

PUBLIC  
POLICY AND  
PRODUCTIVE  
TRANSFORMATION  
SERIES

Nº **44**  
/ 2024

# UPDATE TO THE STUDY ON THE EFFECTIVENESS AND STRUCTURE OF BOARDS OF DIRECTORS AT STATE-OWNED COMPANIES IN LATIN AMERICA AND THE CARIBBEAN

**CAF** DEVELOPMENT BANK  
OF LATIN AMERICA  
AND THE CARIBBEAN

# CREDITS

## Update to the study on the Effectiveness and Structure of Boards of Directors at State-Owned Companies in Latin America and the Caribbean

PUBLIC POLICY AND PRODUCTIVE  
TRANSFORMATION SERIES

Public Policy and Productive Transformation consists of a series of documents focused on disseminating experiences and successful cases in Latin America as an instrument for generating knowledge for implementing best practices in business development and productive transformation.

Publisher

**CAF**

This document was prepared by the Technical and Sectoral Analysis Division of the Vice Presidency for the Private Sector

ISBN Complete Work: **978-980-6810-67-9**

Head of the Technical and Sectoral  
Analysis Division

**Juan Carlos Elorza**

Authors

**Andrés Bernal, Andrés Oneto, Edna Correa,  
Yohana Rodriguez**

We would like to thank the representatives of the 111 SOEs that completed the survey on which this study was based and the organizations and individuals who helped to ensure that the questionnaires reached as many companies as possible in the various countries in the region: FONAFE Corporation - Peru, Office of State Participation - Colombia, Governor's office of Antioquia, Ministry of the Economy and Finance - Panama, Ministry of Finance - Trinidad and Tobago, Brazilian Secretariat for the Coordination of State-Owned Companies, Colombian Institute of Corporate Governance, Institute of Corporate Governance - Panama, Brazilian Institute of Corporate Governance, Association of Corporate Secretaries of Latin America - ASCLA, FEPCMAC - Peru, Jose Antonio Felipa, Marta Viegas, Allan Binns, Paola Andrea Escobar, Eloína Díaz, Janessa Castillo, Danilo Gregorio, and Ana Lucia Pinto.

The contributions and comments of Catalina Rojas, Jose Gomez Zorrilla, Enrique Diaz, Catalina Zea, Héctor Lehuede and Jorge Echeandia are gratefully acknowledged.

The ideas and proposals contained in this edition are the sole responsibility of their authors and do not compromise the official position of CAF.

Graphic design

**Gatos Gemelos**

Assembly and diagramming

**Claudia Parra Gabaldón**

The digital version of this publication can be found at: [scioteca.caf.com](http://scioteca.caf.com)

Second edition

© 2024 Corporación Andina de Fomento.

All rights reserved

# CONTENTS

① INTRODUCTION AND  
CONTEXT OF THE UPDATE

PAGE 08

② ABOUT THIS STUDY

PAGE 13

### III CONSOLIDATED RESULTS OF THE STUDY ANALYSIS BY SUBJECT

HOW DOES ONE READ  
THE RESULTS?

PAGE 17

- 1. Makeup and independence  
of the Boards of Directors**
- 2. Participation of women on Boards  
of Directors**
- 3. Nomination, election, and  
re-election**
- 4. Length of tenure**
- 5. Frequency and length of meetings**
- 6. Focus of the Board of Directors**
- 7. Committees**
- 8. Induction and training**
- 9. Evaluation of the Board  
of Directors**
- 10. Remuneration**

### IV CONCLUSIONS

PAGE 56

# INDEX OF GRAPHS

|                                                               |         |                                                                               |         |                                                                                                             |         |
|---------------------------------------------------------------|---------|-------------------------------------------------------------------------------|---------|-------------------------------------------------------------------------------------------------------------|---------|
| <b>GRAPH 1</b><br>Participation by country                    | PAGE 14 | <b>GRAPH 10</b><br>Nomination process for Independent and External Directors  | PAGE 26 | <b>GRAPH 19</b><br>Committees that can make decisions                                                       | PAGE 40 |
| <b>GRAPH 2</b><br>Participation by sector                     | PAGE 15 | <b>GRAPH 11</b><br>Consecutive terms for which reelection is allowed          | PAGE 27 | <b>GRAPH 20</b><br>Board of Directors that do induction                                                     | PAGE 41 |
| <b>GRAPH 3</b><br>Ownership structure                         | PAGE 15 | <b>GRAPH 12</b><br>Length of tenure by type of member                         | PAGE 29 | <b>GRAPH 21</b><br>Induction topics                                                                         | PAGE 42 |
| <b>GRAPH 4</b><br>Ownership by type of State shareholder      | PAGE 16 | <b>GRAPH 13</b><br>Frequency and length of Board of Director meetings         | PAGE 31 | <b>GRAPH 22</b><br>Board of Directors that do training                                                      | PAGE 44 |
| <b>GRAPH 5</b><br>Participation of SOEs in the capital market | PAGE 16 | <b>GRAPH 14</b><br>Level of involvement of the Boards of Directors by subject | PAGE 34 | <b>GRAPH 23</b><br>Emphasis during last year's training sessions and other topics that are part of training | PAGE 45 |
| <b>GRAPH 6</b><br>Distribution of number of members by range  | PAGE 18 | <b>GRAPH 15</b><br>Appointments and removals made by the Board of Directors   | PAGE 36 | <b>GRAPH 24</b><br>Frequency of training                                                                    | PAGE 46 |
| <b>GRAPH 7</b><br>Percentage by each type of member           | PAGE 19 | <b>GRAPH 16</b><br>Percentage of Boards that have Committees                  | PAGE 37 | <b>GRAPH 25</b><br>Boards of Directors being evaluated and evaluation methodology                           | PAGE 48 |
| <b>GRAPH 8</b><br>Period for which the Directors are elected  | PAGE 24 | <b>GRAPH 17</b><br>Number of members on the Committees                        | PAGE 38 | <b>GRAPH 26</b><br>Evaluation methodologies and frequency of evaluation                                     | PAGE 50 |
| <b>GRAPH 9</b><br>Responsible for electing Board members      | PAGE 25 | <b>GRAPH 18</b><br>Committees of the Board of Directors                       | PAGE 39 | <b>GRAPH 27</b><br>Types of compensation received by Boards of Directors                                    | PAGE 53 |

# PRESENTATION

The expertise generated in various projects over the last few decades has allowed CAF, Development Bank of Latin America and the Caribbean, to become a regional benchmark in the areas of competitiveness, corporate governance, local and business development, and productive inclusion. Thus, the series “Public Policy and Productive Transformation” makes documents designed to disseminate experiences and relevant cases in Latin America available to the various Latin American public and private parties as a mechanism for generating and disseminating knowledge for the implementation of best practices in business development and productive transformation.

In this regard, corporate governance is one of the many instruments available to the institution to reinforce the business fabric while maintaining a long-term vision of inclusion and

sustainability. CAF seeks, through its Corporate Governance Program, to contribute to responsible competitiveness both at the individual level of State-Owned Enterprises and private companies and at the aggregate level with supervisory and regulatory bodies. To this end, the Program develops conceptual and practical tools and disseminates this knowledge in order to raise awareness of the importance this topic has for this region.

Through this publication, CAF intends to continue providing guidelines and recommendations in order to have effective Boards of Directors that will enable improvements in the management of State-Owned Enterprises (SOEs), which, due to the sectors in which they operate and their size, have great relevance in the region’s development policies.

# EXECUTIVE SUMMARY

Understanding the particularities of corporate governance practices of State-Owned Enterprises (SOEs) compared to companies with a private shareholder makeup is essential for identifying areas for improvement in the proper management of these institutions. Special attention should be paid to the Board of Directors, specifically to the mechanisms applied for the selection and continuity of its members as well as to how these collegial bodies operate.

This report highlights the importance of strengthening corporate governance practices in SOEs in Latin America and the Caribbean, especially with respect to the structure and effectiveness of the Boards of Directors of these companies. The study is based on a survey completed by 111 SOEs and updates the 2017 study done by CAF and Governance Consultants.

As is well known, SOEs face particular challenges due to potential political intervention and the high turnover of their Directors that affects their stability and sustainability. However, there have been significant advances in recent years in the adoption of better corporate governance practices including improvements in the selection, training, and evaluation processes for Board members.

These factors have led SOEs to implement more sustainable and responsible strategies and adapt their Boards of Directors to an environment of greater demands from stakeholders, investors, and regulators.

The conclusions underline the need for the State to take a more active and committed role as owner and promote a clear ownership policy and effective governance practices. In particular, they need to foster more technical and independent Boards of Directors who are able to look after the long-term interests and purpose of each of these companies.

In addition, SOEs are advised to continue developing their own internal mechanisms to ensure the professionalization of the Boards of Directors and to foster stability in upper management in order to minimize the effects of political changes and maximize their value in the long term.

*Key words:* Corporate governance, state-owned enterprises, SOEs, Latin America and the Caribbean, Board of Directors, State ownership.

## SECTION I

# INTRODUCTION AND CONTEXT OF THE UPDATE

As mentioned in the latest updates in both the “Guidelines for Good Corporate Governance of State-Owned Enterprises” (2021) <https://scioteca.caf.com/handle/123456789/1791> and in the “Guidelines for a Latin American Code of Corporate Governance” (2023) <https://scioteca.caf.com/handle/123456789/2240>, the Board of Directors<sup>1</sup> is the main actor in the corporate governance of any company since it is the body responsible for the management and control of the organization.

In practice, the Board of Directors is an exclusive place for prospective conversations with a long-term strategic vision within the organization in addition to generating the appropriate conditions for the company’s governance system to clearly separate the areas of ownership, direction, and management for the benefit of a healthy system of checks and balances. In this respect, the suitability of the Board of Directors as a management body is based on its character as a collegial body with an appropriate combination of profiles on the effectiveness of its decision-making processes and on its ability to best represent the interests of not only the shareholders or owners, but also the various stakeholders (financiers, clients, collaborators, suppliers, regulators, civil society, etc.).

The benefits that a professional, independent, and empowered Board of Directors brings to a company are manifold. For one thing, it integrates knowledge and experience into the organization. For another, it is a way to incorporate independence and objectivity into the company’s management process to benefit from the greater

**1.** The highest governing body of a company is also known as the Board of Directors, Administrative Council, or Governing Board in the different countries in this region. In this document it will be referred to as the Board of Directors.

professionalism in the decision-making process. Likewise, as a collegial body, the discussions are enriched through a diversity of visions, experiences, and perspectives. The latter is of particular importance considering the fact that better decisions lead to better risk management and better companies.

Moreover, it is well known that the Board of Directors assists upper management in working on agreements that generate value since it challenges and inspires them to find the best options for the company. The mere exercise of preparing the information and proposals for the Board of Directors makes upper management build a more solid argument or, at least, take the time to review the factors that may have an impact on the decision.

Furthermore, the Board of Directors contributes to balancing the company's long- and short-term horizon while, at the same time, considering the organization's strategic risks. It is a body that protects and ensures compliance with the business' purpose and likewise considers the visions and expectations of the company's stakeholders.

However, today's Boards of Directors face great challenges in carrying out their functions, considering the fact that they must meet growing responsibilities and expectations while having a limited amount of time to do so. In addition, to the extent that these bodies are made up of outside members - external to management - they must manage an asymmetry of information between this collegial body and upper management. This means they must adopt strategies to make their work more effective.

Note that the Board of Directors has undergone an important change in recent decades as it has gone from being considered a body that is almost exclusively for controlling and supervising upper management to a body that is for defining strategic orientation, monitoring the company's performance as well as ensuring a reliable and effective structure of the control model, and being the guardian of the business' purpose. Once the company's strategic orientation has been defined, the Board of Directors delegates the practical implementation to upper management, which they monitor while being accountable to the shareholders, the company's true owners.

Ultimately, the key functions of the Board of Directors, which should be clearly defined in the corporate documents, include:

1. The definition of the company's strategy with a long-term vision.
2. Oversight of the organization under appropriate risk management and control systems.
3. Guidance and follow-up of senior management.

In view of the current responsibilities of the Board of Directors as well as the challenges they must manage in order to achieve a real contribution and the generation of sustainable value for the company, it is important to bear in mind that, from a corporate governance perspective, a series of good practices must be implemented, both formally and in terms of the practical workings of the collegial body to ensure that the best use is made of this governing body.

Fundamental aspects that need to be adequately addressed include the structure, components, appointment, and removal of Board members, their functions and capabilities, their rights and duties as well as the dynamics of the meetings. All of this is geared towards contributing to the creation of efficient and active Boards of Directors with enough autonomy to carry out the critical tasks that correspond to the Board for the best governance of any company. In short, the goal is to avoid Boards of Directors that, due to their excessive activism, tend to co-manage and invade the areas that correspond to upper management, or Boards of Directors that, due to their passivity, may become hostages of upper management. Both situations are pernicious since they dilute the value that this body should effectively generate. The point is that the Board of Directors should always act in a responsible, autonomous, professional and independent manner.

Note that all of the above is valid for the Board of Directors of any type of company, whether privately owned or state-owned (both at the central and sub-national government level). However, there are particularities with respect to State-Owned Enterprises (SOEs) that differentiate them from private companies in that the Boards of Directors of SOEs are exposed to changes due to the dynamics and potential political interference of the State.

In the exercise of its ownership rights, either as full owner or controlling shareholder, the State elects and removes the members of the Board of Directors of its companies. This fact, although inherent and legitimate, is affected specifically by the

political cycle, which generally results in shorter tenure for Directors compared to companies with other ownership structures, or in the election of Directors based on political rather than technical criteria.

In practice, this implies that, given the dynamics of political cycles, changes in the ownership representative (minister, governor, mayor, etc.) every 4-5 years, if not sooner, often imply changes in the Board of Directors and upper management. This could affect not only the direction of the company, but also its sustainability. In addition to this high turnover, there is also the risk that the Board of Directors' agenda will focus on short-term objectives that may undermine the fulfillment of the purpose for which the organization was created, due to the dynamics of the SOE's relationship with the government in power.

A good corporate governance structure seeks to reduce these impacts and ensure an empowered Board of Directors and an appropriate selection of its members in order to enhance the stability of the Board and thus the long-term vision of the organization. Therefore, it is a challenge at the level of State-ownership policy to have mechanisms and selection processes focused on promoting the continuity of Directors and stability in the upper management of the company, regardless of changes in the political/electoral system. In this way, it will be possible to maintain an efficient SOE that fulfills the mandate for which it was created and is not limited to the interests of the political player of the day.

It is with this reality in mind that the first edition of this document was published in 2017 (<https://scioteca.caf.com/handle/123456789/1025>) with the objective of providing a first approach to knowing and understanding how the governance models of SOE Boards work in Latin America and the Caribbean and to identify opportunities for improvement. It must be noted that the study was done under a theoretical-practical perspective that sought to present and analyze best practices in corporate governance to strengthen the role and governance of the Boards of Directors of SOEs in the region, so as to compare these practices later with the results obtained in a survey answered by a total of 50 State-Owned Enterprises in Latin America and the Caribbean and thus propose concrete recommendations.

This update does not seek to deepen the theoretical component of the original document, since they are still valid. Therefore, in order to understand the role of the Board of Directors in SOE corporate governance, we recommend reviewing Chapter 1 of the first edition of this study.

That being said, it should be recognized that, in the seven years since the original publication, global events have occurred that have had an impact on the way in which companies are governed as well as changed what is expected of them in relation not only to their shareholders, but also to their stakeholders in general. Obviously, this has an impact on the composition and functions of the Board of Directors.

Among the most relevant aspects, the following are particularly noteworthy: (i) the implications of the Covid-19 health crisis on company management, (ii) the impacts generated by Environmental, Social, Governance (ESG) and Climate Change issues, and (iii) the progress made in the implementation of corporate governance practices in SOEs in the countries in the region.

