Summary Record

The 2011 Meeting of the
Latin American Network on Corporate Governance of State-Owned Enterprises

8-9 September, 2011

Bogotá, Colombia

Auditorium of the Federación Nacional de Cafeteros de Colombia – Cll. 73 No. 8-13

Co-host
Gobierno de Colombia

With the support of:

Background

The OECD and the CAF Latin American Development Bank co-organized the first meeting of the ***Latin American Network on Corporate Governance of State-Owned Enterprises,*** which was hosted by the Government of Colombia, with the support of the Spanish Government. More than 100 participants from 13 countries (**Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Finland, France, Mexico, Peru, the United States and Venezuela**) attended the meeting, including mainly representatives of government policy ministries and ownership entities, state-owned enterprises and international and regional organizations.

The objective of the *Network* is to enhance SOE governance in Latin America through an ongoing exchange of experience and knowledge on SOE governance policies, practices and reforms, using the OECD Guidelines on Corporate Governance of State-Owned Enterprises as the main conceptual framework for discussion. This document presents a brief Summary Record of the main points made on each of the presentations that took place during the meeting.

8 September, 2011	DAY 1
	Welcoming Words

Speakers:

Mr. Juan Carlos Echeverry, Minister of Finance and Public Credit, Colombia

Mr. Echeverry highlighted the fact that the government led by President Juan Manuel Santos is the first to explicitly establish "Good Governance" as a key pillar of its agenda, underscoring the importance of solid institutions and good professionals running them. . The interpretation of "Good Governance" applies to the functioning of the State on every level, certainly including the governance of SOEs. He also mentioned that nowadays the old dichotomy between the State and the market has become more blurred, and that pragmatism allows governments to locate themselves somewhere in the middle between these two extremes, and to have "Good Governance" in the process. He cited the successful examples of ISAGEN, Ecopetrol and EPM (three Colombian SOEs). He stressed the fact that every time he attends a board meeting of Ecopetrol he automatically changes roles, from Minister of Finance to board member of a company that aims to maximize its value. Finally, he mentioned that there are certainly many challenges, as the Casa Telecom case illustrates.

Ms. Catalina Crane, High Counselor for Public and Private Management, Colombia

Ms. Crane focused on the working relationship that the Government of Colombia intends to have with the OECD. Just as Minister Echeverry outlined in his opening remarks, Ms. Crane highlighted the importance that the Santos Government has given to "Good Governance", and how they want to make use of the OECD as a partner to achieve this objective. She mentioned that the Colombian Government has the objective of obtaining full membership to the OECD, both as a symbol of how the country improves, and as a way to have available the technical cooperation that a world class think tank can provide. In addition, she emphasized that the accession process is as important as an eventual accession itself, because the process helps the Colombian authorities and institutions to analyze and improve the governance practices the country has in place. Also, accession would ultimately provide a seal of approval of the functioning of the State. They see the OECD not as a "club of rich counties" but rather as a "club of counties with good practices". Finally, she pointed out that the current process is not a formal accession process yet, and that the whole process takes years.

Mr. Hans Christiansen, Manager, OECD Working Party on State Ownership and Privatisation Practices, OECD Corporate Affairs

Mr. Christiansen addressed the attendees briefly. He underscored the fact that although the OECD is based in Paris and is member-based, its agenda is global. He described some of the key characteristics of the *OECD Guidelines on Corporate Governance of State-owned Enterprises*, noting that they are a consensus-based instrument and the OECD member countries only have to formally associate themselves with the Guidelines' recommendations.

Mr. L. Víctor Traverso, Director in Colombia, CAF

Just like Mr. Christiansen, Mr. Traverso had a short welcoming speech. He emphasized the overall importance of the meeting for the improvement of SOE practices in Latin America. In an attempt to contextualize the existence of SOEs, he recalled President Santos' 1999 book about a third way, which had the participation of former United Kingdom's Prime Minister Tony Blair. President Santos' understanding of what a third way is can be summarized by his quote: "The market as much as possible, the State as much as needed".

