features of each of the eight responding countries' frameworks for SOE accountability and transparency. At this stage, it should be considered a working draft in progress, which has not yet been

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<sup>1</sup> This draft report was prepared by Daniel Blume and Blanca Peña-Méndez on behalf of the OECD Secretariat, based on questionnaire responses received from representatives of the governments of Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay and Peru.

reviewed or approved by the participating governments. The intent is to seek their comment at the SOE Network meeting and to revise and finalise the document for public dissemination after taking into account any oral or written comments. **Please address any written comments or questions to [Daniel.Blume@oecd.org](mailto:Daniel.Blume@oecd.org) or [Blanca.Pena-Mendez@oecd.org](mailto:Blanca.Pena-Mendez@oecd.org) by 31 March, 2014.**

## Summary

6. Eight Latin American countries reviewed for this report (**Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay** and **Peru**) reported on their frameworks for the accountability and transparency of state-owned enterprises with reference to recommendations of the *OECD Guidelines on Corporate Governance of State-owned Enterprises*. Although questionnaire responses revealed varying degrees of consistency with the Guidelines' recommendations, some countries appear to be making major efforts to develop their corporate governance systems in line with the Guidelines.

7. Most of the reviewed countries have developed, if not a full-scale ownership policy, at least requirements for their SOEs to make reference to national development strategies in establishing their own performance targets and objectives. **Brazil** and **Peru** appear to have the most fully developed ownership policies, with **Paraguay** also currently in the process of developing a four-year strategic plan for SOEs.

8. Most of the reviewed countries (**Brazil, Chile, Ecuador, Mexico, Paraguay** and **Peru**) have provisions and arrangements for SOEs to undertake public service obligations beyond the generally accepted norm, and in many but not necessarily all cases, the government provides explicit funding for achievement of these non-commercial objectives. **Colombia** does not typically establish such requirements, while **Argentina** does not have a written regulation addressing this matter.

9. Reporting systems to allow regular monitoring and assessment of SOE performance vary depending on the SOE's ownership model. In countries with centralized models like **Peru, Paraguay** or **Chile**, the national body in charge of SOEs has the responsibility of gathering and processing this information. In countries with other ownership models the information is required by the Ministry of Finance, another co-ordinating entity, the line ministry or the SOE itself.

10. Although there are mechanisms to report on SOEs and their information is often publicly available, this information is not necessarily consistent or aggregate. **Brazil, Paraguay** and **Peru** reported that they have such aggregate reporting systems. Most countries include the information on SOEs as part of their Finance Ministries' budget reports; or SOEs simply submit individual reports that aren't necessarily standardised or consolidated.

11. A number of countries report to their National Congress on their SOEs through annual reports prepared by either the National Comptroller or the Ministry of Finance, while other countries use for that function their national bodies managing SOEs or their line ministries for each sector.

12. All surveyed Latin American countries reported having requirements for internal auditing functions, usually for all SOEs. However, in the case of **Peru** this requirement is limited to financial institutions, and **Ecuador** also reported an exceptional approach by assigning the internal audit function to the General Comptroller of the State, which decides if the SOE should have an internal audit unit.

13. An increasing number of countries are engaging the services of external independent audit firms that follow international standards. However, a significant number of countries use their own national bodies to carry this out or assign the role to both institutions.

14. There has also been a growing trend towards the adoption of international accounting standards. **Brazil, Chile** and **Paraguay** have already adopted International Financial Reporting Standards (IFRS) and Colombia and Peru are in the process of migrating to IFRS. Other countries don't yet apply this standard.

15. A large majority of the reviewed countries require SOEs to disclose information on key areas such as company objectives and their fulfilment; ownership and voting structure of the company; and potential risk and measures taken to manage such risks. Requiring SOEs to report on related party

transactions is less common, sometimes limited only to listed SOEs or other SOEs that are not 100%-owned by the State.

16. Latin American countries that have SOEs with minority shareholders generally take steps to ensure equal treatment of shareholders with respect to disclosure of information, similar to other listed companies. Specific requirements for SOEs to report on relations with stakeholders are still rare in the region, occurring generally on a case-by-case basis.

## **Part 1: the State as Owner: Ownership Policies and Strategies for Monitoring and Reporting on Performance**

### *Ownership Structures and Ownership Policies*

17. One of the starting points for the establishment of good SOE governance is the development of a clearly defined state ownership policy. As *OECD Guideline II.A states*: “The government should develop and issue an ownership policy that defines the overall objectives of state ownership, the state’s role in the corporate governance of SOEs, and how it will implement its ownership policy.”

18. A country’s capacity to implement such an ownership policy will depend in part how it structures its ownership function. Previous meetings of the Latin American SOE Network have focused on the structures that have been established in different Latin American governments to exercise their ownership oversight (See *Ownership Oversight and Board Practices for Latin American State-Owned Enterprises*, 2012). While only a few countries -- **Chile, Peru and Paraguay** -- have established centralised ownership functions, it was seen that other countries have also developed mechanisms even within decentralised systems to collect cross-government information and to implement policies across the government or at least a large part of the government.

19. Other countries in the region follow a more traditional, decentralized structure under which line ministries tend to have ownership of SOEs within their particular sector, with other institutions playing a co-ordinating role on governance issues. In **Argentina**, this role is played by three institutions – an audit committee (AGN), a monitoring committee and SIGEN (the General Trustee of the Nation), all within the executive branch. Internal and SOE performance control is exercised by SIGEN, reporting to the President, while external control is exercised by AGN, reporting to Parliament.

20. **Ecuador** and **Brazil** also have tripartite structures of ownership oversight involving line ministries, ministries of finance and co-ordinating institutions. In Ecuador, the National Secretary for Planning and Development (SENPLADES) plays a strong co-ordinating role. Brazil has a Department of Co-ordination and Corporate Governance of State Enterprises (DEST) within the Ministry of Planning, Budget and Management to support the implementation of corporate governance, while sectoral ministries and the Ministry of Finance split other shareholder functions. A Commission of Inter-sectorial Corporate Governance and Property Administration (CGPAR), comprising the Minister of Planning, Budget and Management, the Minister of Finance and the Office of Chief of Staff, was established in 2007 to deal with management issues and the control of SOEs in Brazil.

21. **Mexico** and **Colombia** have similar decentralised systems, under which SOEs’ objectives are determined by the line ministry in charge of the SOEs in their sector, while budgets and budgetary information are collected by the Ministry of Finance and Public Credit.

22. Within this context, the majority of the countries responding to the OECD questionnaire do not have a written ownership policy that defines the government’s overall objectives for its state-owned companies and the role of the State in overseeing them. However, **Brazil** and **Peru** appear to have issued

full-scale ownership policies. Brazil has issued a specific written ownership policy regarding its role and objectives in SOE governance. This is set out both through its budget process, and through a four-year strategic plan which includes a section on “Programmes, Objectives, Targets and Initiatives.” Peru’s ownership institution, FONAFE, issues a strategic corporate plan which individual SOEs must refer to in developing individual strategic plans.