With respect to the first factor, the Covid-19 pandemic has led SOEs, like any other company, to adjust the way they operate, make use of new technologies, identify new types of risks, and adapt the vision and requirements of the Board of Directors to unprecedented conditions.

Regarding the second factor, greater regulation and the presence of stakeholders such as institutional investors or multilateral financing providers as well as other stakeholders, who more vehemently demand more robust corporate governance standards, and a clearer position on the part of companies regarding their environmental and social policies and strategies, has encouraged Boards of Directors to apply an ESG agenda within SOEs and their own collegial bodies, under a Corporate Sustainability vision that meets the expectations of the various groups of stakeholders.

Finally, with respect to the specific progress made by the SOEs in the region, the following considerations should be taken into account:

1. Broadly speaking, there is greater interest and commitment on the part of the State as owner, which has made it possible to better address some of the major challenges faced by the SOE Boards. As a result of this, laws have been enacted at the national level in countries in the region that target SOEs and which, along with other things, define minimum conditions for compliance at the Board level. Moreover, entities with centralized ownership have been strengthened and mandatory corporate governance codes that are issued by these institutions have been implemented.
2. The SOEs and their Boards of Directors have, on their own, promoted and applied a series of practices that will have a high impact on the management of the SOE itself without the need to modify laws or statutes that require the involvement of mayors, governors, ministers or even the country's Parliament. The implementation of practices such as the induction and training of its members, the more efficient management of Board meetings, and the evaluation of the collegial body are within the scope of action of the institution itself and to make them effective only requires the involvement of the Board of Directors and upper management.

Taking the above into account, the decision was made to do this update, specifically with regard to the surveys, and incorporate new questions or refine the existing ones in order to incorporate the factors mentioned above as well as to expand the sample. Thus, a better understanding of the progress made in the region and the identification of recurring or new issues that should be promoted was sought.

This report consists of four chapters. The first corresponds to this section "Introduction and context of the update"; the second, describes the scope and methodology used to collect information and a general description of the participating companies; the third presents the results obtained in the study as well as an analysis of the information and recommendations for SOE Boards, considering best practices and corporate governance standards; and finally, the fourth presents the main conclusions.

## SECTION II

# ABOUT THIS STUDY

This document is prepared on the basis of the consolidated results of the survey “Effectiveness and Structure of Boards of Directors at State-Owned Enterprises (SOEs), Latin America and the Caribbean.” Its objective has been to analyze the effectiveness and structure of SOE Boards of Directors in Latin American and Caribbean countries that are members of CAF in order to generate public policy recommendations as well as to identify best practices that can be replicated in other SOEs.

As noted in the previous section, the contents of the first edition of the study (2017) have been updated and include the incorporation of questions related to the responsibility of the Board of Directors regarding ESG issues and the structure and makeup of the collegial body itself while considering the best practices related to corporate sustainability issues. The sample was also expanded from 50 to more than 100 companies that voluntarily responded to the questionnaire. Considering the above, to the extent that the sample universes of the two studies are different, it has not been feasible to do a comparative analysis between the 2017 and 2024 samples.

### Methodology

As an information gathering instrument, a survey was designed to cover the main areas of analysis relevant to the effectiveness and structure of the Boards of Directors in State-Owned Enterprises. The questions were framed to obtain detailed and objective information on key aspects of the Boards’ operations and ensure comprehensive coverage of critical governance issues. These areas of analysis include:

- i. Description of the company.
- ii. Makeup and size of the Board of Directors.
- iii. Profile of the Directors.
- iv. Fulfillment of the role of the Board of Directors and participation in decision making.
- v. Board of Directors' support committees.
- vi. How well the Board of Directors' meetings operate.
- vii. Role of the Chairman and Secretary of the Board of Directors.
- viii. Director Appointment Process.
- ix. Induction and Training of the Board.
- x. Remuneration of Directors
- xi. Board Evaluation Process.
- xii. Management of conflicts of interest in the Board of Directors.

Subsequently, the information collected through the survey was processed and analyzed using statistical and qualitative methods making it possible to identify strengths, opportunities for improvement, and the effectiveness and structure of the SOE Boards of Directors.

### Work Team

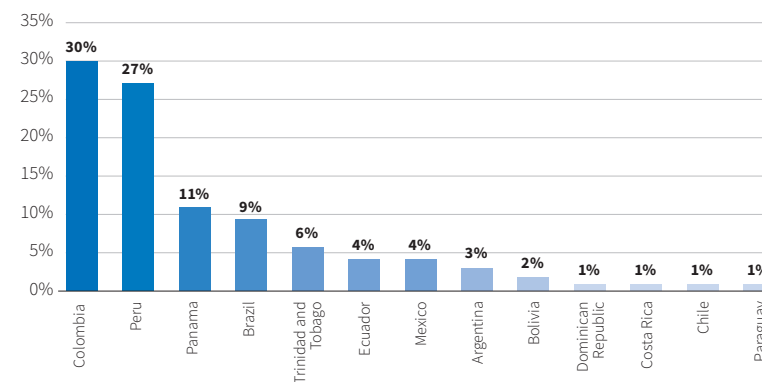
The study was done by CAF - Development Bank of Latin America and the Caribbean with the support of the corporate governance consulting firm Governance Consultants S.A. - [www.governanceconsultants.com](http://www.governanceconsultants.com)

2. Not all questions have been answered by all 111 companies so the metrics and percentages are not always about the 111. In each graph in this study, reference is made to the number of companies that responded to that particular question and on which the respective analysis is done.

### Profile of Participating Companies

The survey was answered by a total of 111<sup>2</sup> state-owned companies, both at the central and subnational government level, which completed the questionnaire on a voluntary basis during the second half of 2023. These are representative companies from 13 countries in Latin America and the Caribbean, where CAF has offices: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Paraguay, Peru and Trinidad & Tobago (see Graph 1) and in various sectors, such as energy, oil and gas;

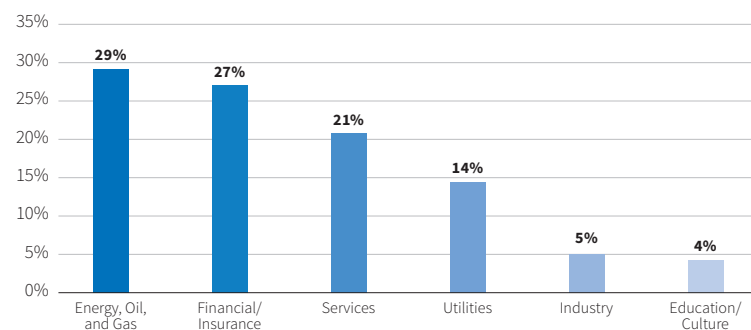
**Graph 1.** Participation by country



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

**Graph 2. Participation by sector**



NUMBER OF COMPANIES THAT RESPONDED: 111

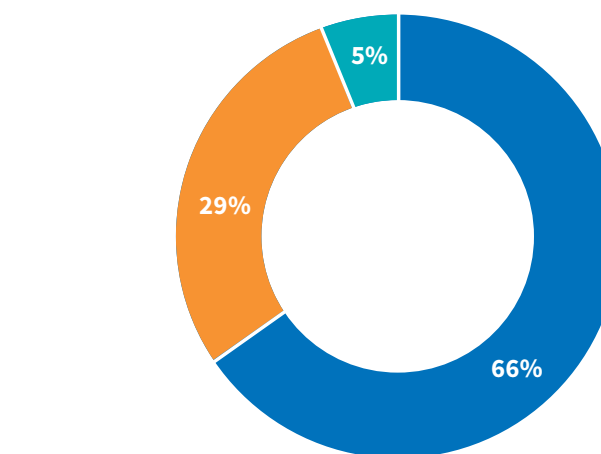
Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

financial and insurance; services<sup>3</sup>; utilities; industry; and education/culture; sectors in which the State has a significant presence in many countries in the region (see Graph 2).

Of the companies surveyed, 66% are wholly owned by the State while in 29% of the cases the State has a majority shareholding of between 51% and 99.9%, where it is the controlling shareholder but shares ownership with other shareholders and investors. In 5% of the cases, it has an ownership interest of less than 50% (see Graph 3).

3. The services sector includes transportation, health, and environmental companies; and the utilities sector includes telecommunications as well as water and sanitation companies.

**Graph 3. Ownership structure**

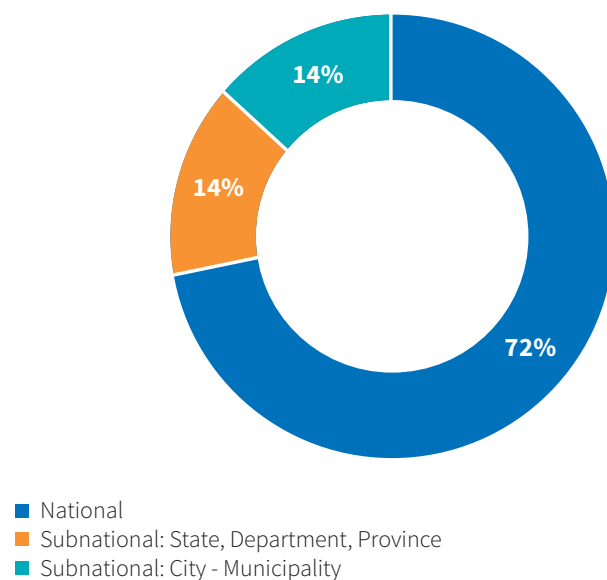


■ 100% State-owned  
■ Majority owned by the State (50.1% - 99.9%)  
■ Minority ownership interest of the State

NUMBER OF COMPANIES THAT RESPONDED: 110

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

**Graph 4.** Ownership by type of State shareholder

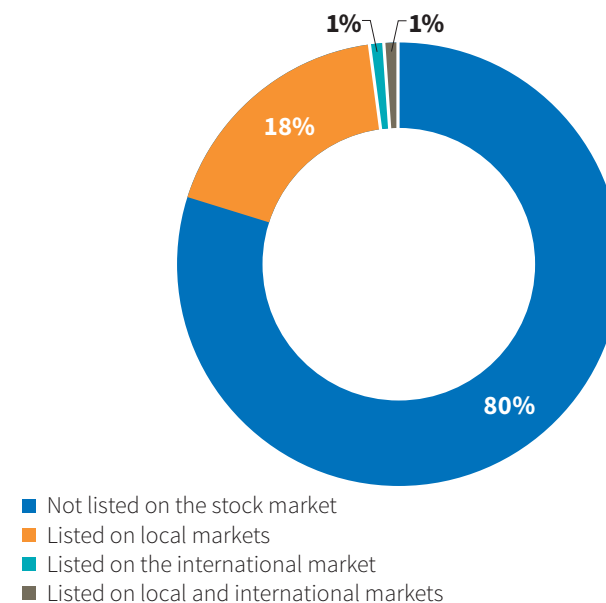


NUMBER OF COMPANIES THAT RESPONDED: 110

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

In addition, most of the public companies (72%) are at the national level and the rest are at the sub-national level: 14% are owned by States, Departments or Provinces and the remaining 14% are owned by a city or municipality (see Graph 4).

**Graph 5.** Participation of SOEs in the capital market



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Eighty percent of the SOEs included in this study are not listed on the stock exchange while only 20% are. Of the SOEs that are listed on the stock market, 18% are listed in the local market and only 1% on the international market, and 1% are listed on both the local market and an international market (see Graph 5).

## SECTION III

# CONSOLIDATED RESULTS OF THE STUDY ANALYSIS BY SUBJECT

### How does one read the results?

The information provided below is not intended to be a benchmark against which to measure SOEs in the region, but rather a snapshot of the current situation that shows the structure and operations of the Boards of Directors of SOEs in Latin America and the Caribbean, based on a sample of 111 representative companies as of December 2023.

Of the 131 questions asked and answered on the completed questionnaire, those considered most relevant for this study have been selected and organized into ten thematic areas:

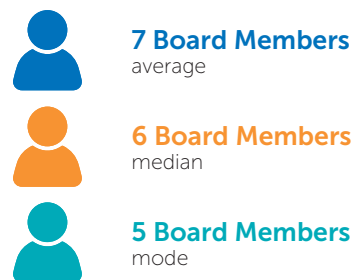
1. **Makeup and independence of the Boards of Directors**
2. **Participation of women on Boards of Directors**
3. **Nomination, election, and re-election**
4. **Length of tenure**
5. **Frequency and length of meetings**
6. **Focus of the Board of Directors**
7. **Committees**
8. **Induction and training**
9. **Evaluation of the Board of Directors**
10. **Remuneration**

Each of these topics analyzed, has, in addition to a description of the results of the sample, a reference to best practices based on the "Guidelines for good corporate governance of state-owned enterprises" (CAF, 2021), and the "Guidelines for a Latin American Code of Corporate Governance" (CAF 2023), as well as some general recommendations. The former will be referred to as the SOE Guidelines while the latter will be referred to as the GLACCG.

In addition, this document is provided with an analytics tool that includes all the questions that were filled out in the questionnaire and makes it possible to do an analysis by sector, country, and order of ownership, which is available at the following link: <https://www.caf.com/es/especiales/directorios-de-empresas-estatales-en-america-latina-y-el-caribe/>

### 1. Makeup and independence of the Boards of Directors

In terms of the makeup of Boards of Directors, it is a challenge for SOEs to ensure that they have a suitable number of members and balance the presence of public officials and Directors in other categories (Independent External Directors, non-independent External Directors or representatives of other stakeholders).



NUMBER OF COMPANIES THAT RESPONDED: 111

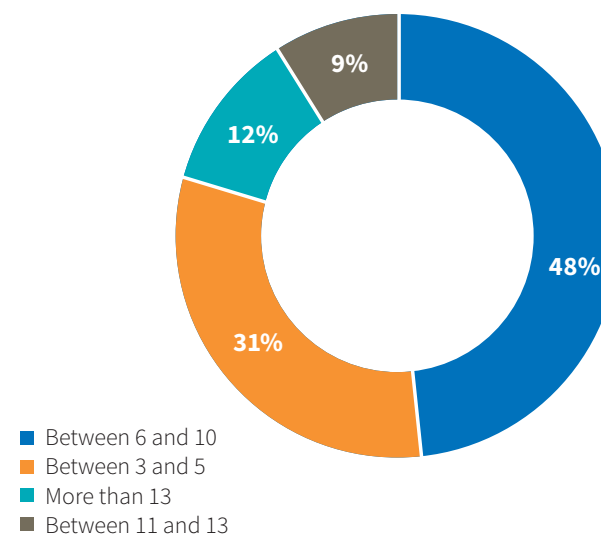
Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

It is interesting to note that, at the sample level, the average number of core members (not including alternates) is 7, while the median (the central value that divides the ordered data set into two equal parts) is 6 and the most common number of

members, i.e. the most repeated value (the mode) is 5. Note also that the range is quite wide with Boards of Directors ranging from as few as 3 members to as many as 20 even though these extreme values are the smallest ones.

As can be seen in graph 6, the bulk of the distribution represents 48% of the Boards of Directors in the sample in a range of between 6 and 10 Directors. Secondly, 31% of the

**Graph 6.** Distribution of number of members by range



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

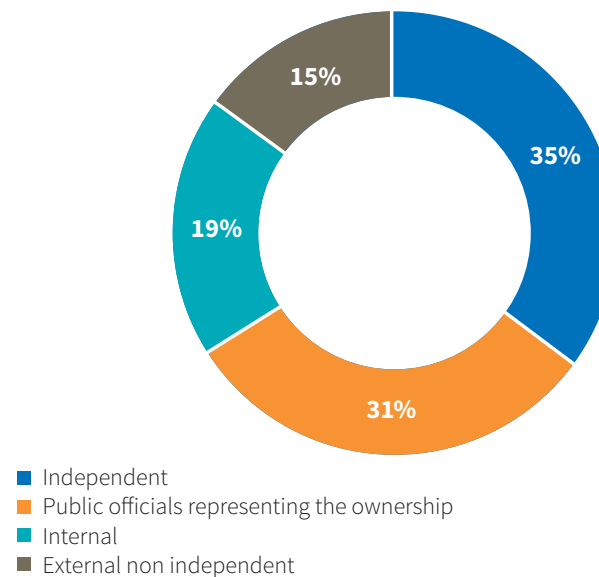
Boards have between 3 and 5 Directors while 12% of the Boards have more than 13 members, and finally, 9% have between 11 and 13 Directors.