<u>Session 1</u>: *SOE Governance Landscape in Latin America: Current SOE policy priorities*

Moderator:

Mr. Daniel Blume, Senior Policy Analyst, OECD Corporate Affairs

Speakers:

Mr. Michael Penfold, Director of Public Policy and Competitiveness, CAF

Mr. Penfold observed that SOEs are very important for the economies of Latin American countries, notwithstanding the political tendencies of the different governments of the region. Hence the importance of not politicizing good governance within SOEs and considering that good corporate governance contributes to a more efficient use of resources and greater transparency. He stressed that any reform of SOEs' governance that may be undertaken has to consider the heterogeneity of the regulatory framework and legal structure of these companies. In addition, such a reform effort would have to be undertaken with real support from the owner (i.e. the State) and SOE management. In line with the important role of SOEs in the region, he noted that SOEs have been frequent issuers of debt and equity financial instruments, highlighting their importance in regional capital markets. In his remarks, he mentioned that in the region corporate governance challenges are common, and not only within SOEs, but also in the private sector. He noted a potential problem that may arise given the state-owned nature of SOEs: to some degree, a phenomenon of dilution into many activities may take place as a result of a potential lack of clarity about who within the government should exercise the property rights of the SOEs. Therefore, it is crucial for governments to develop a clear ownership policy for SOEs. In addition, he mentioned that this should not be considered an ideological issue and that changes in SOEs' governance should be gradual and incremental.

Mr. Luis Guillermo Vélez, Superintendencia de Sociedades, Colombia

Mr. Vélez provided an overview of the different types of SOEs that exist in Colombia (national, regional and municipal). He focused on two types of SOEs: those that are 100% owned by the State (the "Empresas industriales y comerciales del Estado") and those that have both public and private capital (the "Sociedades de economía mixta"). The Superintendencia de Sociedades supervises only the SOEs from the latter group, and only when the State stake is below 90%. He outlined the main corporate governance characteristics of Colombian SOEs. These include the clear distinction between the regulatory and ownership roles of the State, the existence of competitive neutrality provisions, the lack of clear separation between economic and public policy goals, the heterogeneity of legal structures, the lack of specific provisions for SOEs regarding the protection of minority shareholders, the lack of a unified insolvency regime, and the lack of a centralized ownership entity. Mr. Vélez was particularly concerned with the fact that the reporting standards are not based on the International Financial Reporting Standards (IFRS). Finally, he presented a corporate governance failure case in Colombia, that of the Fondos Ganaderos.

Mr. Juan Munguira, Legal Adviser, Capital Markets Authority, Spain

Mr. Munguira stressed the support of good governance in Latin American SOEs. He outlined his understanding of what corporate governance is: an equation with transparency, financial statement comparability, accountability and independent board members. He emphasised the importance of transparency on every level of an organisation as a way to reach sound corporate governance, in this case, of SOEs. He brought up the need to grant autonomy to and modernize, based on efficiency and excellence criteria, the managing of SOEs. Additionally, he recommended the application of independence and professionalism criteria in defining the composition of the different corporate bodies. Finally, he suggested that an annual Corporate Governance Report is of the utmost importance and almost of the same relevance as financial statements.

Mr. Alejandro Díaz, Economy, Production and Federal Planning Supervisory Manager, SIGEN (Auditor General), Argentina

Mr. Díaz provided a detailed description of how the SOE ownership and oversight is structured and organised in Argentina. He pointed to three independent powers that play a role in state ownership: the legislative power (to which the SOEs' external control body reports), the judicial power, and the executive power, which appoints SOE board members. Three company organs with specific powers contribute to a balance of roles: the government as shareholder (involving meetings with state representatives' attendance); the administrative body (boards), and the audit control body (the "Sindicatura General de la Nación", SIGEN). The SIGEN has different functions, including supervision and co-ordination of internal audits, oversight (comptrollers), and assurance of compliance with rules and regulations. SIGEN has developed Minimum Standards on Internal Control for Good Corporate Governance of SOEs, which are similar to those governing the Transparency Regime for public tender offers. SOEs have Audit Committees which are responsible for addressing specific corporate governance issues such as handling of conflicts of interest, related party transactions, internal control, external control, financial statements, behaviour standards, risk management and compliance with certain regulations related to shares issuance. This is performed with great participation of SIGEN, especially regarding internal control and internal audit units. As far as internal audit is concerned, SIGEN oversees planning, compliance, the enforcement of recommendations and the evaluation of the internal control system.