23. **Paraguay** (See Box 1) is also in the process of developing a four-year strategic plan for SOEs, to be coupled with short-term objectives set by the government. Other countries, such as **Ecuador** and **Mexico**, have national development plans, and SOEs are asked to develop their own targets that are consistent with such national development plans. In **Chile**, the government has drafted legislation that would define the role of the State as an owner through the System of Enterprises (SEP), but does not otherwise have a government-wide ownership policy. **Argentina** and **Colombia** also currently lack overall written policies on government ownership.

**Box 1: Paraguay’s ownership oversight reforms and development of a strategic plan**

Paraguay’s government has been working in recent years towards adoption of the OECD’s recommendations on Corporate Governance of SOEs. In 2008 a Governing Body, the *Consejo de Empresas Públicas* (CEP) was created with the objective to administer, coordinate and execute the plans, programs and modernization strategies of SOEs, while also providing supervision and oversight of these companies. Last year the CEP was replaced with the *Consejo Nacional de Empresas Públicas* (CNEP), which is responsible for appointing the SOEs’ management team; assuring that objectives are met; and promoting collaboration between SOEs. Furthermore the *Dirección General de Empresas Públicas* (DGEP) was created by the CNEP, in order to monitor SOEs performance. Following a change of government in 2013, the DGEP is currently in the process of writing a new Strategic Plan for the next four years in line with the government’s plans. Some short term objectives that apply to the role of the government as an owner have been integrated in those plans i.e. the provision of effective public services; and transparency with regard to SOE finances.

***Disclosure and Funding of Special Obligations and Responsibilities***

24. A second important element of governance frameworks for SOE accountability is to ensure transparent treatment of any requirements for SOEs to fulfil special responsibilities and obligations for social and public policy purposes that may go beyond the generally accepted norm for commercial activities (Guideline 1.C). The Guidelines recommend that these obligations be mandated by laws or regulations and disclosed to the general public. Related costs for fulfilling such obligations should be covered in a transparent manner and any financial assistance, including guarantees received from the state, should be disclosed.

25. One of the rationales for this recommendation is that in order to avoid market distortion and to ensure a level playing field between SOEs and private enterprises, it is important that they face similar conditions with respect to pursuit of commercial and non-commercial objectives. If SOEs are obliged to provide certain public services or achieve certain social objectives that are not imposed on their private sector competitors, then these should be clearly stated, with their costs clearly accounted for and funded. Even if the SOE is operating in a monopoly sector, non-transparent public service requirements can undermine accountability for achieving other, commercially-oriented targets, since managers may cite the costs of achieving non-commercial public service targets as an excuse for not being able to achieve other objectives.

26. Extensive discussion of different methods used for identifying, defining, disclosing, and accounting for the costs of such obligations can be found in the OECD’s publications on *Competitive*

*Neutrality: Maintaining a Level Playing Field Between Public and Private Business* (OECD, 2012b) and *Balancing Commercial and Non-Commercial Priorities of State-Owned Enterprises* (Christiansen, 2013) as well as in the *Accountability and Transparency Guide for State Ownership* (OECD 2010).

27. In Latin America, **Chile, Ecuador, Mexico** and **Peru** all reported that they have cases where SOEs are required to fulfil public policy or public service objectives, and that costs for provisions of these services will be covered by the state. More specific information on how such costs are calculated and covered was not available for this report.

28. **Brazil's** constitution establishes that the same law that creates an SOE must also define its social function. SOEs established as corporations or joint stock companies are defined by law as having a corporate purpose that may be any profit-making undertaking not contrary to law, public order or decency. In line with this, the corporation must limit its activities to what has been defined in its social objectives and not by the State or beyond the generally accepted norm. While the State is not obliged to cover the costs of public service obligations through a specific allocation for this purpose, Brazil's questionnaire response cited several examples where this occurs, such as through capital increases for investment expenditures, sectoral funds to finance some non-commercial expenditures, and grants for staff expenses for non-commercially-oriented SOEs.

29. **Colombia** reported that its SOEs are expected to produce certain goods or services under market conditions without political intervention to go beyond generally accepted norms. However, there have been exceptions, and it has not always been easy in practice to calculate the precise costs of such obligations and how they may be funded (See Box 2 for examples).

30. For **Ecuador**, SOEs are expected to be flexible and be able to cover new potential needs that may arise. In those cases, extra costs are covered by the State, by loans offered by international entities, or through strategic partnerships. The process is controlled by the SOE's board and by the *Ministerio de Relaciones Laborales*. **Paraguay** reported that such objectives must be defined in relevant regulation, but did not report on how they are funded. **Argentina** indicated that it has no specific regulation on this matter.

#### **Box 2: Fulfilment of public service obligations in Colombia**

Generally under Colombian law, SOEs are viewed as a supplementary public policy tool in the sense that they exist to provide certain goods or services, which the state expects them to produce under market conditions without political intervention beyond that which could be exercised by any controlling shareholder. According to the Ministry of Finance and Public Credit (MHCP), SOEs are not at the service of ministries or authorities nor administratively subordinate to them and, therefore, do not have obligations and responsibilities in terms of public services beyond those envisaged by the country's legislation for any public or private entity that performs the same functions. However, in the case of Satena, an airline linked to the Ministry of Defense and owned by the MHCP, the company has the public service obligation to provide air transportation coverage to the most remote regions of the country (which has a mountainous geography and a large territory) and is expected to compete with other commercial airlines and develop a sustainable business model. But the company has failed to find such a balance and its results have been disappointing. On the other hand, Colombia's development bank, Bancoldex has fulfilled its mandate of increasing the availability of credit to exporters and SMEs, with its assets and Return on Equity showing sustained annual growth over the past five years. In the absence of clear quantification of the cost of its non-commercial objectives it is not easy to assess whether the failure to perform, for example in the case of Satena, is due to mismanagement or to the heavy burden imposed by the state.

### *Ownership monitoring of performance*

31. A third important element of state accountability is the state's capacity and systems to regularly measure and monitor SOE performance against their objectives.

32. The OECD Guidelines recommend that the government set up reporting systems allowing regular monitoring and assessment of SOE performance (I.F).

33. There are different mechanisms that SOEs can use in order to report on their performance. They can be divided in three main types namely *ex ante*, *ex post*, and consolidated reporting<sup>2</sup>. *Ex ante* information includes the objectives set up for an SOE in a specific time frame. *Ex post* information refers to the financial and performance reports drafted by the SOEs. Finally, consolidated reports have mostly an annual frequency, and are prepared by a government or centralised body.

34. Latin American governments have generally established performance monitoring mechanisms for their SOEs, but the methods and periodicity of such monitoring vary substantially, most commonly featuring quarterly and annual reporting mechanisms. For example, in **Argentina**, the process of budget creation and review of implementation takes place quarterly and annually to monitor SOE achievement of financial and non-financial targets. Overall SOE performance is normally assessed during the annual shareholders meetings. In **Colombia**, different ministries have implemented mechanisms that allow them to gather information about individual enterprises in their sector. They may also request SOEs to prepare annual reports on their performance.

35. **Brazil's** DEST follows a "balanced scorecard" reporting model based on financial and non-financial indicators. Performance indicators are fixed annually and agreed among the Supervising Ministry, DEST and the SOE board. These indicators are also used in establishing a formal variable remuneration programme for Directors and employees. Reports containing financial information as well as complementary information on performance are submitted to the board which in turn submits them to several government control entities. Annual reports and financial statements are also publicly disclosed.