The structure of the Boards of Directors of public companies in the region seems to lean towards moderate (between 6 and 10) to small (between 3 and 5) sizes at 48% and 31% respectively.

Considering Guideline 36 for SOEs, which refers to the structure and makeup of the Board of Directors, they should be large enough to be representative while recognizing that if their size turns out to be too small or too large, it could have a negative impact on the effectiveness of this collective body. In deciding the number of members, criteria such as the size of the organization, its business reality and complexity, and local legal provisions as well as its main strategic challenges must be evaluated to enable it to adequately fulfill its responsibilities.

It is important to point out that it is not possible to establish a single value, so a recommendation on its optimum size will depend on the size of the company itself and the elements considered above. However, it is good practice to have an odd number, between 5 or 9 members and to not consider alternate Directors. In the case of large listed companies, this number can be as high as 11. Larger numbers can make decision making more complex and impair the effectiveness of the collegial body.

**Graph 7.** Percentage by each type of member



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

With regard to the representative nature of each type of Director (see Graph 7), just over one third of the Boards (35%) are made up of independent members, defined as persons external to the organization with extensive experience and recognized professional prestige who can contribute their experience and knowledge to the management of the company and whose relationship with the company, its

shareholders or owner, Directors, and members of upper management is limited exclusively to the condition of member of the Board of Directors. In second place, and accounting for a very similar proportion to independent members, are public officials (31%), i.e. those Directors who, due to their status as State employees and as required by local regulations, have a seat on the Board representing the public entity to which the SOE is attached (ministry, governor's office or mayor's office). In third place are the internal or executive members, who account for slightly less than one fifth (19%) and are legal representatives or upper management officials who participate in the day-to-day management of the company. Finally, there are external members, who represent the smallest proportion (15%) and correspond to those individuals who, due to personal or company circumstances, cannot be classified in any of the previous categories.

The potential risks generated by the appointment of a significant number of public officials as SOE Directors must be highlighted since they are related to the possibility that they may receive direct instructions from political circles without the decisions being subject to a prior process of technical discussion within the Board of Directors. This implies a weakening of corporate governance and public management. Under this consideration, the role of the Board of Directors as a strategic governance body and as a link between the representative of the ownership and upper management would be affected, and there would be a potential overlap between the spheres of ownership and management.

Even when the State is the majority shareholder and must be represented on the Board of Directors, it is essential that such representation reflects an appropriate balance between public interests and the needs of the company. In this respect, the appointment of a majority of "Directors for the State" should be avoided as far as possible since the dynamics of the political cycle may put pressure on the Board of Directors and therefore on the management to implement a short-term agenda that does not necessarily serve the interests of the company and may even affect its sustainability. In the induction processes, it must be emphasized, particularly to this category of Directors, that regardless of whom they represent, their fiduciary responsibility is owed first and foremost to the company in which they hold the position of Director.

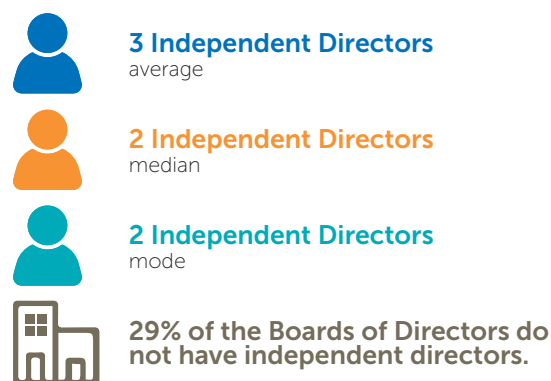
With reference to Guideline 39 for SOEs, the emphasis is placed on the fact that the Board of Directors should have a number of independent members corresponding to the size and needs of the board so as to ensure decision-making processes with sufficient objectivity and suitability to ensure the best interests of the company.

Although the definition of independent director may vary from country to country, Guideline 39 for SOEs recommends, as long as it does not go against local regulations, to take into account the following requirements to be considered independent<sup>4</sup>:

**4.** The conditions of independence for SOE Directors require that additional criteria be included that are not required for the Independent Director of a private company, particularly with respect to the Director's relationship with the State as owner and with the political party of the incumbent administration.

- i. Have a personal and professional profile that inspires shareholders with a sense of trust in the director's independence.
  - ii. Not belong, or have belonged during the last five years, to the party of the incumbent administration that exercises ownership over the SOE.
  - iii. Not having contributed resources to the political campaign of the party of the incumbent administration.
  - iv. Not representing the interests of a particular government entity (ministry, governor's office, municipality, etc.) that was the source of the director's appointment.
  - v. Not to be a Director or employee of the company or of any other company of the same business group that is a shareholder of the SOE.
  - vi. Not be an employee of a shareholder with a shareholding equal to or greater than 5% of the company.
  - vii. Not having, or having had in the last three years a significant commercial business relationship with the SOE or any other company of the same group.
  - viii. Not having any close family relationship with significant shareholders, the directors, or the SOE's upper management.
  - ix. Not being a director or member of upper management of another company in which any director or member of the upper management of the SOE is an Outside Proprietary Director.
  - x. Not having been a member of upper management or employee of the SOE, of companies in the same business group, or of companies that are shareholders of the SOE in the last three years.
  - xi. Not receiving from the SOE or from any other company in the same group any benefit for any reason other than the remuneration of a director unless it is insignificant.
  - xii. Not have been a partner or employee of the external auditor during the past three years or of the auditor of any company in the same group.
  - xiii. Not have been a shareholder, director, or member of upper management of an entity or institution that receives or has received significant donations from the SOE or from any other company in the same group during the last three years.
  - xiv. Not have been evaluated prior to being appointed director by the Board of Directors or their committees or by an external body independent of the owner's representative who made the nomination.
  - xv. Not having served as director for the SOE for more than 6 continuous or alternating years during the past 15 years.
- Note that independent directors do not have this status solely because they do not have material ties to the company, its shareholders, or managers but also because as members of the Board of Directors, they also contribute to the decision-making process with expert knowledge, experience and specific personal skills, depending on the reality and needs of the company.
- In terms of the makeup of Boards of Directors, the challenge for SOEs is related to how to balance the presence of public officials and representatives of other categories of Directors through external members who are not directly related to the ownership representative and, in particular, who can be qualified as independent members. This could mitigate the dependence of the SOE on the ownership function exercised by the State and to the potential short-term policies of the administration in office that are in conflict with the mandate for which the SOE was created.

In the case of listed SOEs, it is advisable to consider the free floating capital criterion for determining the number of independent external directors, so that the percentage of free float corresponds as closely as possible to the percentage of independent external directors on the Board of Directors.



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Regarding the participation of independent members in the sample, it is worth mentioning that on average there are 3 Directors in this category with the median and mode being 2 Directors. In addition, it should be noted that 32 of the 111 SOEs in the sample (29%) do not yet have any independent members participating.

The existence of independent members on the Board of Directors is one of the corporate governance practices with greater local and international visibility, regardless of the origin of the Board members (officers nominated directly by the representative of the ownership, who comply with the aforementioned conditions of independence or formally independent Directors who have followed an external selection process through specialized headhunting firms). In any case, the State should select persons who meet the appropriate level of competence to fulfill their functions to be Directors. Therefore, Directors coming from the public sector should have the same obligations and responsibilities as the other members of the Board of Directors, and act in the best interest of the SOE, all its shareholders, and its various stakeholders.

In conclusion, when the breakdown of the membership of an SOE's Board of Directors is evaluated, it is important to take three criteria into account:

- **The makeup and size of the Boards of Directors** are generally defined on the basis of different variables such as, for example, legal provisions, complexity, size, and the strategic challenges applicable to each company. The structure of the Boards of Directors of SOEs in the region should include an odd number of members that is not less than 5 and not more than 11 members.
- **Balance between independence and State participation.** The membership of the Boards of Directors of SOEs must show a balance between the

representation of the State as owner with public officials qualified to serve as Directors and the inclusion of independent and external members. This suggests a focus on proper state supervision and compliance with the objectives of the companies to ensure that strategic decisions are aligned with public policies and the general interest.

- **Diversity of perspectives:** The inclusion of External and Independent Directors on SOE Boards promotes a greater diversity of perspectives, and this can enrich the decision-making process and strengthen corporate governance in state-owned companies.

## 2. Participation of women on Boards of Directors

The presence of women on Boards of Directors, apart from being a gender equity issue, is important because of the positive impact that diversity of thought brings through the contribution of different perspectives and experiences when it comes to decision making and risk assessment.



**24% of Boards members are women.**



**21% of Boards do not have women participation.**

NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Even though, on average, the makeup of the Boards of Directors of SOEs is almost a quarter women (24%), and the majority of the Boards have at least one woman member, it is worth noting that 23 of the 111 Boards of Directors of the companies in the sample, equivalent to slightly more than a fifth (21%), do not have any women among their members.

As indicated in Guideline No. 9 of the GLACCG with respect to the profiles of the Directors, the makeup of the Board of Directors should not be solely the result of a balance of skills and talents. These collegial bodies should be built on criteria of diversity, equity, and inclusion that enrich the decision-making process with varied visions and take the expectations of the company's different stakeholders into account. It should be recognized that diversity includes multiple dimensions as well as professional elements (academic specialization and professional experience) which may include personal factors: age, experience, gender, ethnicity and culture, nationality, or geographic location. Therefore, it is up to each company to determine the best composition of its highest management body and to reasonably ensure that the principles of suitability and diversity are respected.

Likewise, the fact that the Board of Directors also has a role in promoting the principles of diversity in the different governance bodies of the SOE should be taken into account. Thus, Guideline No. 23 of the same document recommends that the Board of Directors approve a public Diversity Policy that includes the mechanisms through which the SOE implements criteria associated with gender, age, ethnicity, nationality, and cultural origins, etc., for the makeup of its upper management team.

Broadly speaking, female representation on the Boards of Directors of SOEs shows significant progress, but there are still important challenges to overcome. In this respect, the SOEs that do not have women on their Boards of Directors yet are expected to begin this process, and those that do have them are expected to continue with the incorporation of new members, so that in the short term they will represent at least one third of the members and more than 40% in the next few years.

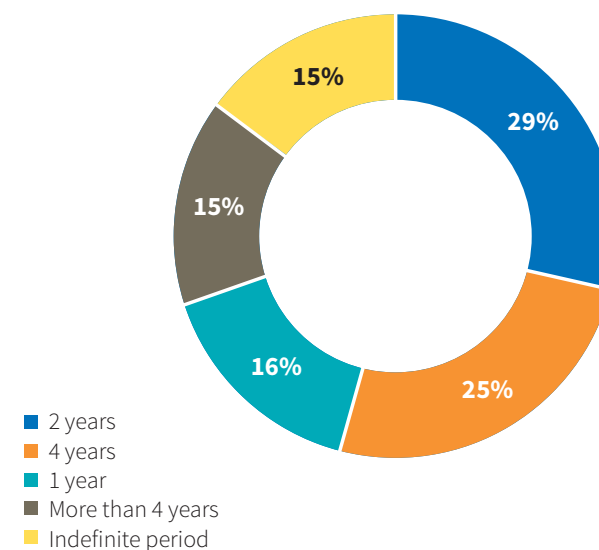
In the search for greater inclusion and gender equity on SOE Boards in the region, consideration could be given to defining public policies or corporate policies in SOEs to establish quotas to ensure not only a minimum of female representation on Boards, but also to ensure that other diversity and professional qualification requirements are met. This should also include the development of women's leadership programs at these management levels and at all organizational levels. All of the above must be the responsibility of both SOEs and public policy makers, owners, or regulators.

### 3. Nomination, election, and re-election

To achieve an appropriate makeup of the Board, special attention must be paid to the process of nomination and election of directors since it is the central key to ensuring the suitability of the directors.

As can be seen in Graph 8, the majority of Board members are elected every 2 years (29%) or every 4 years (25%). Election on an annual basis or for terms of more than four years is less common (16% and 15% respectively) while 15% have indefinite

**Graph 8.** Period for which the Directors are elected



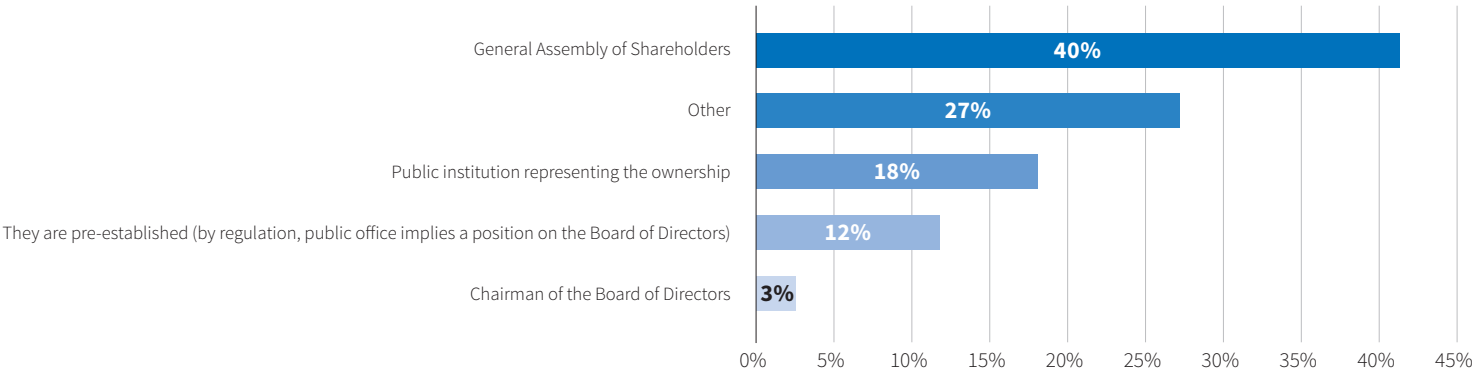
NUMBER OF COMPANIES THAT RESPONDED: 110

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

terms. This could indicate a lack of renewal and dynamism in the Board of Directors.

Although good corporate governance practices do not establish explicit guidelines on the election periods of Board members, it is important to analyze this aspect when high levels of Director turnover are observed due to fluctuations in the political-electoral dynamics.

Graph 9. Responsible for electing Board members



NUMBER OF COMPANIES THAT RESPONDED: 110

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

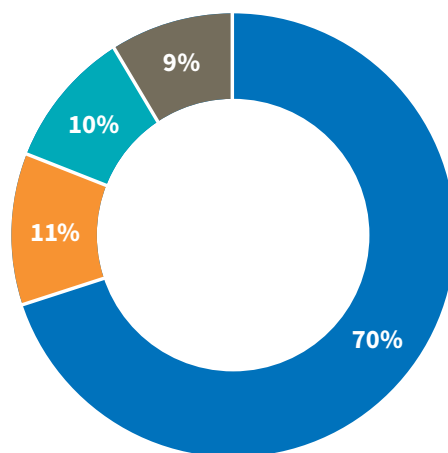
As shown in Graph 9, the General Assembly of Shareholders is the main body for electing the members of the Board of Directors (40%), and in the absence of the former, due to the ownership structure model, the Directors are elected directly by the public institutions that control the ownership (18%). In the latter case, the range is highly varied since it may be a minister, a governor, or a mayor, and in the case of more sophisticated models, the one in charge is a centralized ownership entity. In 12% of the cases, these are powers granted by legal mandates that predetermine that due to the public position they hold (minister, governor, mayor, or other

public official) they are automatically assigned a seat on the Board of Directors of the SOE to which they are assigned or of which the public entity they represent has the ownership.