The State has a decentralized ownership structure for both fully and majority-owned SOEs, and a centralized one for those enterprises with minor State participation. Broadly speaking, the legal form adopted for government enterprises is the same as that for private ones except for some prerogatives regarding deficits, e.g. when SOEs have the responsibility of executing social public policies in non-profit areas. Mr. Diaz highlighted the need to create a Corporate Governance Code for State Enterprises and strategic planning and comprehensive risk management practices as forthcoming challenges to improve corporate governance of SOEs.

Mr. Darío Luna, Advisors Coordinator, Viceministry of Finance and Public Credit, Mexico

Mr. Luna suggested the need to think about the *OECD Guidelines on Corporate Governance of SOEs* more like general principles than strict recommendations to be followed. He outlined a general and simplified description of the types of profit-making SOEs that are present in Mexico. The two most important are the non-equity SOEs (e.g. Pemex) which are governed by boards and that have a focus on strategy and developing priority sectors and services, and the majority-owned equity SOEs (e.g. development banks) which are governed by boards that observe minority rights and that have a focus on strategy and facilitating market development. A third type of profit-making SOE is the public trust funds (e.g. Infrastructure Fund), which are governed by technical committees and that have a focus on procedures to disburse credit, guarantees or non-refundable grants. Within the legal framework, there is an established "pecking order" to determine applicable law. Most aspects of corporate governance accountability and transparency are covered but, unfortunately, the framework is complex and may generate rigidities. Regarding Pemex, he mentioned steps for its corporatization which started in 2008, including improving the role of the board, attracting investors and aligning operational and profitability objectives.

Session 2: ***Developing the state's ownership strategy and ownership role: different approaches (centralised, co-ordinated or de-centralised)***

Moderator:

Mr. Leonardo Villar, Vicepresident, CAF

Speakers:

Mr. Arto Honkaniemi, Senior Financial Counsellor, Prime Minister's Office, Finland

Mr. Honkaniemi presented the structure of state ownership and ownership steering in Finland. He pointed out that currently the State is a significant shareholder in 60 companies, all of the same corporate form under the Companies' Act. Forty of these operate under market terms in a competitive business environment under the administration of the Ownership Steering Department, while 20 of these companies perform special tasks of the State, often with a monopoly position, under the administration of several Ministries. The State ownership policy is characterized by a strict separation between ownership and management, no political involvement, no political recruitments, and no politicians on boards, a centralised ownership steering of companies operating on market terms, an active and pragmatic, market-oriented policy, and an attempt to be as transparent as possible. In terms of company boards, the State does not interfere in board decision-making, the board is responsible for the strategic guidance of the company, monitoring management, and the appointment and dismissal of the CEO. Board members shall have the necessary authority and competences, generally there is no employee representation, there are no executive directors, there is a target of at least 40 % women, and remuneration of board members shall be sufficient to attract good candidates. For the companies operating in the market, the policy target is to be profitable and provide dividends to the government. As for the companies that perform special tasks of the State, their objective is to provide social results.

Mr. Mario Gonzales, Executive Director, Corporación FONAFE, Perú

Mr. Gonzales presented a detailed overview of what FONAFE is and how it is organized. FONAFE is a holding company of the Peruvian State created in 2000 that holds the latter's political and economic rights over a collection of SOEs. Its board is comprised of 5 cabinet members and it has 58 employees. Its main tasks are conducting the State's business activities, managing the incomes that SOEs generate, and approving the consolidated budget of its SOEs. FONAFE tries to align the strategic planning of its SOEs with its own, as well as with the State's strategy. Interestingly, FONAFE has an inner unit that settles controversies that arise between FONAFE companies to avoid lawyer fees (the settlements wash out). Two challenges FONAFE faces are the addition of independent board members and benefiting from market discipline through the inclusion of private capital. According to Mr. Gonzales, the advantages of having a holding structure include the identification of a sole owner, the standardization of processes, the transfer of best practices, and the redistribution of resources of the same shareholder. The disadvantages are the perception that some SOEs are relegated, SOEs may shift responsibilities to the holding company, bureaucracy and generalization, and the resources available for the holding company may be limited.