36. SOE performance in **Chile** is monitored through quarterly and annual reports, and SOEs must submit a quarterly Management Report to the SEP<sup>3</sup> council. They also prepare annual non-standardized reports, where issues related to the SOE's internal organization and values, as well as to their external audits and financial statements, are covered.

37. **Paraguay's** DGEP has established 3-year management contracts for SOEs that measure qualitative and quantitative goals against performance indicators, using an on-line monitoring system. In the case of **Ecuador**, the inclusion of a government representative as part of the Board allows for a continuous review of performance by the government through its representative. All resolutions regarding SOE performance objectives will be included and monitored through the board's proceedings. Finally, **Mexico** has developed one of the more elaborated systems in the region for performance monitoring (see Box 3).

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<sup>2</sup> World Bank, 2013.

<sup>3</sup> *Sistema de Empresas*: body in charge of SOEs management



### Box 3: Performance Monitoring in Mexico

In addition to preparing quarterly reports, Mexican SOEs must submit information to be included in three annual national reports: the SHCP's<sup>4</sup> *Informe de Labores*, prepared to be included in the Annual Report that the government is required to present to the Congress; *Informe de Gestión Financiera*, financial management report to be sent to the *Auditoría Superior de la Federación* for inspection; and thirdly the *Informe de Resultados*, a performance report to be sent to the government's Presidency.

In the case of the two most important Mexican SOEs -PEMEX and *Comisión Federal de Electricidad* (CFE) - the SHCP and the *Secretaría de la Función Pública* (SFP) carry out a joint assessment and oversight on the fulfilment of goals and objectives set out in their budgets. Relevant officials of these entities report to the Interministerial Commission on Public Financing (Comisión Intersecretaral de Gasto, Financiamiento y Desincorporación – CIGFD) on goals' achievement. This body may request additional information on the SOE's operations as well as issue recommendations to be taken into account by the SOE.

### Aggregate Reporting

38. In order to offer sufficient information to ensure the overall accountability of the government's SOEs, the Guidelines recommend that the co-ordinating or ownership entities should develop consistent and aggregate reporting on state-owned enterprises and publish annually an aggregate report on SOEs (V.A).

39. All participating countries have mechanisms for disclosing information on their SOEs either on a central web site or on the individual SOEs' web sites, but it is much rarer to find countries that provide such information in consistent, aggregated format. **Brazil, Peru and Paraguay**, produce periodic reports that include consolidated data on the SOEs' functioning. Brazil's DEST publishes an annual SOE Performance Report on the Ministry of Planning web site, which includes accounting, financial, budgetary and management information. Peru's FONAFE prepares a corporate management report every quarter to be published on FONAFE's website. Paraguay's DGEP also prepares quarterly reports, the last one of which is considered as the annual report since it includes all the information related to that particular year. These reports are published – excluding any confidential information - on the DGEP's website.

40. In **Argentina**, every SOE must send its budget and implementation report to the Ministry of Economy and Public Finance, which is responsible for the consolidation of the information in the shape of an annual report presented to the Congress.

41. **Chile, Ecuador and Mexico** indicate that their SOEs prepare their own individual performance reports that are not standardised or consolidated. In Ecuador they are presented to the line minister and the coordinator, and are also available to the general public through the SOEs' websites.

42. Although SOE information is not aggregated on an annual basis in Mexico, some information is included in the Federal Public Treasury Report, prepared by the *Secretaría de Hacienda y Crédito Público* (SHCP), where information on all public entities can be found. Every SOE will appear under the chapter dedicated to its particular sector. The reports contain a special section about PEMEX and CFE, two of Mexico's largest SOEs. Federal Public Treasury Reports can be consulted on the official website of the SHCP.

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<sup>4</sup> *Secretaría de Hacienda y Crédito Público*

### ***Reporting to Congress and State Audit Institutions***

43. As for the relation between the SOEs' representative body and the public bodies, the OECD Guidelines state that "The Co-ordinating or ownership entity should be held accountable to representative bodies such as the Parliament and have clearly defined relationships with relevant public bodies, including the state supreme audit institutions" (I.E).

44. Latin American countries generally have established processes for reporting to Congress on an annual basis, most commonly consolidated through the annual budget process.

45. However, in some cases such as in **Colombia**, this is done on a decentralised basis, with individual ministries reporting to Congress on the SOEs in their sectors. The structure and administrative fragmentation of **Colombia's SOE** sector means that each ministerial unit has its own powers and responds individually to audit institutions, mainly the Comptroller General's office. Also SOEs are obliged to report to a number of bodies such as the General Accounting Office through the CHIP system; the Comptroller's General Office through its SIRECI System; or the Fiscal Statistics Information System. This multiplicity of reporting often involves the same basic information which must be processed and published differently by public bodies, at diverse times of the year.

46. In **Paraguay**, SOEs submit their budgets annually, jointly with the rest of government entities. They are integrated as part of the overall national budget, which is consolidated by the MF's General Directorate of Budget and submitted to Congress for approval. Furthermore, financial control for SOEs is the responsibility of the Institutional Internal Audit, the General Audit Executive and the General Comptroller, providing for separated control independent of the state acting as owner.

47. In the case of **Ecuador**, the communication between the State as an owner and the representative bodies is carried out through a government representative -- who is also a member of the parliament -- and takes part in the board's meetings.

48. By law, the **Mexican executive** must submit once a year the Federal Public Treasury Report to the national Congress for the supervision and auditing of all federal public entities, including SOEs. This report is done by the SHCP with the collaboration of the Congress Federal Audit Office. Furthermore, several bodies participate in the SOEs' accountability and oversight systems such as internal control bodies, public commissioners, audit committees, Congress Federal Audit Office and the SHCP. Occasionally their functions are duplicated and SOEs would be subjected to multiple auditing systems.

49. Similar institutional arrangements are in place in **Brazil**, where the Congress and the General Court of Audit have unrestricted access to data on SOEs' budget execution, including monthly; and in **Chile**, where the SEP presents an annual report to Congress on SOEs' performance.

#### **Box 4: Reporting to National Bodies in Argentina**

In **Argentina**, SOEs develop an annual report that includes all aspects of performance. The Ministry of Economy and Public Finance consolidates the information that is presented to a bicameral congress. Argentinian law attributes to the legislative power the external control of the public sector, in terms of real estate, finances and operational issues. The legislative power bases its assessments on the information provided by the *Auditoría General de la Nación* (AGN). Given the number of agencies that control different levels (Internal Audit Units, SIGEN, *Auditoría General de la Nación*), audit committees – in the cases when there is one - have had an important role to liaise with the different bodies and transmit information to shareholders.

## Part 2: Transparency: Audit and Disclosure

50. Transparency is an integral part of accountability. One is generally not possible without the other. Any efforts directed to improve corporate governance need to look at these two areas as a whole. The quality of transparency rests upon the quality of information that governments and SOEs disclose to the public. This in turn depends upon the quality of the systems that are in place to gather and process such information.

51. Auditors – including internal auditors, external auditors and national audit institutions – play a key role in ensuring the quality and credibility of such information. This section of the report addresses these interlinked elements. Audits of SOE performance typically may be based upon three elements: systems of internal control which include an internal audit function, external audits, and state audits. In order for a system to work, these three elements should complement each other so that duplication of tasks and unnecessary bureaucracy are avoided.