Graph 10 shows that in the case of both Independent and External Directors, most of them are nominated through a decision made by the representative of the ownership considering minimum requirements (70% and 67%, respectively). Furthermore, in the case of Independent Directors, the alternative of using a headhunter firm in the selection process is still low (11%).

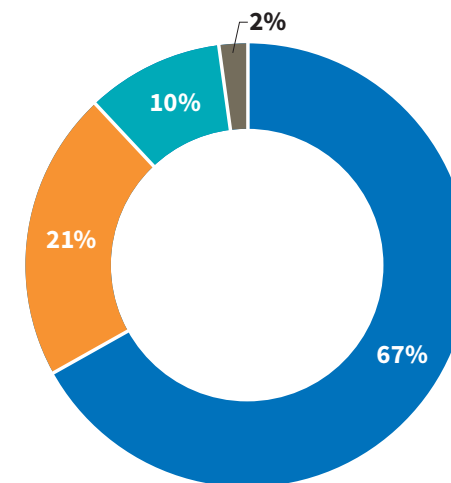
**Graph 10.** Nomination process for Independent and External Directors

WHAT IS THE NOMINATION PROCESS FOR INDEPENDENT DIRECTORS?



- Decision made by the property representative considering minimum legal requirements
- The process involves an outside headhunting firm
- Decision made by the representative of the owner without the need for minimum requirements
- Do not know

WHAT IS THE NOMINATION PROCESS FOR EXTERNAL DIRECTORS?



- Decision made by the property representative considering minimum legal requirements
- Do not know
- Decision made by the representative of the owner without the need for minimum requirements
- The process involves an outside headhunting firm

NUMBER OF COMPANIES THAT RESPONDED: 90

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).



**95% of the Boards allow re-election.**



**35% of the Boards have a staggered renewal process.**

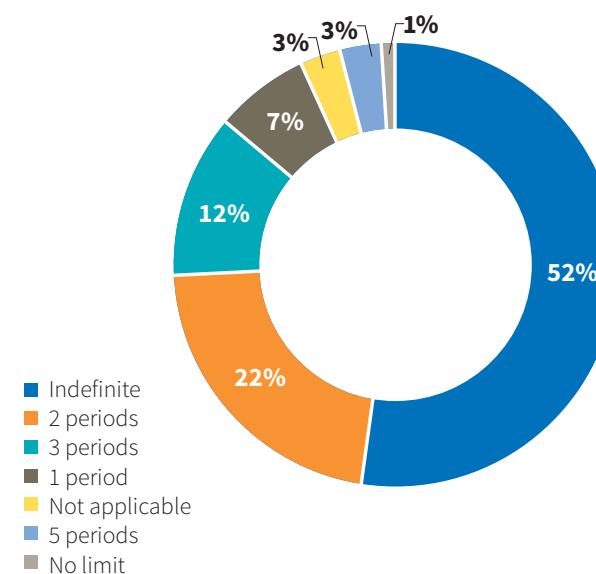
NUMBER OF COMPANIES THAT RESPONDED: 110

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Ninety-five percent of the Boards allow for re-election and only 35% of the Boards report having staggered renewal, thus indicating that most of the SOEs in the sample do not use this procedure. As referred to in Guideline 8 of the SOEs, one of the main mechanisms to provide continuity to the work of the Board of Directors and protect it from a complete change in its membership, which tends to occur in each new political cycle, is the staggered renewal of Directors. Furthermore, this tool minimizes the risk that the Board of Directors could lose knowledge and a lack of long-term vision in the SOE.

As previously indicated, re-election is permitted in 95% of the Boards of the SOEs in the sample and, as shown in Graph 11, in 52% of the cases, Directors may be re-elected indefinitely. Note that this may lead to the entrenchment of certain members on the Board of Directors and also to a failure to incorporate members with new perspectives. Meanwhile, some Boards of Directors have clearly defined limits for reelection with the most usual being 2 or 3 terms (22% and 12% respectively), which is positive to ensure renewal.

**Graph 11.** Consecutive terms for which reelection is allowed



NUMBER OF COMPANIES THAT RESPONDED: 101

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

When the periods for the election of Directors are reviewed, it is crucial to ensure continuity and stability on the Board, especially for Independent Directors. Maintaining low levels of turnover in these cases is less complex than it is for civil servants since the latter may rotate more frequently due to their departure from civil service or changes in government cycles.

As stated in Guideline 38 for SOEs and in Guideline 11 of the GLACCG with respect to the process for the appointment of Directors, SOEs must have a procedure approved by the General Assembly of Shareholders (or the body exercising ownership rights), where the rules and requirements for the appointment and removal of Directors are defined. This process must consider guidelines for the nomination, verification of qualifications, and election of those who aspire to be part of the collegial body.

Even though the General Assembly of Shareholders, or the body acting in its stead, has the sovereign and non-delegable power to elect the Directors, it must ensure that the SOEs have suitable mechanisms for the appointment of Directors with the best qualities for the needs of the organization itself. Therefore, the company must define a process for the election of directors that considers technical, professional, and diversity criteria.

As a recommendation regarding the nomination, election and reelection of the members of the SOE Boards of Directors, the following could be considered:

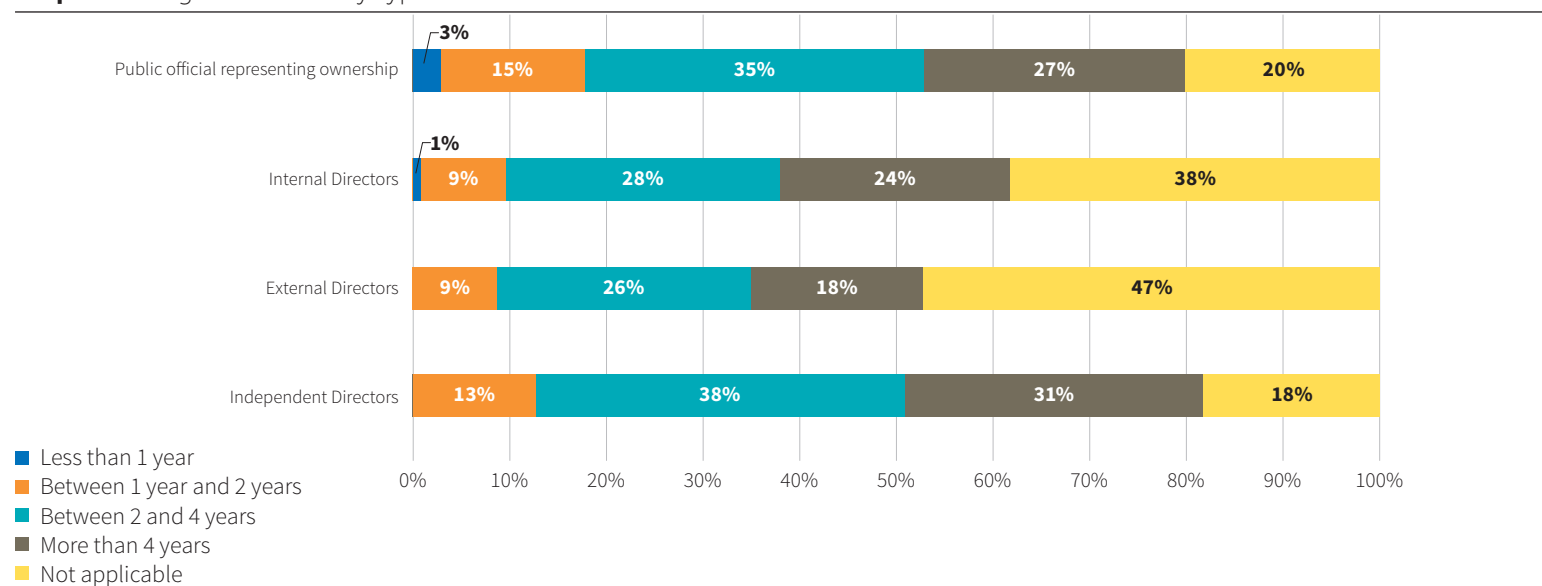
- Standardize election periods to ensure renewal and the inclusion of new perspectives on the Board of Directors.
- Avoid indefinite terms to prevent the perpetuation of Directors in office and encourage renewal and innovation in governance while also ensuring reasonable minimum tenure periods.
- Consider the use of headhunter companies for the selection of Independent Directors in order to make the nomination process more professional.

- Implement a system of staggered renewal to maintain continuity and institutional knowledge, while allowing the entry of new members in a gradual and organized fashion.
- Establish clear limits on the number of consecutive terms a Director may serve (e.g., 2 or 3 terms) to encourage renewal.
- Develop and clearly communicate the nomination processes for Independent and External Directors to ensure transparency and fairness.
- Include clear criteria of independence and competence in the nomination processes to verify that the Directors meet the required standards as well as the professional profiles and expertise necessary to meet the challenges faced by the SOE (beyond the minimum professional requirements that can regularly be demanded to be a member of the Board of Directors).
- Use the results of the Directors' performance evaluations when you make decisions on the reelection and renewal of Board members (see criterion 9).

#### 4. Length of tenure

Having a time limit on the term of office and establishing strategies for the succession of Directors makes it possible to identify the profiles required on the Board of Directors in advance and in a planned manner.

As can be seen in Graph 12, regardless of the type of Director, whether they are public officials representing the owners, Internal Directors, Independent Directors or External Directors, they predominantly have an average tenure of between 2 and 4 years, or more than 4 years.

**Graph 12.** Length of tenure by type of member

NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Using Guideline 38 for SOEs and Guideline No. 9 of the GLACCG as a starting point, preserving corporate memory and continuity in the Board of Directors' decision-making process is essential to the soundness of the corporate governance system. However, it is equally important to ensure an orderly process of staggered turnover at the Board level, so that the changing needs of the collegial body as well as those of the company itself can be effectively addressed and tackled.

In this respect, it is essential to establish strategies and policies for the succession of Directors. This mechanism makes it possible to identify the profiles required on the Board of Directors in advance, the mechanisms for the election - replacement of new Directors in the event of dismissal, resignation, incapacity or death as well as criteria for re-election and the maximum term of office of Directors in the exercise of their functions. Within the framework of

the Directors' succession policy, the Appointments and Remuneration Committee, or the Board of Directors itself in its absence, is responsible for assessing and recommending to the State as owner and other shareholders of the SOEs, the length of time Directors should remain in office and determining reasonable renewal periods.

Likewise, it is crucial for companies to carry out periodic evaluations of their Boards of Directors in order to identify, in a timely manner, their requirements in terms of profiles, visions, experiences, and skills so as to contribute to the growth and sustainability of the company. Likewise, Board turnover processes should allow for an appropriate balance between longer-term Directors and those of medium or short tenure.

In view of the above, it is advisable to maintain a balance between the stability and renewal of the members of the Boards of Directors of the SOEs to the extent that this facilitates the continuity of the strategy and long-term vision. Furthermore, it allows for new ideas and knowledge to be incorporated into these bodies, and even encourages contributions in terms of experience, gender and professions that can enrich discussions and decisions.

Therefore, it is essential to implement policies for the staggering or rotation of Directors in SOEs and to progressively combine this with an induction and training strategy (see criterion 8) that allows the transfer of knowledge between outgoing and incoming Directors.

## 5. Frequency and length of meetings

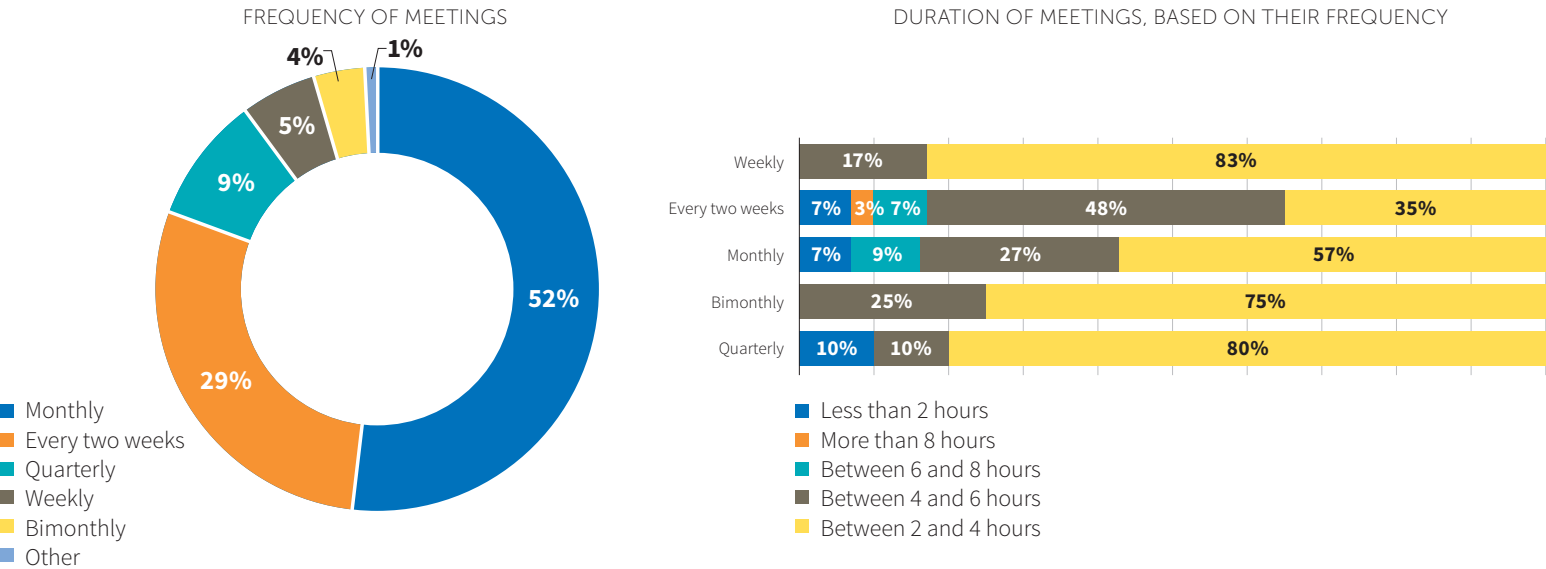
The organization of Board meetings (frequency and duration) has a significant influence on the Board's ability to discharge its duties. The effective contribution and proper functioning of the Board of Directors depends to a large extent on the proper planning of the meetings and the focus and development of the items on the agenda.

As can be seen in Graph 13, monthly meetings are the most common for SOE Boards. It should be noted that 52% of the Boards meet on a monthly basis and 29% on a biweekly basis. The least common are quarterly (9%), weekly (5%), and bimonthly (4%) sessions.

Among the Boards that have weekly, monthly, bimonthly, and quarterly meetings, the majority (more than 50%) last between 2 and 4 hours, with the next most frequent range being between 4 and 6 hours. The majority of the Boards that meet every two weeks have sessions that last between 4 and 6 hours (48%) followed by sessions lasting between 2 and 4 hours (35%). Irrespective of the frequency of sessions, durations of less than 2 hours or more than 6 hours are rare in the sample.

As mentioned in Guideline 46 for SOEs and more emphatically in Guideline 14 of the GLACCG in reference to Board meetings and their frequency, the Rules of Procedure of the Board of Directors shall establish how often the Board shall

Graph 13. Frequency and length of Board of Director meetings



NUMBER OF COMPANIES THAT RESPONDED: 108

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

hold its regular meetings during the year. Regarding what the most appropriate number of meetings per year is, it is difficult to recommend a specific number since this depends on multiple factors such as the complexity of the issues, the situation of the company, its regional presence, structure of the Board, and other variables that must be considered when preparing the work plan.