Mr. Hugo Caneo, Legal Counselor, Sistema de Empresas Públicas (SEP), Chile

Mr. Caneo discussed the structure of the corporate governance of Chilean SOEs. The guiding principles of this structure are that SOEs should have good boards composed of teams, not "rock stars," that interests of the company and the owner should be aligned, that board members should have the required background specific to the SOEs industry, and that boards should be held accountable. SOEs should have private sector standards in terms of strategy, efficiency and competitiveness, administrative and financial integrity, and transparency. The importance of social responsibility was also highlighted. SEP, the state SOE's ownership entity, has a council comprised of 9 members, all related to the government. SEP's duties hinge on the rationale that it has developed the expertise to represent the rights of the State as an owner, it can add vision beyond the particular one of each company, it centralizes the monitoring of SOE performance, it can coordinate with sectorial authorities, and it can take advantage of economies of scale.

Mr. Bruce Mac Master, Viceminister of Finance and Public Credit, Colombia

Mr. Mac Master underscored the fact that Colombian SOEs' size is considerable, with Ecopetrol as a prime example. Nevertheless, in the last 20 years the State has "optimized" its SOEs portfolio by selling certain assets while incorporating private capital to others. He mentioned that the question "to have or not SOEs" is rather irrelevant, and that the question to be asked is if they are well managed or not. He identified four motivations for SOEs to exist, which may overlap. These are the provision of public services, the increase of fiscal income, public policy objectives, and the provision of services to the State. The mechanism to decide whether an SOE may be sold is: if its existence is not due to a public policy objective, then a budgetary decision has to be made depending of its relevance for the fiscal health of the country. In Colombia, SOEs are currently managed by means of a decentralized scheme with a budgetary emphasis through the Ministry of Finance, sectoral Ministries and the CONFIS. This scheme has structural problems such as the lack of homogeneous and centralized information, and a tendency to manage the SOEs on budgetary grounds instead of strategic grounds. Among the challenges faced, the improvement of corporate governance practices, the disclosure of more and better information, and the adoption of certain private sector practices were mentioned.

Mr. Israel Fainboim, Fiscal Affairs Department, IMF

Mr. Fainboim discussed the current relevance and ownership models of SOEs. At the international level, although their importance was reduced by the privatizations of the 80s and 90s, SOEs still have a significant presence in many economies, especially in strategic sectors such as energy, utilities, mining and infrastructure, and constitute a noteworthy source of income for governments in many developing countries. SOEs tend to have several problems, particularly in developing countries. For instance, the existence of multiple and sometimes conflicting objectives; the existence of a soft budget constraint (losses will be absorbed by the State budget); limited autonomy (political interference as the government nominates boards composed by politicians, who are not appropriate and are vulnerable to the political cycle); and lack of healthy pressure from shareholders, independent board members and/or capital markets. Nevertheless, there are solutions that have been proposed to address these problems which mainly encompass improving SOEs' governance. For example, clarifying the ownership relationship between the government and the SOE; the government role should be limited to establishing the objectives of the SOE; nominating board members based on merit; monitoring the performance of the SOE and its board; and making SOEs subject to a hard budget constraint. Mr. Fainboim also discussed 4 papers, one from the IMF and 3 from the World Bank, about SOE governance and what they can teach about ownership models (centralized, dual or decentralized).

Session 3: ***Case studies of SOE reforms***

Moderator:

Mr. Michael Penfold, Director of Public Policy and Competitiveness, CAF

Speakers:

Mr. Javier Gutiérrez, CEO, Ecopetrol, Colombia

Mr. Gutiérrez began by briefly describing Ecopetrol, a Colombian oil and gas company with focus in energy and petrochemicals. Its IPO took place in 2007 with a US$2.8b offering and a second offering last month raised US$1.3b. Currently its market cap is in the US$80b vicinity, has approximately 400,000 shareholders and is listed in Colombia, New York, Lima and Toronto. According to Mr. Gutiérrez, corporate governance is an important component of the company's strategic framework. They consider they have practices that guarantee good governance, including a clearly defined governance structure, the implementation of measures (e.g. representation in the board) that guarantee the protection of minority shareholders, a board guaranteed to be composed by a majority of independent board members, the existence of a Corporate Governance Code (in addition to the need to comply with Sarbanes Oxley and other SEC rules), and a statement by the State as a controlling shareholder about the protection of all shareholders. Mr. Gutiérrez stated that these good governance practices develop into a culture of transparency. Ultimately, good governance helps to buildthe trust of different stakeholders and hence facilitates Ecopetrol's goal of achieving financial, environmental and social sustainability.