### *Internal Audit and Audit Committees*

52. The OECD Guidelines recommend that “SOEs develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the board and to the audit committee or the equivalent company organ” (guideline V.B). Internal auditors are important for ensuring an efficient and robust disclosure process and proper internal controls. They also constitute the first level of review of the quality of information concerning the extent to which the organisation achieves its established objectives. They may also advise on risk management and control systems improvements.

53. The creation of Audit Committees, which play an important role in terms of co-ordinating the work of external and internal auditors, is also recommended. “When necessary, SOE boards should set up specialised committees to support the full board in performing its functions, particularly in respect to audit, risk management and remuneration” (VI.E). It’s advised that internal auditors report directly to an audit committee, composed of independent and financially literate board members. Furthermore, this sort of committee should support the internal auditors by ensuring their independence and discussing their findings.

54. All surveyed Latin American countries reported having requirements for internal auditing functions within at least some of their SOEs. **Peru** and **Ecuador** reported more exceptional cases. In the case of **Peru**, internal audit is only required for financial companies. Other SOEs have an appointed officer who reports directly to the National General Comptroller, and whose role is the permanent evaluation of the SOEs’ internal control systems. This officer will also inform the SOE board’s chairman of their findings. In **Ecuador** this function is carried out through the General Comptroller of the State. The General Comptroller decides which SOEs will need to have an internal audit unit. Such units should provide advice and analysis to the company, as well as present an annual work plan to be approved by the General Comptroller. Most countries also reported that they have also established requirements for audit committees or an equivalent body.

55. **Argentina** and **Mexico** also offer unique approaches to internal audit. According to **Argentinian law**, SOEs must have their own internal auditing departments, known as *Unidades de Auditoría Interna* (UAI). These units will report to the board chairman, but will be technically coordinated by the *Sindicatura General de la Nación* (SIGEN). However, some SOEs are also obliged to create Audit Committees, which is comprised by three independent directors; a representative from the UAI; and another from the SIGEN. Audit Committees have a consultancy role and deal with a number of aspects to do with internal and external audits; financial information; directors’ fees; and risk management policies among others.

56. **Mexican SOEs** have established an internal organ of control that reports to the *Secretaría de la Función Pública* (SFP). In addition, all SOEs must have a Public Commissioner – a figure that mirrors that found in private companies - who is appointed by and reports to the SFP. The Public Commissioner is responsible for assessing the overall SOE performance and for carrying out budget and efficiency studies. The internal audit organ is not required to report directly to the Board. However, a special regime is applied to PEMEX, CFE and the development banks. PEMEX’s regulation establishes that the Audit and Performance Evaluation Committee, the Public Commissioner and the internal audit organ are in charge of the internal audits. In the case of CFE, the auditing function is carried out by a *Consejo de Vigilancia*, integrated by three members appointed by the SFP, the Ministry of Energy and the board. Finally the development banks are under the responsibility of their own board of directors that must have an Audit Committee, whose tasks are among others monitoring the internal and external auditing of the company.

### **External Audit**

57. The same chapter of the Guidelines (Guideline V.C) makes reference to the external audit function: “SOEs, especially large ones, should be subject to an annual independent external audit based on international standards. The existence of specific state control procedures does not substitute for an independent external audit.” This point accentuates the fact that there shouldn’t be differences in terms of disclosure and transparency between an SOE and a private company. Equally, it highlights the need to have objective professional inputs, isolated from any potential state interventions.

58. All Latin American countries surveyed require their SOEs to undergo external audits, mostly involving private, independent audit firms. **Chile** (see Box 5) provides a good example of this. **Argentina** and **Brazil** are exceptions, where external auditing firms are not obligatory for all SOEs. In Argentina, external audits can be conducted by either an external auditing firm or by the General Audit Office (AGN), applying the same standards as for private companies. In Brazil, all SOEs are encouraged to undertake external audits by private firms, but it is not yet obligatory. A recent proposed resolution by CGPAR would make this obligatory, and would seek to allow auditors to be selected based on criteria other than cost. Currently, independent external auditors are frequently selected through a public procurement process that does not necessarily consider the relevance of technical qualification. Brazilian SOEs are also subject to external audit by the Accounting Court and the Office of the Comptroller General (CGU).

59. Another variation on common practice occurs under **Colombian** law, where a *Revisor Fiscal* must be employed by all stock companies, branches of overseas companies and “companies in which, by law or under their statutes, their administration does not correspond to all the partners”. The *Revisor Fiscal* is appointed by the Shareholders meetings, and among its task is signing of financial statements together with the legal representative. According to the Colombian authorities, the formal report from the *Revisor Fiscal* has the same features as reports from external independent auditors. However the World Bank has taken the position that the functions of *Revisor Fiscal* were not equivalent to the functions of an independent auditor. Furthermore, all of the SOEs depending on the Ministry of Finance and Public Credit are externally audited.

60. **Paraguay** also is an interesting case where SOEs must engage an independent audit firm. Sometimes these audits are directly financed by the DGEP. As part of the effort to improve transparency, the results of these external audits are made publicly available on the Ministry of Finance’s official website. The DGEP receives and reviews the external audit reports and monitors SOEs’ compliance with their recommendations.

### Box 5: External Auditing in Chile

In Chile all SOEs are subject to an annual external audit which is done by an independent auditing firm. In the case of those SOEs that are limited companies, audit and audit firms are assigned during the shareholder meetings. The rest of SOEs choose their external auditor as part of their board meetings, subject to final approval by the SEP. By law, the same audit company can't remain the auditor for the same SOE for more than four years. These audits focus on financial statements, and the results are later included in the Annual Report. In addition, all SOEs are also subject to the oversight of the *Superintendencia de Valores y Seguros de Chile* (SVS). In addition to engaging the services of independent external firms, SOEs are audited by the Comptroller's General office. These audits are public and can be found on the Comptroller General's website.

### *Standards for Disclosure*

61. Chapter V of the OECD Guidelines includes two further points related to disclosure that were also included in the OECD questionnaire. Firstly, "SOEs should be subject to the same high quality accounting and auditing standards as listed companies. Large or listed SOEs should disclose financial and non-financial information according to high quality internationally recognised standards" (V.E). Secondly, the Guidelines recommend that information on five specific areas should be disclosed by the SOEs (V.E). The five areas referred to are:

1. A clear statement to the public of the company objectives and their fulfilment.
2. The ownership and voting structure of the company.
3. Any material risk factors and measures taken to manage such risks.
4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE.
5. Any material transactions with related entities.

62. Country responses again show a variety of results in regards to the mentioned recommendations, which highlight the differences that still exist in some countries between the private and the state-owned systems. Only **Brazil, Chile** and **Paraguay** currently adhere to International Financial Reporting Standards (IFRS), while **Colombia** and **Peru** are in the process of migrating to IFRS and have pledged to complete this process by 2015 in the case of Colombia and 2014 in the case of Peru.

63. In **Argentina, Ecuador** and **Mexico**, there is no obligation to adhere to any international accounting standards for SOEs. However, in the case of **Argentina**, listed SOEs do follow such standards.