For publicly listed companies and financial entities, the most reasonable number of meetings should be between 8 and 12 meetings per year while for closed companies that are not overly complex, this figure could range from 6 to 10 meetings per year. For all types of companies, an exclusively strategic, growth, and innovation focus is advisable for 1 or 2 meetings per year. If the need is identified, these two sessions may be supplemented by up to two more meetings for follow-up or

specific analysis of prospects and compliance with the plans drawn up by the company. Likewise, the Board of Directors may meet in extraordinary session as often as necessary.

The management, duration, frequency and dynamics of Board meetings are key elements for an efficient, accurate and timely decision making process. In this respect, based on the data and applicable standards, the duration of between 2 to 4 hours (in 56% of the Boards in the sample) seems to be the most common and suitable to cover the essential topics.

A proportion of 31% of Boards have meetings lasting between 4 and 6 hours, which could reflect the complexity of the issues discussed or a heavier agenda, and the duration of more than 8 hours is uncommon and could be related to extraordinary sessions or detailed annual reviews.

Moreover, the weekly and biweekly Board meetings (a total of 35% of the sample), which last 4-6 hours, correspond to a fairly high average time for the frequency with which the meetings are held. This could be leading to the creation of Boards of Directors focused on co-management, i.e., Boards of Directors that are highly involved in operational matters and matters pertaining to the ordinary line of business. In some cases, the frequency of meetings is marked by the payment of per diems based on the number of sessions. Therefore, to avoid this perverse incentive to increase frequency, it is advisable to decouple the remuneration per session and establish monthly or annual compensation packages.

The main instrument used by the Boards of Directors to plan and determine the number and duration of regular meetings per year as well as the topics to be addressed during the year, is the Annual Work Plan. In this respect, SOEs could review the optimization of the frequency and duration of meetings based on:

- 1. Needs assessment:** The SOEs could evaluate whether the current frequency of their meetings is optimal. For example, whether monthly meetings are sufficient for efficient decision making, or whether certain companies could benefit from more frequent or less frequent meetings depending on their operational dynamics.
- 2. Clear and concise agendas:** For Board meetings, it makes sense to ensure that work agendas are concrete and address key issues to maximize efficiency and focus during meetings.
- 3. Type and format of the information:** The type of information needed based on the planned agenda, as well as the format of the agenda, plays a determining role in both the efficient management of the time devoted to each item on the agenda and the quality of the debate held.
- 4. Time management:** Implementing time management techniques and ensuring adequate breaks and time allocation for each of the topics to be addressed at Board meetings helps to maintain the productivity and focus of the members.

5. **Periodic evaluation:** Doing periodic evaluations of the effectiveness of the meetings can help make adjustments to both the frequency and duration depending on the changing needs of the SOE.
6. **Use of technology:** Implementing technologies for meeting management and team collaboration can help reduce the duration of meetings by making it easier for the directors to prepare and follow up on the topics discussed.
7. **Secretary of the Board of Directors<sup>5</sup>:** Strengthen the role and involvement of this position/unit to (i) follow up on the issues to be addressed; (ii) prior to the sessions, ensure that the information is provided to the Directors sufficiently in advance of them; (iii) validate that the topics to be discussed correspond to the responsibilities of the Board of Directors, and (iv) ensure that the time management for each topic discussed is appropriate; along with other duties that the Secretary of the Board should have.

The recommendations provided seek to present ideas to optimize the efficiency and effectiveness of these Board meetings and ensure that the time invested translates into high quality strategic and operational decisions for SOEs.

## 6. Focus of the Board of Directors

The Boards should focus on strategic direction, control and oversight issues including oversight of the performance of the

organization's CEO and upper management team as well as the effectiveness of the company's internal control and risk management system. Likewise, in order for the Board of Directors to be able to effectively exercise these functions, it is essential that it has the power to appoint and remove the CEO and the Auditor.

Based on the data obtained, the topics where the Boards of Directors of SOEs have a higher level of involvement (see Graph 14) are:

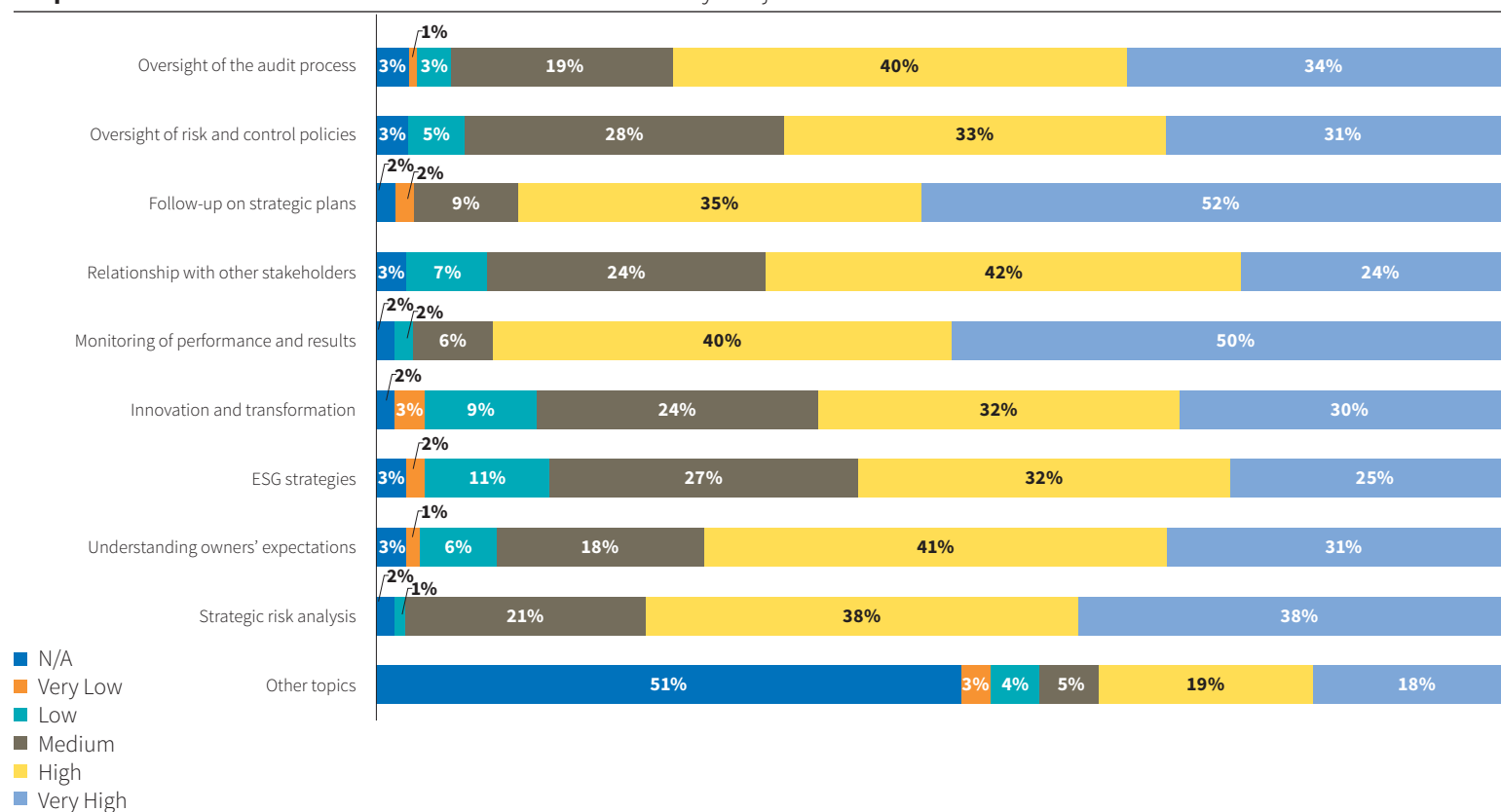
- **Follow-up on Strategic Plans**  
(52% very high and 35% high)
- **Monitoring of performance and results**  
(50% very high and 40% high)
- **Strategic risk analysis**  
(38% very high and 38% high)
- **Oversight of the audit process**  
(34% very high and 40% high)

Moreover, the topics that are most frequently reported with a medium level of involvement suggested as potential areas for improvement in the Board's depth and level of participation are:

- **Oversight of risk and control policies** 28%
- **ESG strategies** 27%
- **Innovation and transformation** 24%
- **Relationship with stakeholders** 24%

5. For an in-depth review of the role and functions of the secretary of the Board of Directors, see the study "Profile of a Corporate Secretary in Latin America" (CAF 2018) <https://scioteca.caf.com/handle/123456789/1792>

**Graph 14.** Level of involvement of the Boards of Directors by subject



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Considering some of the criteria detailed in both Guideline 33 for SOEs and Guideline 13 of the GLACCG that refer to the role and responsibilities of the Board of Directors, it must be taken into account that, in its initial conception, the board of directors was regarded as almost exclusively a controlling body, responsible for supervising and overseeing the performance of the executives on behalf of the owners.

Furthermore, many Boards retain an almost exclusive focus on the verification of formal compliance with regulatory obligations in what is known as conformance. Note that in some cases this is due to regulatory compliance issues, either by requirement of the owner's representative or by the regulator. This approach may lead the Board to the false belief that they are fully meeting their fiduciary obligations when in fact they may be limiting the chance of achieving the true mission of an effective Board which must be linked to:

- The design and construction of the strategic orientation of the SOE
- Monitoring fulfillment of the corporate business purpose
- Control of the upper management
- The oversight of the main risks and business opportunities
- The direct implementation of certain acts of great importance for the SOE
- The definition of guidelines for effective SOE governance

Understanding that the Board of Directors is the highest strategic governance body of the company and is responsible for the aforementioned functions, it is important that the Bylaws and/or the Board Regulations clearly define the mission of the Board of Directors and those functions that cannot be delegated.

The level of involvement and focus of the Boards of Directors contributes to a large extent to the definition and strategic development of the companies in line with the definitions and expectations of the ownership representatives. Based on the results of this study, Boards would be perceived as having a strong focus on oversight and monitoring of company strategy and results. While this approach is important, it is worth considering the following recommendations regarding the involvement and approach of the Boards of Directors:

- **Strategic Alignment:** Ensure a clear strategic alignment with the owners' expectations, carry out periodic reviews, and strive for the sustainability and long-term vision of the SOE.
- **Encourage innovation:** Increase the focus on innovation and technological transformation, by providing resources and support for initiatives that promote adaptation, change management and sustainable growth of the company.
- **Integrate ESG strategies:** Deepen the commitment to environmental, social, and governance (ESG) strategies, develop specific policies and performance metrics in these areas, and ensure that the Board has a clear understanding of these issues as well as monitor ESG risks.

- **Strengthen communication:** Improve communication and relationships with other stakeholders to ensure that the expectations and concerns of all stakeholders are properly understood and addressed.

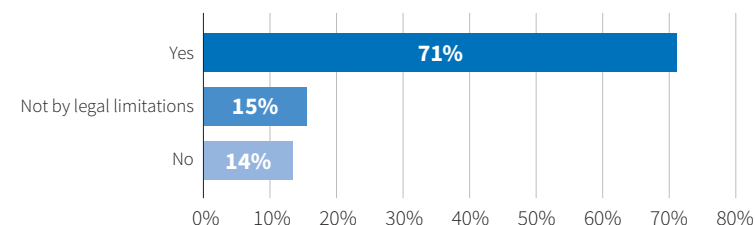
Based on the results obtained in Graph 15, SOE Boards are predominantly responsible (71% of the cases) for the appointment and removal of the CEO. However, either because it is not defined as their function or because there are legal limitations that prevent them from doing so, in half of the cases, the SOE Boards are not responsible for the appointment and removal of the upper management team and in particular of their internal auditors.

Regarding the appointment and removal of the CEO, the figures indicate a significant degree of power granted to the Boards of Directors of the SOEs in the region to carry out this function. This gives authority to the Board of Directors as a liaison body between the ownership representative and the ordinary management in the figure of the CEO and thus strengthens the structure of checks and balances between the three levels of Ownership, Governance and Management and facilitates the alignment of interests among the different stakeholders. This should undoubtedly strengthen the company's reliability and, ultimately, the generation of long-term value and the sustainability of the SOE.

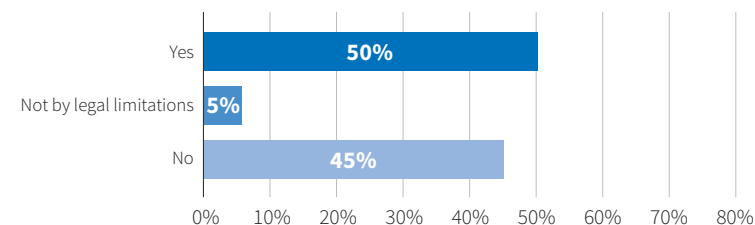
With respect to the appointment and removal of the upper management team, there is no "ideal" model. This responsibility, with the exception of the internal auditor, who must be appointed and removed by the Board of Directors, may be shared between the Board of Directors and the CEO.

**Graph 15.** Appointments and removals made by the Board of Directors

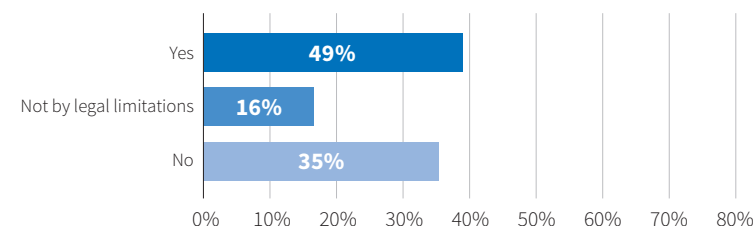
EXECUTIVE PRESIDENT (GENERAL MANAGER / CEO)



SECOND LINE MANAGEMENT (VPs OR MANAGERS)



INTERNAL AUDITOR (HEAD OF INTERNAL CONTROL OR EQUIVALENT)



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

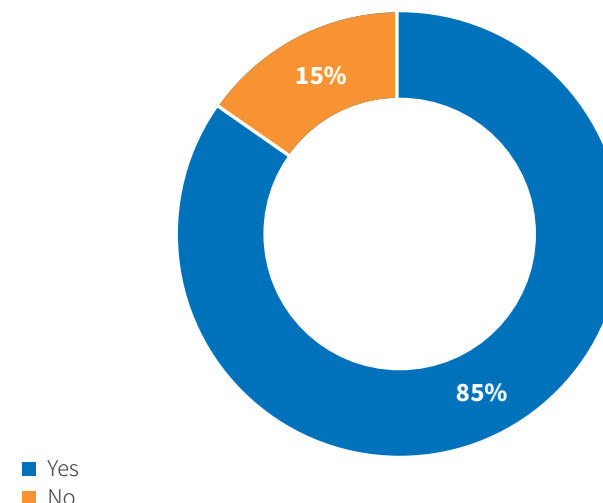
With respect to this last point, and as referred to in Guideline 54 of the SOEs and Guideline 45 of the GLACCG, the responsibility of the Board of Directors in the appointment and removal of the internal auditor lies in the very nature of the position and its functions. From the standpoint of corporate governance, the Board of Directors relies on the internal auditor to fulfill their functions in the areas of: (i) monitoring of the integrity and reliability of the accounting and internal information systems, (ii) monitoring the existence of a sound internal control environment, and (iii) providing the Board of Directors with objective assurance regarding the effectiveness of the company's day-to-day management. Therefore, the internal audit function cannot be functionally dependent on, or accountable to, the CEO. In this respect, it is also incumbent upon the Board of Directors to supervise the efficiency and independence of the Internal Auditor's functions.

As a recommendation, to the extent that there are no legal limitations, it would be up to the Board of Directors to appoint, evaluate, and dismiss both the CEO and the internal auditor as well as to exercise the supervisory role over this position, thus ensuring the efficiency and independence of their functions. Not having these powers would greatly limit the Board's ability to achieve technical independence of upper management from the owner as well as of internal audit from the CEO.