Mr. Jorge Bande, Board member, Codelco, Chile

Mr. Bande briefly described Codelco and focused on its recent corporate governance reform. The company is the largest copper producer in the world and a fundamental pillar in Chile's public finances. The recent commodities boom and the gradual depletion of its main mines have generated an unprecedented investment challenge for the next few years. The rationale for the recent corporate governance reform (the corresponding law was approved in March 2010) was to turn the company into a state-owned corporation rather than a "government-owned" one, de-coupling its governance from the political cycle, the formation of a professional board with no government officials and broad representation (including workers), the setting up of specific qualifications and incompatibilities for board members, being capable of making decisions with a long-run view, the introduction of mechanisms to ensure adequate capitalization and project funding, and to improve reporting and transparency. In addition, one important issue was to modify the selection process of board members in order to have at least four truly independent directors not selected by the President of the Republic, but by the High Council of Public Direction. Nevertheless, the company still faces many challenges like the fine-tuning of board and management roles, setting up a stable funding and dividend policy, the introduction of a taxation scheme aligned with that of the private sector, and improving the board selection and nomination processes.

Mr. Federico Restrepo, CEO, EPM, Colombia

Mr. Restrepo began by describing the origins of EPM as a city-owned utility, later becoming an international company with investments in different industries. Currently, EPM has investments in electric and water utilities, as well as in telecom, in both Colombia and other Latin-American countries. Mr. Restrepo highlighted the fact that EPM has a sole owner, the city of Medellin, and seeks to generate value for all its stakeholders equilibrating environmental, social and economic issues. EPM views corporate governance and corporate social responsibility as complementary. Regarding their Governance, they aim at complying with OECD's standards while reconciling the complex legal framework the company faces. According to Mr. Restrepo, EPM's Governance is unique due to the company's relationship with its owner, its complex legal framework and the role of citizens on its accountability.

The city of Medellin has three different roles regarding its relationship with EPM: owner, client and policy maker. EPM and the city of Medellin have an agreement that defines their relationship in terms of ownership, management and accountability, functioning as a proxy to regular shareholders meetings. Mr. Restrepo concluded by asserting that EPM's governance brings together its legal framework as a corporation, its legal framework as a city-owned SOE, and good international practices.

Mr. Marco Mastroeni, Managing Director, Banco do Brasil

Mr. Mastroeni discussed Banco do Brasil's current situation, being the largest bank in Brazil with approximately $500 billion in total assets, a 20.9% market share, and 55 million clients. Its mission encompasses not only economic goals but also the promotion of the sustainable development of Brazil. The state currently owns 59.2% of the companys's stock. Banco do Brasil is the only bank listed on Novo Mercado, a listing segment of the Brazilian stock market designed for shares issued by companies that voluntarily undertake to abide by corporate governance practices in addition to those requested by the Brazilian Law. The Novo Mercado listing requirements are centered on transparency, accountability and equitable treatment of shareholders. For instance, they require having a capital stock solely represented by common shares, 100% tag along rights, disclosure of financial statements according to US GAAP or IFRS, and maintenance of a 25% minimum free float. In terms of upcoming challenges, Mr. Mastroeni identified the creation of the internal controls required to comply with Sarbanes-Oxley arising from the 2009 launch of a Level 1 ADR on the US stock market, and also the strengthening of management and risk governance practices arising from the implementation of Basel II and III.

Mr. Humberto Campodónico, Chairman of the Board, Petroperu

Mr. Campodónico's presentation focused on good governance and the enhanced role that Peru's new government, led by President Humala, wants to give to Petroperu. According to Mr. Campodónico, the current Administration has granted its SOEs a more prominent role in the economy. He stated that the government is aiming at developing competitive and efficient SOEs through the improvement of their corporate governance, including their listing on the Peruvian stock exchange. He highlighted that this represents a change with respect to 1993's Constitution, which is still in place and gives the State a subsidiary role. He stressed that although in the last decade some efforts had been undertaken to give Petroperu a more prominent role, these had been futile. Since 2008, a process towards good governance has begun. This process included a technical support agreement with CAF and the registration of Petroperu's B shares on the Peruvian stock exchange. This registration implies that Petroperu has to comply with certain good governance principles that apply to all Peruvian companies, and in 2010 Petroperu's board approved a good governance code. Concluding, Mr. Campodónico recognized that there are many areas for improvement, including establishing processes for the nomination of the Board that give long-term continuity to the policies established by the incumbent Board.