64. Nearly all Latin American countries surveyed require their SOEs to issue a clear statement to the public of the company objectives and their fulfilment. **Mexico** and **Colombia** are the exceptions due to their decentralised systems of oversight which have resulted in a lack of uniform disclosure requirements with respect to this issue (It also was not clear from **Paraguay's** response whether such statements of objectives must be disclosed to the public).

65. The ownership and voting structure for companies are generally required in the annual reports, annual financial statements or on the SOE web site. In the case of Chile, this information is also reported on the web site of the securities and insurance regulator, SVS. Again, **Mexico** and **Colombia** lack uniform requirements in this area for the same reasons as cited above, and **Paraguay's** response did not directly address this point.

66. All Latin American countries surveyed with the exception of **Colombia** and **Paraguay** indicated that their SOEs are required to prepare information on material risk factors and measures taken to manage such risks. Not all countries report this information publicly; for example, in **Peru** these reports are submitted to FONAFE but not posted on the web site (See Box 6 below for a description of Peru's overall approach). In **Mexico** the information is not disclosed but any person who asks for the documents can obtain them if they are not classified as confidential. Some countries' ownership entities provide specific guidance to help SOEs' to identify and manage risks.

67. Reporting on financial assistance or state guarantees provided to SOEs, where relevant, is generally undertaken either through the budget process or through information provided on web sites or annual reports in countries including **Argentina, Brazil, Chile and Ecuador**. No such requirements exist in **Colombia, Mexico, or Paraguay**, and they are not considered applicable to **Peru** because it does not target specific assistance to SOEs.

68. Finally, new requirements have been established in **Chile** for SOEs with majority state ownership to report on material transactions with related entities at shareholder meetings, without consideration of the amount or frequency. In **Brazil** this requirement applies only to listed SOEs, and in **Mexico**, to SOEs with participation in debt markets. **Peru** and **Ecuador** also require public disclosure of related party transactions, while in **Argentina**; SOEs report such transactions to the audit committee but not to the public.

**Box 6: Peru's disclosure of non-financial information**

In Peru, information on the five specific areas is disclosed in a variety of ways. With respect to point 1, SOEs publish their Strategic Plans on their respective websites. They include their general and specific strategic objectives for the following five years, and the target indicators and goals that correspond to the achievement of their objectives. Equally, all the information related to ownership structure and rights to vote is included on the SOE's website. In terms of risk management, FONAFE has approved a framework and a methodology for the implementation of Internal Control Measures that are published on its website. Point 4 of the list doesn't apply to Peruvian SOEs since they don't receive any subsidies or guarantees from the State, nor are they forgiven of any obligations previously assumed. Finally, all transactions between an SOE and FONAFE or any related parties are disclosed in the Enterprises' Financial Statements, which are also published on the SOEs' websites.

***Communication with Shareholders and Stakeholders***

69. SOEs that are not 100% owned by the State are expected to be accountable to all shareholders and therefore must pay particular attention to ensuring equal access to information. In order to guarantee fair treatment of shareholders -- as well as transparency regarding SOE activities with related parties -- the Government needs to make generally and periodically available the same information to all shareholders. A separate recommendation addresses communication with and disclosure to other stakeholders.

70. Chapter III of the Guidelines calls for equitable treatment of all shareholders, including equal access to corporate information. The Guidelines recommend (III.B) that SOEs observe a high degree of transparency towards all shareholders; and develop an active policy of communication and consultation with all shareholders (III.C). Equally the Guidelines recommend that listed or large SOEs, as well as SOEs pursuing important public policy objectives, report on stakeholder relations.

71. In Latin America, some countries such as **Mexico** do not have private shareholders or listed companies, so the issue of providing shareholders' equal access to information does not arise. For countries such as **Argentina, Brazil** and **Colombia** that have prominent listed SOEs, the general rule applied is that requirements that apply to all listed companies also apply to SOEs.

72. Most Latin American countries have not developed explicit policies for communications with stakeholders, and instead reported on general provisions for disclosing information to the public as their policy of greatest relevance to stakeholder relations.

73. **Colombia's listed SOEs** must disclose material information to the markets on which they are registered, both in Colombia and overseas. Information is disclosed to all shareholders --including the State -- at the same time. In terms of reporting to the Colombian market, the Financial Superintendence's Integrated Securities Market Information System (SIMEV) is used. By law shareholders can inspect a company's books and paper, except for those documents subject to corporate confidentiality. The *Código País* recommends companies to make a point of contact to serve as a channel of communication available to investors, something most Colombian SOEs do. Finally, there are no general requirements for SOEs to report on stakeholder relations. However, numerous companies – listed or not - report on a regular basis.

74. As for **Ecuador**, according to the *Ley Orgánica de Transparencia y Acceso a la Información*, the SOE's board is responsible for the communication with the shareholders as well as for reporting on stakeholder relationships.

75. In **Argentina**, communication with shareholders is regulated by the *Ley de Sociedades Comerciales* that also applies to SOEs. By law, regular meetings are called by the Board or Trustee, while special meetings can be requested by the board, trustee, or shareholders if they represent at least 5% of social capital. The meetings' dates will be published for 5 days, between 10 and 30 days in advance in the journal of legal publications. Shareholders holding at least 2% of shares can demand relevant information from the audit committee. SOEs report their relationships with stakeholders in their company reports. There is not a standard approach. Currently the Government is working on a Bill that will make compulsory for SOEs to report on stakeholder relationships following a standard process.

76. Finally, the **Peruvian FONAFE** approved in 2011 a policy on SOEs' Minority Shareholders that required all SOEs to create on their websites a "shareholders" button providing access to information on the annual schedule and agendas for the board's meetings; and companies' financial information, which must be updated every quarter. Additionally, FONAFE's and SOEs' websites provide access to consolidated, relevant information on the management of enterprises, such as budgetary financial information, evaluation of investment projects, human resources information, information on the engagement and procurement of services and goods, and performance indicators.

## Acronyms

(Used throughout the report)

|           |   |
|-----------|---|
| SOEs      | State-Owned Enterprises   |
| OECD      | Organisation for Economic Development and Co-Operation  |
| DEST      | Department of Co-ordination and Governance of State Enterprises (Brazil)                              |
| DGEP      | Dirección General de Empresas Públicas (General Director for State-Owned Enterprises, Paraguay)       |
| CNEP      | Consejo Nacional de Empresas Públicas (National Council of State-Owned Enterprises, Paraguay)         |
| MHCP      | Ministerio de Hacienda y Crédito Público (Ministry of Finance and Public Credit, Colombia and Mexico) |
| SMEs      | Small and Medium-sized Enterprises  |
| SEP       | Sistema de Empresas (System of Enterprises, Chile)  |
| CFE       | Comisión Federal de Electricidad (Federal Electricity Commission, Mexico)                             |
| SENPLADES | National Secretary for Planning and Development (Ecuador)   |
| SIGEN     | Sindicatura General de la Nación (General Trustee of the Nation, Argentina)                           |
| SFP       | Secretaría de la Función Pública (Ministry of Public Services, Mexico)                                |