## 7. Committees

The creation of specialized working committees, made up of directors who are qualified in the specific areas they work on is intended to support the Board of Directors in carrying out their duties and making their operations more efficient since the more complex and technical issues are dealt with by members who are appropriately qualified and informed.

**Graph 16.** Percentage of Boards that have Committees

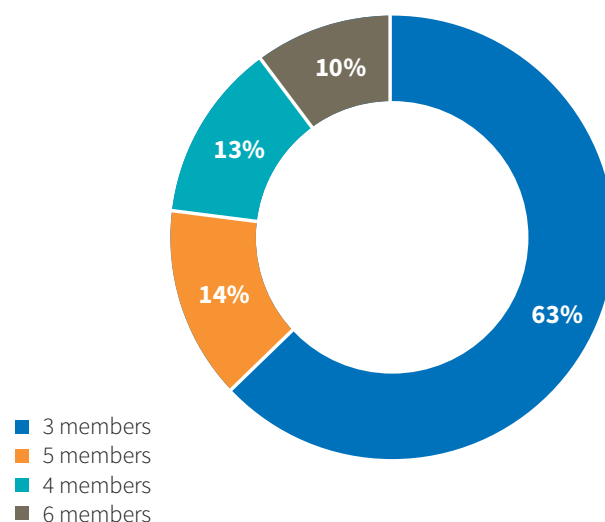


NUMBER OF COMPANIES THAT RESPONDED: 110

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

As shown in Graph 16, 85% of the Boards that took part in the study have formed support committees, and although this is not a high percentage, 15% of the Boards in the sample do not have any support committee. In the latter case, it is valid that it does not make sense for small Boards to have these support bodies, since the number of members would not have the critical mass to differentiate a Committee from the full Board of Directors.

Complementing the previous information, and as shown in Graph 17, among the companies that responded to the survey, these bodies are predominantly made up of 3 members (63%).

**Graph 17.** Number of members on the Committees

NUMBER OF COMPANIES THAT RESPONDED: 93

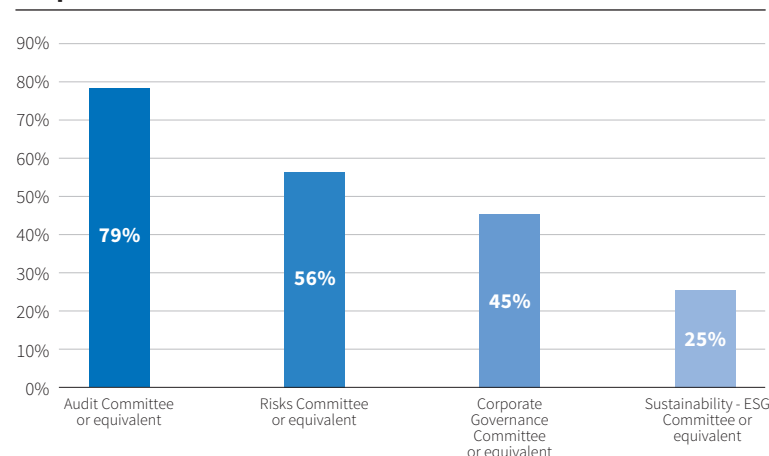
Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

As noted in both Guideline 48 of the SOEs and Guideline 12 of the GLACCG, the Boards of Directors have a significant number of responsibilities and a limited time for their exercise. Therefore, it is a challenge for these collegial bodies to maintain an appropriate focus on the material issues of the company and to address them with a suitable level of time

and depth. In this respect, based on the needs of the Board of Directors as well as considerations of the size of the Board in terms of the number of members, this governing body has the possibility of setting up support committees that specialize in certain material aspects for the company in order to act as study and support bodies that are able to submit proposals to the Board itself and, possibly, to exercise certain duties by delegation.

With respect to the makeup of the committees in the scope of this study, the number that seems to be most appropriate is between three and five members, and when these committees are set up, it is recommended that the Board ensures that their size is appropriate. A low participation of Directors would mean that they would not be able to properly fulfill their function while a high number of Board members would be almost a replica of the collective body as a whole, and their function would be rendered meaningless.

Furthermore, it is important to ensure that when Directors are nominated to form part of a given Committee, their knowledge and professional experience in the subject matter corresponding to the Committee is validated, especially in complex matters such as those dealt with by the Audit and Risk Committees. In the event that, due to regulatory limitations, the members of the Board of Directors are public officials with professional profiles very unlike those required for their participation in the Committees, it is advisable to have a formal training program that addresses these issues in order to reduce the knowledge gap.

**Graph 18.** Committees of the Board of Directors

NUMBER OF COMPANIES THAT RESPONDED: 94

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

As shown in Graph 18, of the Boards that report having Committees (94 of the SOEs in the sample) 79% have an Audit Committee or its equivalent, 56% have a Risk Committee or its equivalent, 45% have a Corporate Governance Committee or its equivalent, and 25% have a Sustainability - ESG Committee or its equivalent.

Based on Guideline 48 for SOEs and Guideline 27 of the GLACCG, the most frequent standing committees are:

- Audit Committee
- Appointments and Remuneration Committee
- Corporate Governance Committee

Depending on the specific needs and reality of the company, the following committees, which may be temporary or permanent, may also be set up:

- Strategy Committee
- Innovation and Technology Committee
- Sustainability Committee
- Risk Committee, separate from the Audit Committee in the case of financial institutions or complex organizations that so require.

In a case in which the members of the Board of Directors do not have the relevant competencies for the creation of these Committees, an alternative is to count on external experts to serve on them.

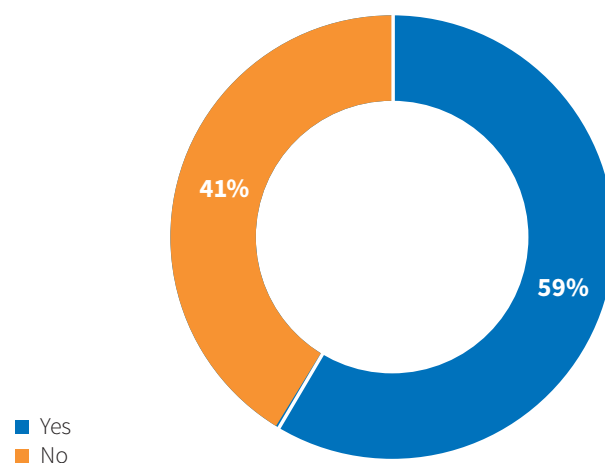
In the study, as expected, the Audit Committee is the most common one and is present in 79% of the Boards thus reflecting the importance of financial supervision and control. The committee is made up of a majority of External Directors (66%), which may strengthen the independence and objectivity of the Board of Directors' supervision.

With respect to the Sustainability Committee as detailed in Guideline 27 of the GLACCG for companies in general and especially for the SOEs (either because of their function as an extension of the ministries for the implementation of public policies or because of the sensitivity of the sectors in which they participate), there is a growing expectation regarding the role and impact they play in the environment in which they carry out their activities. Thus, the ultimate responsibility for monitoring the performance of the ESG system (environmental, social, and governance) and climate

change lies with the Board of Directors. The Board's responsibilities associated with ESG and climate change issues may be assigned to one or several committees specifically created for this purpose, such as a Sustainability Committee, but they may also be assigned to another already existing committee, or be assumed by the Board itself.

As can be seen in Graph 19, there is no consensus on the power of the Committees as decision-making bodies since in the case of 59% of the Boards of Directors that have Committees, these bodies can make decisions. This allows for more dynamic management of the Boards, while in the remaining 41% their functions are only analytical and consultative.

**Graph 19.** Committees that can make decisions



NUMBER OF COMPANIES THAT RESPONDED: 91

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Taking into consideration Guideline 12 of the GLACCG in order to ensure the effectiveness of the committees' support, there must be clarity about what is expected from these bodies. Likewise, it is important that the Board of Directors and the committees adopt an interaction model that optimizes the work of these bodies and enabling the Chairman of the Committee to provide the Board of Directors with reports and information on the work of this body. A proper model of interaction between the Committees and the Board of Directors is essential to ensure that committee conversations are not repeated at meetings of the highest management body since, in such a case, the committees lose their meaning and purpose, and the dynamics and effectiveness of the Board's actions are affected.

Based on the aggregate information reported by the SOEs participating in the study, three recommendations for strengthening the board committees would be as follows:

- **Expand the implementation of Sustainability Committees.** Given the growing importance of ESG factors, and the complexity of many of the region's SOEs, more Boards of Directors could consider establishing Sustainability - ESG Committees.
- **Ongoing training.** It is important to provide ongoing training to committee members to ensure that they are up to date with best practices and the latest regulations in their areas of responsibility in order to contribute more effectively.
- **Evaluations.** Do periodic evaluations of the performance and operability of the committees in order to identify opportunities for improvement in terms of membership and operation.

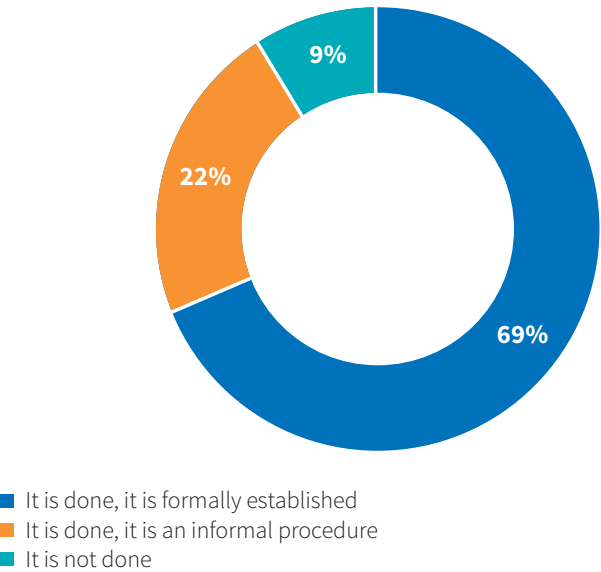
8. Induction and training

The induction process, together with the Director training process, are the two specific types of professional development and human capital creation among Board members with induction being one of the most recognized and implemented practices in companies.

Of the Boards of Directors that took part in this study, 91% carried out some type of induction process. In 69% of the cases, this practice is formally established while in the remaining 22%, even when it is carried out, it is an informal procedure that could easily be cancelled at any time with the arrival of a new administration (Graph 20).

Based on Graph 21, 86% of the Boards of Directors that carry out induction processes report that they include general information about the company, 81% address issues related to the functioning of the Board while 80% report that their induction processes include information about their corporate documents and 64% include issues related to the company's prospects and growth in the sector in which they operate.

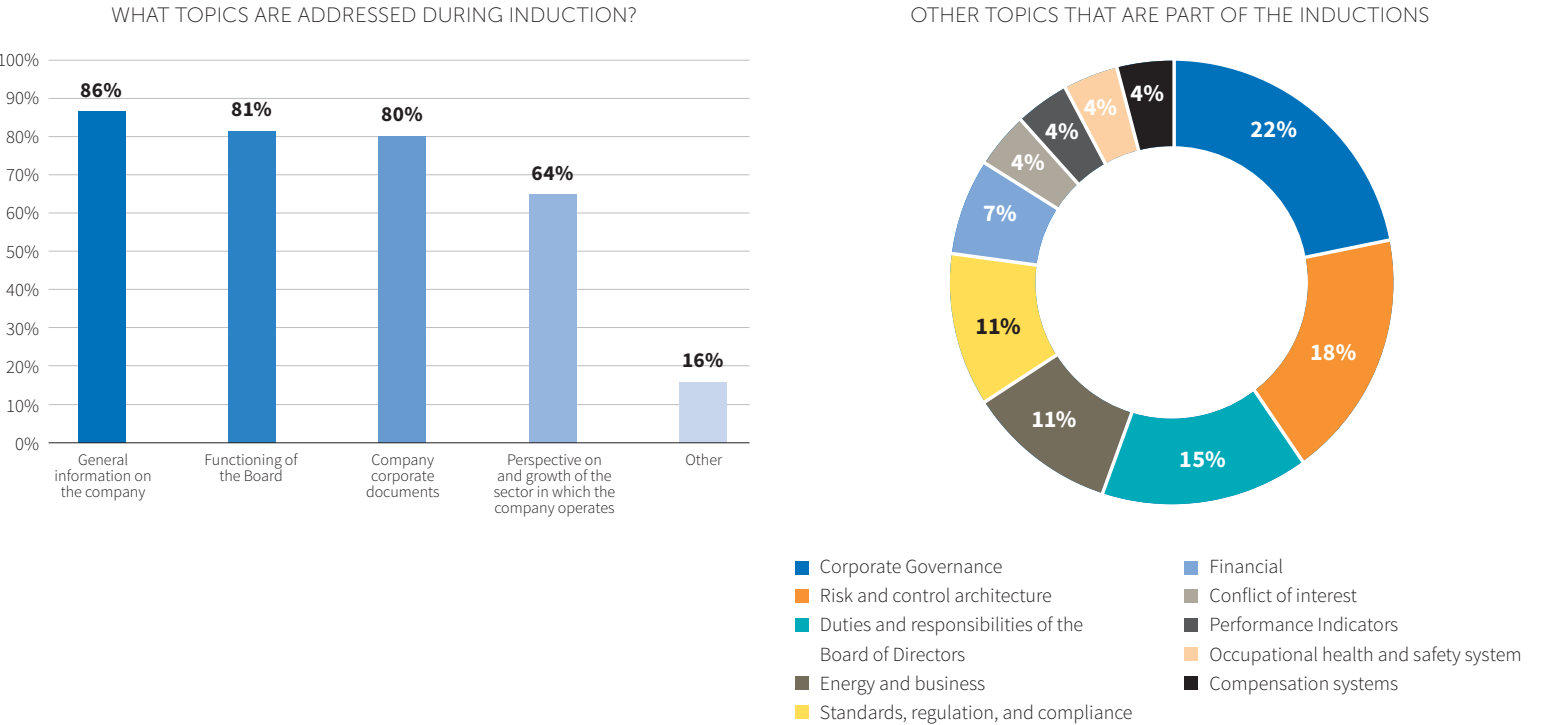
Graph 20. Board of Directors that do induction



NUMBER OF COMPANIES THAT RESPONDED: 111

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Graph 21. Induction topics



NUMBER OF COMPANIES THAT RESPONDED: 111

NUMBER OF COMPANIES THAT RESPONDED: 104

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Regarding other topics that are part of the inductions in some Boards, corporate governance, control and risk architecture as well as roles and responsibilities of the Board of Directors are the most common.

Broadly speaking, induction programs should include, at a minimum, information on the company's regulations and current situation<sup>6</sup>, its complexity, and the essential issues of the organization as well as their responsibilities as Directors, the dynamics of the sessions, and the Board's Annual Work Plan, so that Directors begin their tasks well informed and have a global vision of the company and its growth opportunities.

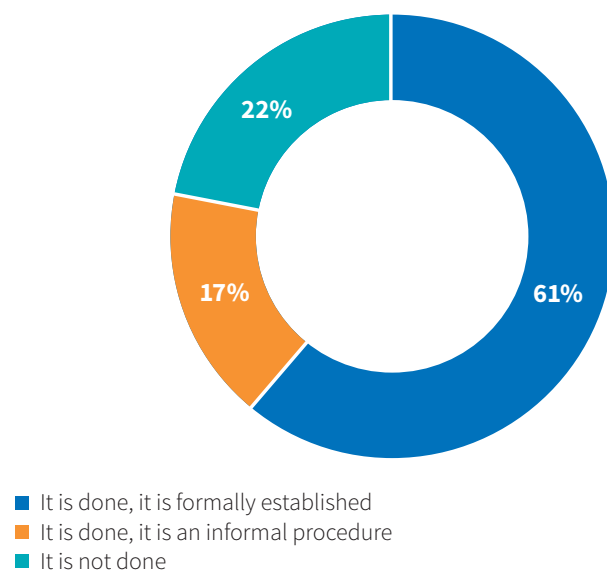
As referred to in Guideline 42 for SOEs and Guideline 14 of the GLACCG, induction is considered a right for Directors that should be reflected in the Board of Directors' Regulations. The purpose is to provide new members with an informed vision of the company's actual situation, its complexity, and key issues. The intention is for them to have the deepest possible vision of the company in the shortest possible time and be able to balance their knowledge with that of the other incumbent Directors. This will enable them to carry out their duties to the best of their ability.