9 September, 2011	DAY 2
<u>Session 4</u>: *Achieving Effective SOE Boards: nomination/selection/evaluation*	

Moderator:

Mr. Andrés Oneto, Executive, Direction of Public Policy and Competitiveness, CAF

Speakers:

Mr. Hans Christiansen, Senior Economist and Manager of OECD Working Party on SOEs

Mr. Christiansen addressed the role of the Board of Directors in the governance of SOEs through the lens of the OECD Guidelines on Corporate Governance of SOEs. Regarding the Guidelines, he stressed that these are consensus- based, non-binding, complementary to the OECD Principles of Corporate Governance, and do not preclude or propose privatization policies. He mentioned that the Guidelines' philosophy is to make SOE managers as accountable to their owners as managers of private companies are. Among the Guidelines' priorities, Mr. Christiansen mentioned the improvement of transparency of SOEs' objectives and performance and the strengthening and empowering of SOE boards. When the State acts as an owner, it should let SOE boards exercise their responsibilities and respect their independence. In terms of the responsibilities, the Board should have a clear mandate and ultimate responsibility for the company's performance and should act according to objectives set by the ownership entity. Also, Mr. Christiansen mentioned that the board should have the power to appoint and remove the CEO and should be composed so that it can exercise objective, independent judgement. He also emphasized that specialized board committees should be considered, and that the board should be subject to an annual board evaluation. Finally, he noted that an OECD best practices guide for boards is under development and will be discussed first time in the first half of 2012.

Ms. Ione Tereza A. M. Heilmann, General Coordinator of Corporate Administration of SOEs, Ministry of Planning, Budget and Management, Brazil

Ms. Heilmann talked about employee representation in the boards of Brazilian SOEs. According to Ms. Heilmann, the justification to have such employee presence arises from a stakeholder-oriented theoretical model in which the interests of shareholders must be balanced with those of other stakeholders, because both are equally important for the long-term sustainability of companies. In terms of the rules for the participation of employees, the Brazilian legal framework establishes, among other things, that the choice of the representative shall be by direct vote of his peers and may only be re-elected once. Also, the representative shall be subject to the same criteria and requirements applicable to all board members, established in law and in the company's bylaws. Certainly the presence and influence of such employee representation is limited and subject to certain requirements. For instance, the central government maintains the majority on the Boards, and the representative of the employees cannot participate in meetings where issues subject to conflicts of interests are dealt with such as employee remuneration, must be competent and must have the time to fulfill his responsibilities. Ms. Heilmann outlined that the expected benefits are an increased plurality of views, a greater likelihood of success in major decisions, and a greater chance of implementing bottom-up policies.

Mr. Alfredo Ibarguen, IAAG Consulting, Spain

Mr. Ibarguen addressed how to achieve effective SOE boards and identified the controlling shareholder, the State, as the key player that determines, and ultimately chooses, how effective the SOE board is. He mentioned that many weaknesses present on SOE boards are not a responsibility of the board itself but rather of the owner. Among such weaknesses he identified are excessive discretion accompanied with undemanding requisites when nominating board members; legal frameworks that provide "negative incentives" (e.g. non-market compensation, sizeable and uninsured personal liabilities) to attract qualified candidates; changes in the electoral cycle; and inappropriate influence in determining management positions. Mr. Ibarguen stated distinct manifestations of agency problems that affect the optimal functioning of an SOE board, including when the owner bypasses the board and deals directly with management, and when an empowered management team hijacks the functions of a weak board. According to Mr. Ibarguen, the main determinants of the degree of efficiency of a board are its composition, functions, dynamics and evaluation. Regarding the board composition, the nomination and selection process has to be formal and transparent, and it should incorporate the identification of the skills that are needed within the board, and the fulfillment of the suitability principle for candidates.

Mr. Germán Arce Zapata, General Director of Public Credit and National Treasure, Ministry of Finance and Public Credit, Colombia

Mr. Arce described the landscape of SOEs in Colombia. He underlined that within the 146 SOEs that currently exist in Colombia, it is common for people to highlight the most known and most successful governance cases such as Ecopetrol, ISA and Isagen, and not address the challenges that the great majority of other Colombian SOEs face. Mr. Arce mentioned some of the challenges he considers it is imperative that are addressed, including equilibrating the need to enhance the ownership function within SOEs with the needs that certain ministries have inside their scope of influence. Another challenge he brought up is balancing the goals of Colombia's capital, Bogota, with those of other Colombian regions. Mr. Arce ended his presentation by stressing the fact that often it is very difficult to explain and convince certain interested parties the merits of public policies even though these may be reasonable and desirable, difficulty that in turn makes its application complex in itself.