**ANNEX: OVERVIEW OF SOEs PRACTICES IN LATIN AMERICA BY COUNTRY**

| <b>Country:<br/>Argentina</b>   | <b>Policy that defines the role and objectives of state ownership</b>  | <b>Laws to regulate SOEs undertaking public services beyond the generally accepted norm</b>   | <b>Reporting systems in place to allow regular monitoring of SOEs' performance</b>  | <b>Internal audit function monitored by the Board</b>   | <b>Independent external audits based on international standards</b>  |
|---|--|---|---|---|--|
| SOEs' ownership model: decentralised  | There is not a written policy. The government intervenes in the delivery of public services and strategic activities via regulation; control; withdrawal of concessions of services; or expropriation.                   | There is not specific regulation. Public services in Argentina are provided by state and private companies, depending on the type of services. In general, there is not competition between the two.                                      | Performance is evaluated during the annual shareholders' assembly. Financial performance is monitored during the process of budget preparation.   | Each company has an Internal Audit Unit, IAU, coordinated by the Sindicatura General de la Nación, SIGEN. UAIs report to the SOE's board chairman; SIGEN; and, if there is one, its audit committee.  | State enterprises are subject to external audits carried out by the Auditoría General de la Nación; or by a private company hired by either the AGN or the SOE. In any case, international professional standards are respected. |
| <b>Obligation to report to representative bodies on SOE performance?</b>  | <b>Consistent &amp; aggregate reporting on SOEs published annually</b>   | <b>Disclosure of information following international standards</b>  | <b>Disclosure of information on five specific areas<sup>5</sup></b>   | <b>Equitable treatment of all shareholders, including equal access to information</b>   | <b>Listed or large SOEs to report on stakeholder relations</b>   |
| SOEs present an annual report that includes all aspects of performance. The Ministry of Economy and Public Finance consolidate the information that is presented to a bicameral congress. | The budget report and its implementation, consolidated by the Ministry of Economy and Public Finance, are published in the Official Gazette of the Republic of Argentina, in its website, and in the ministry's website. | The Argentina Federation of Professional Councils in Economic Sciences is the body in charge of setting standards. Its regulations are based on IFRS standards. According to this body, only listed SOEs are obliged to obey these rules. | Point 1 is contained in the Official Gazette of the Republic of Argentina and on its website. Points 2 to 5 are part of the company's financial report, and can be requested by citizens. Points 3 to 5 are found in the Audit Committee's shareholders' reports, but aren't made public. | Regular meetings are called by the Board or Trustee. Ad-hoc meetings can be requested by the board, trustee, or shareholders if they represent at least 5% of social capital. The meeting dates will be published for 5 days, between 10 and 30 days in advance in the journal of legal publications. | SOEs report their relationships with stakeholders in their company reports. There is not a standard approach.  |

Source: SIGEN, 2014.

<sup>5</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.

| <b>Country:</b><br><b>Brazil</b>   | <b>Policy that defines the role and objectives of state ownership</b>  | <b>Laws to regulate SOEs undertaking public services beyond the generally accepted norm</b>  | <b>Reporting systems in place to allow regular monitoring of SOEs' performance</b>   | <b>Internal audit function monitored by the Board</b>   | <b>Independent external audits based on international standards</b>  |
|--|--|--|--|---|--|
| SOEs' ownership model: tripartite  | Government objectives are defined in a multiyear plan submitted to Congress. The supervising ministry establishes guidelines for each SOE through their board representative. DEST <sup>6</sup> also agrees targets for individual SOEs. | SOEs' constitutive laws and bylaws define their social function. The Brazilian government ensures that SOEs are compensated for their public service obligations   | SOEs are required to report annually to the Ministry of Planning, Budgeting and Management (MP) regarding their financial targets and goals established in its Annual Variable Remuneration Programme, agreed by the supervising ministry, DEST and the Board. | SOEs must have an internal audit function that reports directly to the board. Audit Committees are mandatory for financial institutions, and they also report directly to the board.                                    | DEST has recently proposed a resolution to oblige large SOEs to submit audits by independent auditors. The same body encourages all SOEs to undertake this kind of audit, and to choose an auditor according to technical qualifications and not just based on cost. |
| <b>Obligation to report to representative bodies on SOE performance?</b>   | <b>Consistent &amp; aggregate reporting on SOEs published annually</b>   | <b>Disclosure of information following international standards</b>   | <b>Disclosure of information on five specific areas<sup>7</sup></b>  | <b>Equitable treatment of all shareholders, including equal access to information</b>   | <b>Listed or large SOEs to report on stakeholder relations</b>   |
| The Congress and the General Court of Audit, its auxiliary body, have unrestricted access to data on SOE's budget execution. In addition, the MPBM publishes every other month the State Expenditure Report. | DEST publishes annually an SOEs' Performance Report, which includes accounting, financial, budgetary and management information, available on the Ministry of Planning website.  | From 2010, all SOEs must adhere to IFRS. The law also allows the Brazilian Securities Commission to issue new accounting standards and procedures, applicable to SOEs, following international accounting standards. | Information is found in SOEs' constitutive laws and bylaws (point 1); annual financial statements (point 2); SOEs websites (point 3); Federal General Budget (point 4); and information on point 5 is only disclosed in the case of listed SOEs.               | Listed SOEs apply good corporate governance practices for the protection of minority shareholders. By law, the controlling shareholder is liable for damages caused by acts committed with abuse of controlling powers. | SOEs are required to disclose some relevant information in order to guarantee citizens access to public information. Investors can also check the Investment Budget, and the Bimonthly Expense Report showing information on investment and expenditures.            |

Source: DEST/MP, 2014

<sup>6</sup> Department of Coordination and Governance of State Enterprises in the Ministry of Planning, Budgeting and Management (MP).

<sup>7</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.

| <b>Country:</b><br><b>CHILE</b>  | <b>Policy that defines the role and objectives of state ownership</b>  | <b>Laws to regulate SOEs undertaking public services beyond the generally accepted norm</b>   | <b>Reporting systems in place to allow regular monitoring of SOEs' performance</b>   | <b>Internal audit function monitored by the Board</b>  | <b>Independent external audits based on international standards</b>   |
|--|--|---|--|--|---|
| SOEs' ownership model: centralised   | The government is working on a bill whose objective is defining the role of the State as an owner through the <i>Sistema de Empresas</i> , SEP. SOEs that receive loans from the state will have to carry out performance evaluations. | The State can require SOEs to perform extra tasks through their company bylaws or through specific mandates. SOEs must record them in a separate financial account. The State will compensate for extra costs through resource transfers. | SOEs submit quarterly management reports to the SEP Council. They also submit an annual report, in a non-standardized manner that includes an evaluation of the SOEs mission, statutes and organization, as well as covering areas of transparency and accountability.         | SOEs are required to have internal auditors monitored by the board. They will focus on risk management following the General Internal Audit Council guidelines. The results are examined by the board and the SEP. | SOEs must have an annual external audit carried out by an independent auditing firm following international standards. Auditing companies will be assigned at the shareholders meetings or by the board and SEP. Auditing firms must be changed every four years. |
| <b>Obligation to report to representative bodies on SOE performance?</b>   | <b>Consistent &amp; aggregate reporting on SOEs published annually</b>   | <b>Disclosure of information following international standards</b>  | <b>Disclosure of information on five specific areas<sup>8</sup></b>  | <b>Equitable treatment of all shareholders, including equal access to information</b>  | <b>Listed or large SOEs to report on stakeholder relations</b>  |
| The SEP presents an annual report to the Parliament, giving information about not only SOEs' performance but also about its own performance. | SOEs submit individual annual reports that aren't either standardised or consolidated.   | SOEs must adhere to IFRS. In addition, they submit their financial information to the Superintendence of Securities and Insurance, SVS.   | Points 1 to 3 are included in the SOEs' annual reports. Point 4 is only disclosed in the national budget process. Point 5, transactions involving significant amounts should be reported to SVS. From 2014, boards must report to shareholders any related party transactions. | SOEs that aren't 100% owned by the State follow the same rules in terms of shareholders communications as any other company.   | SOEs are obliged by law to publish on their websites information on its subsidiaries or affiliates, and on all entities that have participation or representation in the SOEs.  |

Source: SEP, 2014.