The induction process should consider the particular needs of new Board members. A member with less experience in the industry, for example, may need additional information on this point and other corporate documents such as reference material. The induction session should identify these areas of development and define a plan tailored to meet them through training strategies.

The methodology and scope of the induction process can be adjusted based on the complexity of the company, and may require a more detailed program that includes: formal meetings, development courses or activities, meetings with executive staff and other Directors, a program of site visits, and a greater amount of reading material.

The conditions, rules, contents, and people in charge of induction for directors must be included and formalized in the company's documents and policies such that it becomes a systematically applied practice in the company. Likewise, it is important to identify the person or function responsible for carrying out or coordinating this work, and the Secretary of the Board is an ideal candidate for this task.

6. SOE's regulatory framework, the shareholder's ownership policy, the bodies representing the State, the specific objectives defined for the SOE, the financial situation, the strategic plan, organization, main policies in force, etc.

**Graph 22.** Board of Directors that do training

NUMBER OF COMPANIES THAT RESPONDED: 107

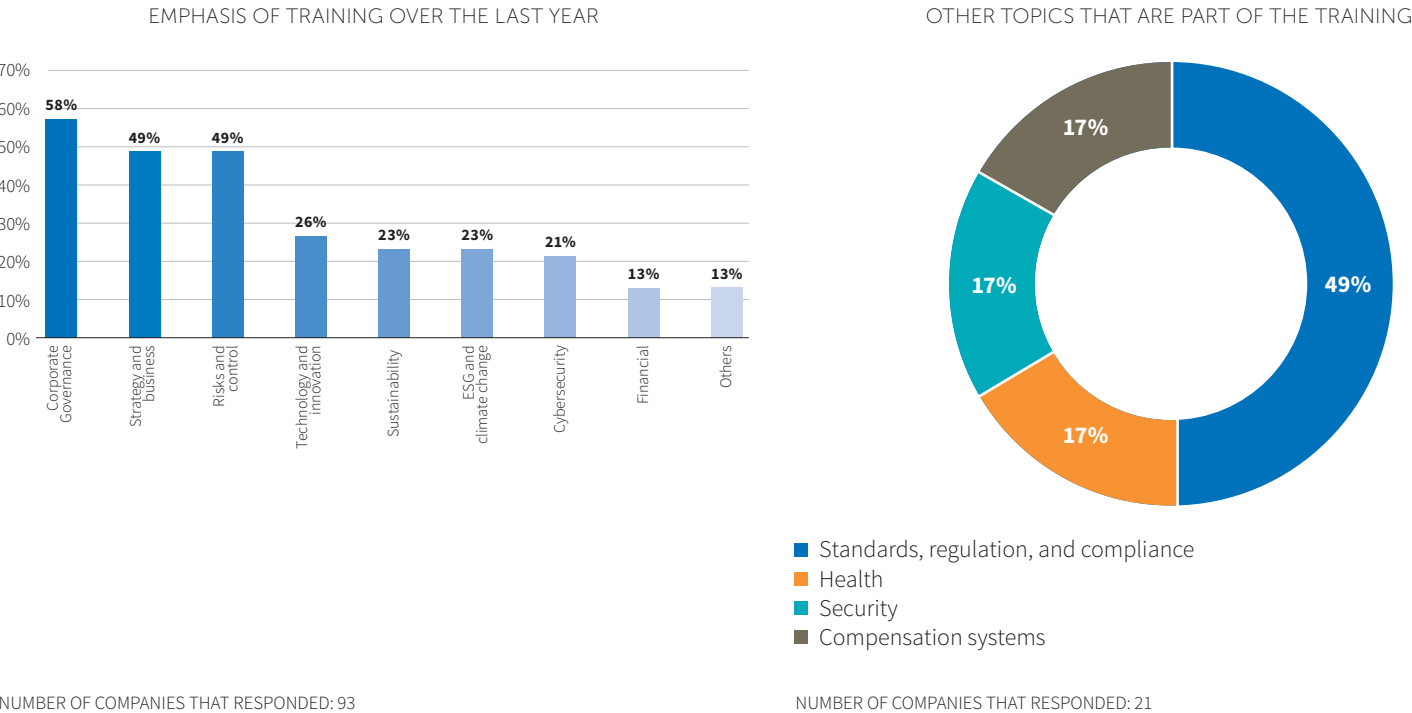
Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Regarding training processes, 78% of the Boards that responded to the survey reported that they receive training; 61% indicated that these processes are a formally established practice while in 17% of the cases, it is an informal practice (Graph 22). As pointed out in the case of inductions, the fact that they are carried out informally means that at any time, with the arrival of a new administration, this good practice could easily be cancelled.

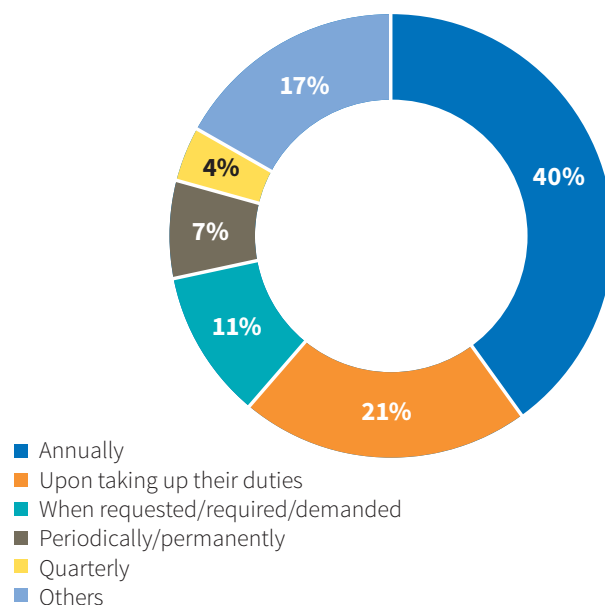
Graph 23 shows that the topics most frequently reported in the training sessions are: corporate governance, reported by 58% of the Boards of Directors; strategy and business as well as risks and controls, both topics covered by 49% of the Boards that answered the survey question. Among the other topics included in the training provided to SOE Boards are: standards, regulation and compliance addressed in 49% of the cases; and health, safety, and compensation systems with 17% each.

As shown in Graph 24, most of the training sessions are held annually (in 40% of the Boards) or at the beginning of the Director's term of office (in 21% of the Boards) and in third place (11%) without a defined frequency and rather in accordance with the demand of the Directors.

Graph 23. Emphasis during last year’s training sessions and other topics that are part of training



Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

**Graph 24.** Frequency of training

NUMBER OF COMPANIES THAT RESPONDED: 76

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

Taking Guideline 14 of the GLACCG as a reference, formalized rules are recommended for SOEs regarding the framework within which directors can exercise their right to count on training and coaching that will enable them to acquire the necessary knowledge to strengthen the managerial decision-making process.

The importance of providing the Boards of Directors with periodic training courses is based on the need to keep the Directors updated on the features and challenges that could arise in the sector or in the economic and social context and have an impact on the company's viability, and which must be managed in a timely manner.

When the information from the sample is analyzed, most SOEs hold an induction process for the members of the Board (91%) as well as training (78%). These practices are crucial to ensure that Directors fully understand their roles from the outset as well as to enhance their competencies and capabilities so that they are better able to fulfill their responsibilities. To strengthen induction and training practice, SOEs could consider:

- Formalize the induction process for Directors and, in addition, ensure that all relevant topics are addressed including strategic plans, corporate governance, control architecture, risks and compliance as well as specific industry and sustainability challenges and progress.
- Do evaluation and feedback exercises of the induction process while enabling continuous adjustments and improvements based on the experiences of the new Directors.
- Encourage continuous training. In addition to the initial induction, establish training opportunities and programs for Board members on new regulations, industry trends, and best governance practices and, in general, on topics that the Directors believe can contribute to and strengthen the decision-making process.
- Include not only criteria for Directors to update their knowledge in the structuring of annual training programs,

but also consider topics that will enable the Directors to align their visions with the organization's business strategy and purpose.

- Develop mentoring and coaching programs in which new members can learn from more experienced members, thereby facilitating a more organized and effective transition and reducing the learning curve for new members.
- Identify the person or function responsible for doing these tasks with the Secretary of the Board being a recommended candidate to carry them out.

## 9. Evaluation of the Board of Directors

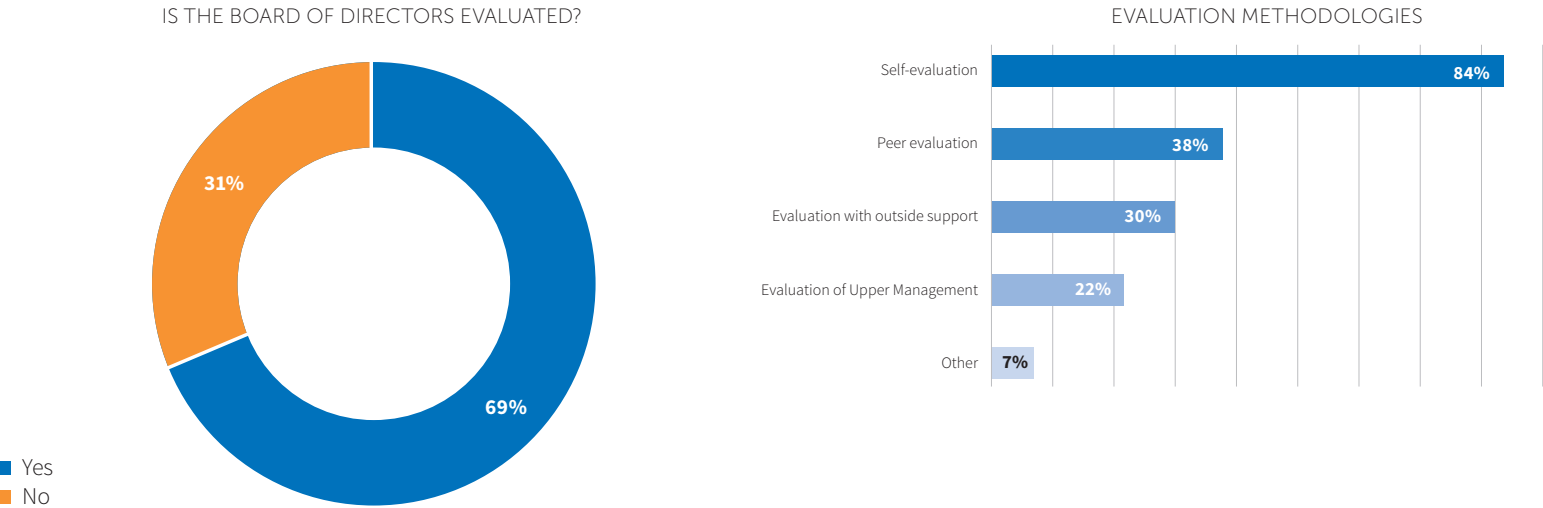
The Board of Directors evaluation is a very useful tool since it allows the Board and its members, individually, to measure their effectiveness, detect weaknesses in their performance, receive feedback on the discharge of their duties and the management carried out during a given period of time, and through the appropriate use of this information, implement improvements and thus strengthen their work.

As can be seen in Graph 25, 69% of the Boards indicate that they do some type of evaluation. This shows a significant commitment to the continuous improvement and accountability of these entities. In this respect, it also highlights the fact that 31% of the companies that responded to the questionnaire do not include this exercise, which is so essential for strengthening the effectiveness of the Board.

The most commonly used methodology is self-evaluation (84%), followed by peer evaluation (38%) and very closely followed by evaluation with outside support (30%) and evaluation by senior management (22%). Note that it is possible that more than one of these methodologies may be used by the same institution, either jointly and in a complementary manner or at different periods of time.

Considering the recommendations of Guideline 49 for SOEs and Guideline 19 of the GLACCG, the Board of Directors should do an annual evaluation of its performance that incorporates different methodologies and provides for a system of periodic monitoring of its results.

Graph 25. Boards of Directors being evaluated and evaluation methodology<sup>7</sup>



7. The question allowed more than one option to be checked.

NUMBER OF COMPANIES THAT RESPONDED: 110

NUMBER OF COMPANIES THAT RESPONDED: 64

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

From the point of view of the State as owner, the evaluation of the Board of Directors offers a structured view of its membership and functioning. In general terms, carrying out an effective Board evaluation process results in:

- i. An increase in members' awareness of their role as Directors.
- ii. Opportunity to identify and discuss areas for improvement as a collective body.
- iii. Optimize the time and efficiency of meetings by adjusting the topics and priorities of the Board's agendas.
- iv. Encouraging reflection on the interaction between the Board and upper management.
- v. Focus members' attention on protecting the company's interests and managing conflicts of interest.
- vi. Enhance the Board's value contribution through more effective decisions.

As part of the evaluation process and based on the results obtained, the Board is responsible for defining a plan to strengthen its performance. The purpose of the Plan is to establish specific actions that will allow the Board to

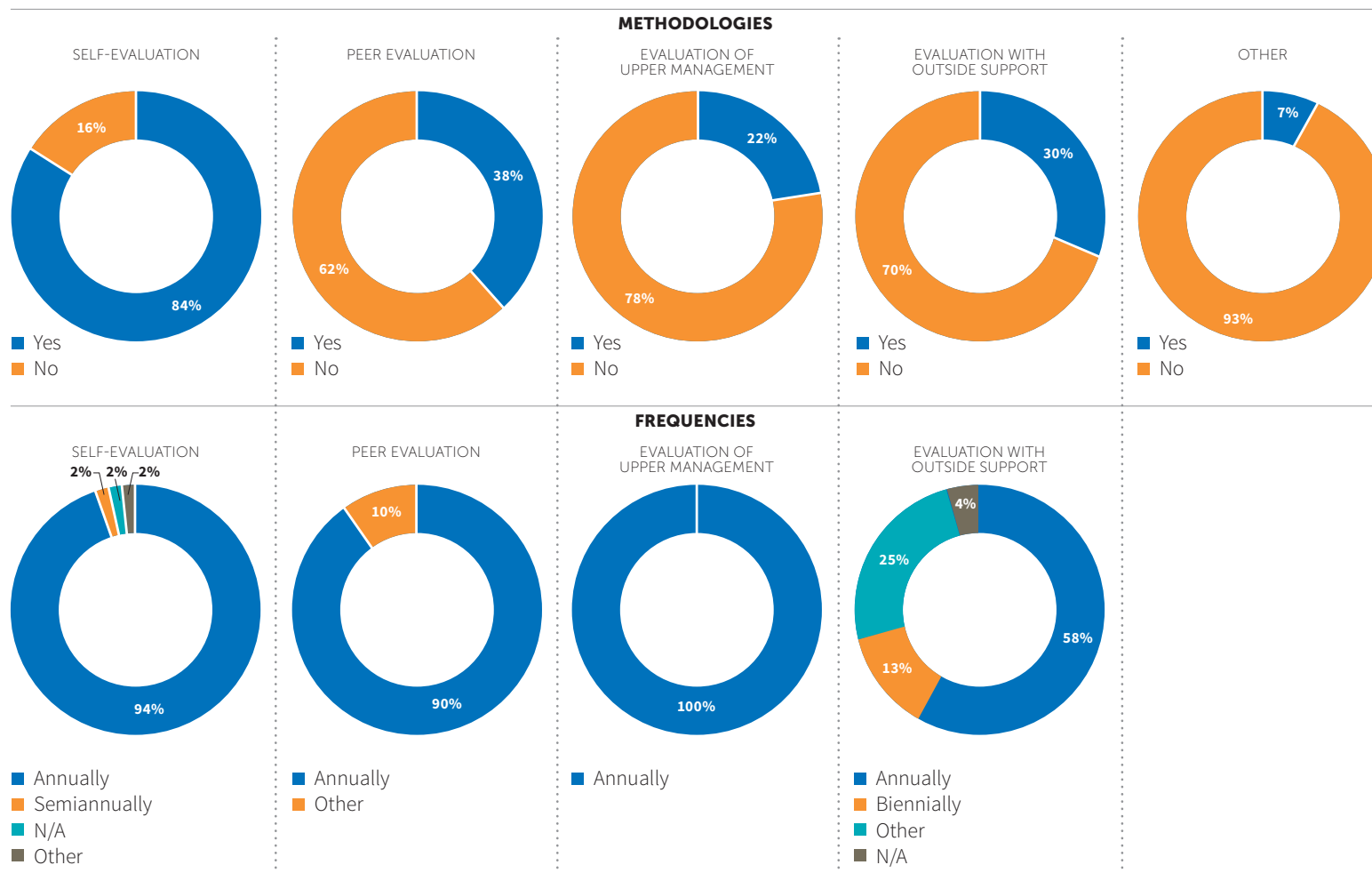
reinforce the areas in which opportunities for improvement have been identified during the evaluation. These may include topics such as:

- Modifying its organization, composition and/or how it functions as deemed pertinent.
- Changing or improving practices related to the dynamics of the Board.
- Induction or training processes that are necessary to increase the knowledge of the directors on matters of special importance for the SOE.
- An appropriate relationship with upper management that will strengthen the dynamics of the interactions.