Closing session: ***Concluding Session and Priorities for Reform***

Co-Moderators:

Mr. Daniel Blume, Senior Policy Analyst, OECD Corporate Affairs

Mr. Michael Penfold, Director of Public Policy and Competitiveness, CAF

Speakers:

Mr. Miguel Mora, Senior Advisor, Ministry of Economy and Finance, Spain

Mr. Mora noted the Spanish government's support of the SOE Network and that it was an honor to participate in this initiative. He emphasized that it is complicated to limit the discussion about SOEs only to technical issues, as there is a lot of politics involved in SOEs and some decisions about SOEs are inherently political. He said that he was not embarrassed to declare that he favored the existence of SOEs. He manifested his desire to witness more critical analysis in Meetings of this nature. For instance, regarding independent board members, he would like to observe more clarity in terms of what independence means and specifically from whom. Still in terms of format, he said that the attendees need more preparation between meetings, and that there should be more discussion among participants and fewer descriptions of issues.

Mr. Bruce Mac Master, Viceminister of Finance, Colombia

Mr. Mac Master built on the debate previously proposed by Mr. Mora. He distinguished between what he defined as a more philosophical discussion about the role of the State in the economy, and a more technical discussion about details and policy recommendations. He mentioned that beyond origins, SOEs exist and it is the duty of policy makers to address their weaknesses, as well as attempt to fulfill satisfactorily the role that the government has defined for such companies. He made a distinction between those SOEs that have a mandate comparable to a private company and those SOEs with a public policy mandate. He stated that he was not afraid to declare that it is okay to have an SOE with the goal to provide the State with financing, as in the case of Ecopetrol in Colombia.

Ms. Silvana Vallejo, MCPEC, Ecuador

Ms. Vallejo mentioned that one of the main tasks that policy makers face in Latin America is achieving a sound governance model for SOEs. She noted that many different models exist – including mixed ownership as well as 100 percent state ownership, and centralized versus decentralized models of ownership – and that each country will have to look at and adapt its model to its own circumstances. She underscored the importance of SOEs in the implementation of public policies. As an example, she brought up the case of strategic industries, which according to Ms. Vallejo need to have the presence of SOEs in order to ensure that the interests of the nation are looked after. She stressed the overall significance of ethics, in terms of four areas that affect the operation of SOEs: the legitimacy of the SOE itself, the existence of corporate social responsibility, respect for the environment, and the general well-being of the employees. Ms. Vallejo concluded by suggesting that Latin America has to strengthen the role of the State in the economy.

Mr. Michael Penfold, Director of Public Policy and Competitiveness, CAF (co-moderator)

Mr. Penfold discussed briefly two main topics. He first mentioned that ignoring SOEs had been a policy mistake in the recent past in Latin America. He said that whether or not we approve of their existence, SOEs are very important and play a significant role in most of the Latin American economies. Mr. Penfold stressed that beyond the different origins of SOEs and the different motivations for their existence, policy-makers have the responsibility to make sure that SOEs are managed properly, including the structuring of their corporate governance. Concerning the distinction made by previous speakers between a more technical discussion of how SOE governance could be improved versus the broader philosophical discussion of the role of the state in the economy, he suggested the Network could perhaps add greater value in building consensus on the technical analysis.

Mr. Daniel Blume, Senior Policy Analyst, OECD (co-moderator)

Mr. Blume agreed that from an OECD perspective, which bases its actions on consensus, trying to build agreement on privatization and the role of the State in the economy was not a realistic objective for the Network, given the diverse perspectives on these issues. However, he suggested that the Network could undertake research, policy dialogue and seek to build consensus on key issues of interest that had been highlighted during the meeting, such as how to improve the selection process and functioning of SOE boards, and how to build ownership strategies that effectively address the State's commercial as well as social goals. He also noted the increasing trend in the region to consider partial privatisation of SOEs by listing shares in the stock market, and suggested another element the Network could address are the issues to take into account to ensure good corporate governance under such circumstances. He concluded from comments of speakers and participants that there was wide interest to maintain the Network and prepare for a next meeting in 2012, subject to further consultations with potential host countries.