<sup>8</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.

| <b>Country:</b><br><b>COLOMBIA</b>   | <b>Policy that defines the role and objectives of state ownership</b>  | <b>Laws to regulate SOEs undertaking public services beyond the generally accepted norm</b>  | <b>Reporting systems in place to allow regular monitoring of SOEs' performance</b>  | <b>Internal audit function monitored by the Board</b>   | <b>Independent external audits based on international standards</b>  |
|--|--|--|---|---|--|
| Ownership model: decentralised   | There is not a uniform ownership policy. This is partly due to the fragmentation of a sector in which responsibility is distributed among different ministries without central coordination of their efforts.  | SOEs exist to provide certain goods or services, which the state expects them to produce under market conditions without political intervention beyond what could be exercised by any controlling shareholder. | SOEs are obliged to report and publish general information, depending on whether they are listed or not. Some ministries might demand SOEs to prepare annual performance reports. The MD <sup>9</sup> has developed a platform for reporting and monitoring its SOEs. | SOE's are expected to develop their internal control systems following the Standard Model of Internal Control (MECI). The internal auditor of SOEs under the Financial Superintendence must report to the board, via the audit committee. | <i>A revisor fiscal</i> must be employed by all stock companies. Its duties include signing of financial statements together with the legal representative. This role is not fully equivalent to an independent auditor who audits financial statements. |
| <b>Obligation to report to representative bodies on SOE performance?</b>   | <b>Consistent &amp; aggregate reporting on SOEs published annually</b>   | <b>Disclosure of information following international standards</b>   | <b>Disclosure of information on five specific areas<sup>10</sup></b>  | <b>Equitable treatment of all shareholders, including equal access to information</b>   | <b>Listed or large SOEs to report on stakeholder relations</b>   |
| Ministries compile information about the enterprises for which they are responsible and present it to Congress individually. | Ministries produce information for their SOEs, which is not consolidated. The MHCP <sup>11</sup> has its own system for consolidating financial information (CHIP), which covers all SOEs, and it is updated quarterly and available on its website. | SOEs must apply the Single Accounting Plan of the General Accounting Office. For general accounting purposes, Colombia is in the process of migrating to IFRS, which should be completed by 2015.              | SOEs aren't required to deliver information on these specific areas. Listed SOEs publish performance reports that can be accessed by internet, and that discuss their results not only from a financial perspective.  | Listed SOEs report information to the stock market through the SIMEV <sup>12</sup> , and this is disclosed to all shareholders, including the State, at the same time. Shareholders can also inspect companies' books and papers.         | There is not a general requirement for SOEs to report on stakeholder relations. However numerous listed and not listed SOEs report on a regular basis, adhering to different reporting methodologies.  |

Source: Ministry of Finance, OECD, 2013.

<sup>9</sup> Ministry of Defence.

<sup>10</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.

<sup>11</sup> Ministry of Finance and Public Credit has a system known as Consolidator of Fiscal and Public Financial Information (CHIP).

<sup>12</sup> Financial Superintendence's Integrated Securities Market Information System (SIMEV).

| Country:<br>ECUADOR   | Policy that defines the role and objectives of state ownership  | Laws to regulate SOEs undertaking public services beyond the generally accepted norm   | Reporting systems in place to allow regular monitoring of SOEs' performance   | Internal audit function monitored by the Board  | Independent external audits based on international standards   |
|---|---|--|---|---|--|
| SOEs' ownership model: tripartite   | The <i>Plan Nacional</i> sets up the objectives of state ownership, and includes specific targets. Each SOE develops its own strategic plan including performance indicators to be published on the Internet. | SOEs may be expected to carry out extra tasks, whose costs will be covered by the state, international entities or strategic partners. They will prepare performance reports to be reviewed by the Board and the MRL <sup>13</sup> . | SOEs have an ongoing monitoring and reporting system through a member of the board that would act as representative for the government. They will be written in a context of a board meeting, and will include objectives that will also be monitored by the Board. | There is not an Internal audit function as such in each SOE. Internal audits are done through the <i>Contraloría General del Estado</i> .   | Independent external audits are carried out in the case of those SOEs that use the Information System Security Office (ISSO).  |
| Obligation to report to representative bodies on SOE performance?                                 | Consistent & aggregate reporting on SOEs published annually   | Disclosure of information following international standards  | Disclosure of information on five specific areas <sup>14</sup>  | Equitable treatment of all shareholders, including equal access to information  | Listed or large SOEs to report on stakeholder relations  |
| A delegate from the government is responsible for reporting to the Congress on SOEs' performance. | Annual aggregated performance reports are presented to the line minister, the coordinator and the general public.   | SOEs aren't obliged to adhere to international standards for accounting.   | According to the law on Transparency and Access to Information, companies, including SOEs must disclose information on all the five points mentioned.   | The Boards of SOEs that aren't 100% owned by the state must comply with the communication requirements dictated by the <i>law on Transparency and Access to Information</i> on shareholders disclosure. | The Boards of SOEs that aren't 100% owned by the state must comply with the communication requirements dictated by the law on Transparency and Access to Information on stakeholder relations. |

Source: Secretaría Nacional de Planificación y Desarrollo, 2014.

<sup>13</sup> Ministerio de Relaciones Laborales

<sup>14</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.

| <b>Country:</b><br><b>MEXICO</b>  | <b>Policy that defines the role and objectives of state ownership</b>   | <b>Laws to regulate SOEs undertaking public services beyond the generally accepted norm</b>   | <b>Reporting systems in place to allow regular monitoring of SOEs' performance</b>   | <b>Internal audit function monitored by the Board</b>   | <b>Independent external audits based on international standards</b>  |
|---|---|---|--|---|--|
| SOEs' ownership model: decentralised  | There is not a standard ownership policy. Sectorial programs are created by each ministry based on the National Development Plan. <i>They will contain</i> the objectives and strategies for SOEs.          | Special tasks require authorization from various bodies like the SOE's Board or the sector's ministry. Budget adjustments are made by Secretaría de Hacienda y Crédito Público, SHCP, to cover costs. | All SOEs must provide quarterly performance reports. As well as supply information to be integrated in the SHCP's annual Tasks and Finance reports, and in the annual performance report to be presented to the Presidency. Reports need the approval of the SOEs' boards. | The Internal Audit function is carried out by the SOE's <i>Organo Interno de Control</i> that reports to the <i>Secretaría de la Función Pública</i> , SFP. The <i>Secretaría</i> will appoint a Public Commissioner for each SOE responsible for reviewing performance <sup>15</sup> . | There is no obligation to carry out external audits based on international standards. Although the most important SOEs, like PEMEX and CFE and the Development Banks, would normally undertake this type of audit. |
| <b>Obligation to report to representative bodies on SOE performance?</b>  | <b>Consistent &amp; aggregate reporting on SOEs published annually</b>  | <b>Disclosure of information following international standards</b>  | <b>Disclosure of information on five specific areas<sup>16</sup></b>   | <b>Equitable treatment of all shareholders, including equal access to information</b>   | <b>Listed or large SOEs to report on stakeholder relations</b>   |
| The Executive, with help from the Federal Audit Office, submits an annual report to the Congress; as well as quarterly reports covering SOEs among other subjects. PEMEX presents its own special report to the Congress. | Information on SOEs can be found in a non-aggregate manner in the annual Federal Public Treasury Report which is prepared by the SHCP. The information is published on the SHCP and the Congress' websites. | SOEs aren't subject to international standards. PEMEX and CFE comply with bodies like the US Securities & Exchange Commission, and the National Banking and Securities Commission.                    | There is no obligation to disclose on these areas. A risk management system designed by the SFP requires the preparation of certain documents to be distributed to Boards and SFP's members. This information is provided to anyone requesting it.                         | There are no SOEs with private shareholders in Mexico.  | Public entities must publish all contracts signed with suppliers. SOEs might be required to report on stakeholders relations by the financial authorities if they participate in the debt market.                  |

Source: Secretaría de Hacienda y Crédito Público, 2014

<sup>15</sup> PEMEX, CFE and the Developments Banks have their own regimes.

<sup>16</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.

| <b>Country:<br/>PARAGUAY</b>   | <b>Policy that defines the role and objectives of state ownership</b>   | <b>Laws to regulate SOEs undertaking public services beyond the generally accepted norm</b>   | <b>Reporting systems in place to allow regular monitoring of SOEs' performance</b>   | <b>Internal audit function monitored by the Board</b>  | <b>Independent external audits based on international standards</b>   |
|--|---|---|--|--|---|
| SOEs' ownership model: centralised   | The <i>Consejo Nacional de Empresas Públicas</i> , (CNEP) is in charge of the SOE ownership function. It created the DGEP <sup>17</sup> which is developing a strategic plan for SOEs to follow during the next four years. The government also sets short term objectives. | SOEs have their roles and objectives stated in their constitutional laws when they are 100% owned by the State; or in their bylaws, if they are only partly owned. They don't have to undertake any obligations beyond those. | The DGEP created standard management contracts for SOEs that run for a period of three years, and that measure qualitative and quantitative goals against performance indicators. An on line monitoring mechanism created by the CNEP allows regular SOEs' evaluation. | SOEs must have an internal audit department that will report to the principal authority of the entity.   | Most SOEs must be externally audited by independent audit firms following international standards. The DGEP reviews the external audit reports, and publishes them in the Ministry of Finance's website. The <i>DGEP</i> monitors that the recommendations made are followed. |
| <b>Obligation to report to representative bodies on SOE performance?</b>   | <b>Consistent &amp; aggregate reporting on SOEs published annually</b>  | <b>Disclosure of information following international standards</b>  | <b>Disclosure of information on five specific areas<sup>18</sup></b>   | <b>Equitable treatment of all shareholders, including equal access to information</b>  | <b>Listed or large SOEs to report on stakeholder relations</b>  |
| SOEs' budgets are part of the general budget submitted annually by the MF to the Congress for approval. SOEs are also reviewed by the Internal Audit and General Audit offices, and the General Comptroller. | The DGEP creates quarterly reports. The last quarterly report is considered the annual report because it includes all the information for that financial year. These reports are published on the DGEP's website.   | SOEs must adhere to IFRS, and their audit results are made available to the general public.   | As well as reports published on quarterly and annual basis, the SOE's CEO or Board can communicate directly with the public on issues that affect the company. SOEs that aren't under the National Budget must give information on financial and budgetary aspects.    | All SOEs have the same rules in terms of communication. They are supervised by the CNEP which has the responsibility to establish fluid communication channels that allow the disclosure of information. | The board of directors is required by law to provide certain information (not specified).   |

Source: World Bank 2013, Ministerio de Hacienda de Paraguay, 2014

<sup>17</sup> Dirección General de Empresas Públicas.

<sup>18</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.

| <b>Country:</b><br><b>PERU</b>  | <b>Policy that defines the role and objectives of state ownership</b>   | <b>Laws to regulate SOEs undertaking public services beyond the generally accepted norm</b>   | <b>Reporting systems in place to allow regular monitoring of SOEs' performance</b>  | <b>Internal audit function monitored by the Board</b>   | <b>Independent external audits based on international standards</b>   |
|---|---|---|---|---|---|
| SOEs' ownership model: centralised  | FONAFE is the public body that over sees and directs SOEs. Each SOE develops and implements its individual strategic plans that must be in line with its sectoral objectives, and with FONAFE's strategic corporate plan. | By law SOEs can be requested to fulfil a "special commission". SOEs will be assigned the necessary financial resources. These operations will be treated differently in the SOEs accounts. FONAFE will monitor the finances of these special commissions. | SOEs issue monthly and quarterly financial and budgetary reports through SIS-FONAFE <sup>19</sup> . They also report annually on the achievement of targets included in their strategic plans. SOE's General Management reports periodically to its Board on financial, budgetary and performance issues. | Only SOEs in the financial sector are obliged to have an Internal Audit Unit and Committee. Other SOEs have started to make their own self assessments through the Internal Control System (ICS), a methodology approved last year by FONAFE. | SOEs must be audited by independent external auditors using international standards. These independent auditors are selected through a process conducted by the national General Comptroller (CGR). |
| <b>Obligation to report to representative bodies on SOE performance</b>   | <b>Consistent &amp; aggregate reporting on SOEs published annually</b>  | <b>Disclosure of information following international standards</b>  | <b>Disclosure of information on five specific areas<sup>20</sup></b>  | <b>Equitable treatment of all shareholders, including equal access to information</b>   | <b>Listed or large SOEs to report on stakeholder relations</b>  |
| FONAFE reports annually to the Congress' Budget Commission in order to present, and if needed, justify the results for the fiscal year. It also introduces the consolidated budget for the next financial year. | FONAFE prepares a quarterly corporate management report which is published on its website. They also give every year a presentation to the Congress on the financial, budgetary and strategic assessment of SOEs.         | All SOEs will adopt IFRS by the end of 2014.  | Information related to points 1, 2 and 5 is disclosed on the SOEs' website. Point 3 can be found on FONAFE's website. In relation to point 4, SOEs don't receive any subsidies or guarantees from the State.  | SOEs have on their website a "shareholders" button that provides financial information as well as details on meetings' dates and agendas, and that is updated quarterly. This compliance is monitored through an annual report.               | FONAFE's website provides access to consolidated, relevant information on the management of enterprises. SOEs also include a transparency portal that provides access to similar information.       |

Source: FONAFE, 2014.

<sup>19</sup> FONAFE's Information System.

<sup>20</sup> 1. A clear statement to the public of the company objectives and their fulfilment. 2. The ownership and voting structure of the company. 3. Any material risk factors and measures taken to manage such risks. 4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE. 5. Any material transactions with related entities.



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