The results of the Board evaluation should also impact other areas of analysis of the governing body, such as Board remuneration and the process of electing Board members.

Based on the 77 Boards of Directors that responded that they carried out evaluation processes (69% of the sample), the various methodologies applied and the frequency with which they are used were analyzed (Graph 26).

**Graph 26.** Evaluation methodologies and frequency of evaluation



NUMBER OF COMPANIES THAT RESPONDED: 77

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

- **Self-evaluation** is the most widely used methodology with 84% of Boards applying some type of evaluation which indicates that they use it. This suggests that the Boards prefer an internal approach to performance evaluation. In the case of the 94% who apply this methodology, it is carried out on an annual basis.
- **Peer (38%) and upper management (22%)** evaluations are also methodologies used, but they are clearly less widespread than self-evaluation. This indicates that there is room for improvement in terms of diversity of evaluative approaches. In the vast majority of cases, these methodologies are also carried out on an annual basis.
- **Evaluation with outside support** is used by 30% of the Boards that carry out evaluations and is a very important way to get an objective perspective and improve the credibility of the evaluation process. As for the frequency with which it is used, 58% of the Boards that do evaluate, do so annually, 13% biennially, and 25% with a frequency other than these.

In general, regardless of the methodology used, the frequency with which evaluations are done is annual. This is positive for keeping the follow-up on performance regular and implementing the necessary improvement actions in a timely manner.

Once the importance of carrying out Board evaluation processes has been understood, the first thing to be defined is what is most advisable: The evaluation of the Board as a collective body or that of its members considered individually.

As detailed in Guideline 49 for SOEs and Guideline 19 in the GLACCG, the evaluation of the Board of Directors as a collegial body is the least problematic method but, the results, despite shedding light on the main weaknesses in the operations of the Board, do not necessarily reveal the critical areas for improvement. In contrast, an individual evaluation of each director provides the most information, but among its disadvantages is the fact that it is a process that sometimes generates internal friction.

As indicated above, there are different methodologies for evaluating the Board of Directors:

- With regard to the Board as a body, the evaluation is based on the composition of the Board and analyzes the set of profiles represented in relation to the needs at any given time, the focus on the duties attributed, its dynamics (proceedings at meetings, frequency and duration, treatment and handling of the order of business, organization and depth of the debates), the purpose and value of the committees set up (when they exist), the quality of the information received, and, in short, the effectiveness of its performance as a collective body.

- Furthermore, an evaluation exercise in which the upper management team gives its vision of the Board's performance and feedback on the areas in which it expects the Board to optimize its contribution and support can be carried out by management. It is very advisable to evaluate the relationship of the Board of Directors with the upper management since the Board's degree of understanding of the business depends significantly on this relationship.
- Last of all, an individual evaluation (peers) in which Directors give individual feedback to the other members of that body on their participation and contribution may be used. The results of the individual evaluation of the Directors may be used as input for decisions associated with the effective remuneration as well as possibilities for re-election.

The point is not so much to determine which is the best option, but to learn to identify the current situation of the SOE, the Board of Directors, the culture developed with this type of evaluations, in order to decide which option best fits, thus generating the self-commitment that, as the level of maturity of the Board of Directors evolves, will increase the sophistication of the evaluation model.

By way of recommendations, the following is proposed:

- **Evaluation as a priority for the Board of Directors.** Those Boards that do not carry out an evaluation process are encouraged to implement one. This is to

ensure that actions are continuously taken to improve their performance, which in turn will be reflected in more effective and timely decision-making processes as well as in greater transparency and accountability on the part of the Directors. The Board Committees should also be included in these evaluation processes.

- **Encourage peer and upper management evaluations.** These methodologies can broadly complement the self-assessment and provide a more holistic view of the performance of the Board and its individual members.
- **Continue the annual frequency and propose a cycle of evaluations.** Continue annual internal evaluations to ensure that regular reviews are done, and actions are taken for improvement in a timely manner.
- **Include outside evaluations:** Complementing internal assessments with the use of outside-supported evaluations can provide an unbiased, objective view and help identify areas for improvement that may not be evident through self-assessment. These evaluations can have a frequency of 2 to 3 years.
- **Alternate methodologies:** Consider the usefulness of developing a cycle of alternating and complementary evaluations to provide a more in-depth and long-term assessment of certain strategic aspects of Board performance. This way, the Board of Directors is evaluated by applying different methodologies and with the vision of the different stakeholders (Directors, upper management, outsiders).

## 10. Remuneration

It is the responsibility of the State as active owner to establish the remuneration systems for the Boards of Directors of the companies under its purview.



**81% of the Boards of Directors receive compensation.**

NUMBER OF COMPANIES THAT RESPONDED: 109

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

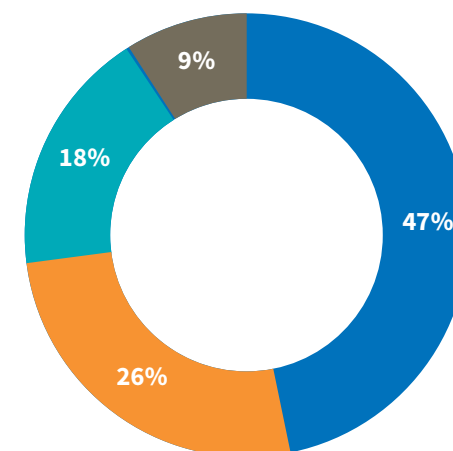
Of the Boards of Directors included in the sample, 81% receive some type of remuneration for the performance of their duties.

Based on Graph 27, of the 88 Boards in the sample that are remunerated, the most frequently used type is fees for attending meetings (47%), followed by fixed monthly or annual fees, regardless of the number of meetings (26%), and only 9% of the Boards receive variable fees based on results.

With reference to Guideline 42 for SOEs and Guideline 17 of the GLACCG, it should be noted that the remuneration of Board members is one of the main rights of directors and one of the most controversial issues in corporate governance, particularly in SOEs given that:

- There is a special sensitivity in everything surrounding SOEs and particularly in their social and economic profitability.

**Graph 27.** Types of compensation received by Boards of Directors



- Attendance allowance
- Fixed monthly or annual payment, regardless of # of meetings
- Other
- Variable fees based on results

NUMBER OF COMPANIES THAT RESPONDED: 88

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

- In general, membership on the Board of Directors is considered a personal recognition rather than an obligation that demands dedication and generates legal responsibilities. To that extent, it is not a general vision that remuneration should be the product of a compensation policy that makes it possible to attract good professionals.

- Occasionally, certain public positions are associated with membership on the Board of Directors of certain SOEs, and this means that compensation is not considered an element that attracts professionals to the Board.

However, considering the responsibilities required of the Directors, SOEs must ensure proper compensation for the members of the Board of Directors approved by the Assembly, or in its absence, the ownership body, and it must be consistent with the results of the SOE and the characteristics of the industry. In this respect, the SOE should formalize a public model of Board remuneration that is approved by the General Assembly of Shareholders or representative of the owners (via a Board remuneration policy) and considers market conditions, the time requirements to fulfill the duties of the position, and the level of the directors' responsibilities.

The Board of Directors' incentive model is significantly supported by the definition of the compensation system set by the company for its directors. The growing responsibilities of Board members and the expectations regarding their contribution to generating value for the company should be correlated with the amount of compensation they receive.

That is why the company must formalize the conditions and types of compensation for its directors in a remuneration policy for the Board of Directors. The policy guidelines should be based on the principle that directors' compensation should be commensurate with the responsibilities they assume as well as with the time required to discharge their responsibilities. Thus, the company will have the mechanisms to attract the best talent for its highest management body.

A challenge that is very specific to SOEs is the situation of those public officials who, by law, have a seat in one of the SOEs. In this particular case, it is important to make people aware that, in cases where they are remunerated<sup>8</sup>, the compensation they receive for their involvement in the Board of Directors is a contribution to their role as a Director and not a complement to the compensation they receive as a public official.

Note that Board remuneration may include fixed items such as a retainer fee, or compensation for attendance at Board or committee meetings. It may also incorporate variable components subject to the company's long-term results and performance.



**61% of the Boards of Directors pay their committees.**



**43% of the Boards offer higher compensation to Board Chairmen.**



**82% of the Boards provide liability insurance policies.**

NUMBER OF COMPANIES THAT RESPONDED: 88

Source: Prepared by the authors based on the survey of the effectiveness and structure of SOE Boards of Directors in Latin America and the Caribbean (2023).

8. In some countries, local regulations prohibit a public official from receiving additional remuneration as a member of the Board of Directors of an SOE.

The remuneration of the Board of Directors should not only address the attendance and meeting time of the Board. From a corporate governance perspective, the remuneration of the Board of Directors should be aligned with the level of real dedication and actual responsibility of each Director. This means that:

- Directors who are members of and participate in the Committees are paid in recognition of the time invested in carrying out their duties (attendance, preparation and follow-up on issues) as well as the contribution and knowledge placed at the disposal of the body. Most of the SOEs that took part in this study (61%) compensate committee members, while 39% do not.
- The Chairman of the Board of Directors shall receive a differentiated treatment in terms of compensation, in order to compensate for the role he/she plays within the Board of Directors and the greater dedication of time in the performance of his/her duties. In accordance with the above, the differentiated (higher) remuneration should be extended to the Committee Chairmen. This is not a widespread practice among the SOEs in the sample since less than half (43%) do so.
- The obligations contracted by the Company for the payment of insurance premiums for liability insurance contracted in favor of the Directors are included. A significant majority of the SOEs that are part of this study (82%) have this benefit for their Directors.

Considering the complexities that SOEs, as State institutions, present in terms of budgetary and regulatory limitations, it is recommended that the SOEs should seek to establish a compensation and incentive system that is competitive, appropriate and equitable for the members of the Boards of Directors and their Committees, so as to facilitate the attraction and retention of people of the highest personal and professional qualities for the strategic management and decision-making processes.

In this respect, SOEs could consider a combination of fixed attendance fees and variable fees based on Director and company performance thereby encouraging higher levels of participation and engagement. Likewise, the implementation of mechanisms such as the liability insurance policy, in addition to constituting an incentive or benefit, may contribute to Directors being able to carry out their duties with greater peace of mind.

Even if SOEs consider their compensation models to be competitive, it is advisable to do market benchmark studies to validate that Directors' compensation is aligned with industry best practices and is sufficiently competitive.

## SECTION IV

# CONCLUSIONS

Based on the results of this study, the authors' experience and their interactions with SOEs in the region, the following conclusions were drawn. These are expected to be useful in the process of reinforcing SOE corporate governance and contribute to achieving more effective Boards that will lead to better decisions, provide a holistic vision, and add value to SOEs in the long term.

In these seven years since the original study was published (2017), there have been significant changes and although the two samples are not statistically comparable, the mere fact that more than twice as many SOEs have voluntarily participated in the survey to share the status of their Boards regarding their corporate governance practices is a sign of the growing importance of the topic on the agendas of the collegial bodies of SOEs in Latin America and the Caribbean.

It must be recognized that the region is facing a new stage of corporate governance in which public companies have made progress in the adoption of these principles (in some cases, possibly on a formal basis). Going forward, the challenge is to continue to consolidate a culture of implementing best practices in corporate governance and long-term sustainability while integrating the different perspectives of ownership, board, and management stakeholders. This implementation should be done while considering two dimensions, which can be identified as: corporate governance hardware and software in a SOE.

The hardware refers to local corporate governance regulations, which serve as the basis for structuring the bylaws, regulations, and codes of SOEs. It is generally very difficult for an SOE's Board of Directors to make adjustments in this dimension since it requires the political will of the owner's representative and in some cases even of the parliament to draft new legislation. The software, on the other hand, corresponds to the dimension that is within the reach and under the direct responsibility of the Board of Directors, and whose internal adjustments can have a significant impact on the effectiveness with which the collegial body operates.

As conclusions to the document, the first one refers to the hardware and the rest to the software.

### **1. Importance of State commitment.**

The challenges faced by the SOEs are to a large extent associated with and determined by the commitment to and relationship with the State as owner. In view of the above, the State is required to understand its responsibility as an active and responsible representative of its property, so that the long-term mandate for which the SOEs have been created is maintained. In this respect, the exercise of the right of ownership in the appointment/election of Directors with business criteria, suitability, and the search for independence is essential. Likewise, it is their obligation to update regulations and/or codes, whether mandatory or voluntary.

Furthermore, another mechanism for the State to delimit its various roles (owner, regulator, client, etc.) is through the fostering and implementation of clear ownership policies. The committed involvement of the State in defining and encouraging good governance practices is essential to ensure that SOEs operate with sufficient autonomy within the framework of their corporate purpose, efficiency, and accountability in an environment of trust.

Likewise, it is extremely important for the State, through governmental action, to ensure that the various public oversight, control, and auditing agencies (Comptroller's Office, Attorney General's Office, etc.) differentiate between the business reality of a SOE and other Public Administration bodies, so as to identify possible alternatives that will make it possible to implement control architecture models that are appropriate for an operating company.

### **2. SOE autonomy in the implementation of best practices.**

SOEs face complex regulatory frameworks that require constant adaptation and lead to frequent transitions among key governance players (ownership, board leadership, and management). Therefore, it is crucial for SOEs to continue the process of autonomously implementing high-impact practices internally while mitigating legislative restrictions and the realities of exercising power in these types of institutions. Examples of these practices include the induction and training

of Board members as well as the annual performance evaluation at the board of directors' collegial and individual levels. These initiatives, generated autonomously or through the exchange of experiences among the SOEs themselves, should continue to be implemented in order to continuously improve their corporate governance models and the effectiveness of their Boards of Directors.

Proper induction, training and constant evaluation of Directors are practices that are essential to maintain the effectiveness and continuous improvement of the collegial body. SOEs should invest in professional development programs that ensure that their Directors are up to date with the new world, best governance practices, and emerging trends in their industries.

### **3. Challenges in the structure and operations of SOE Boards of Directors**

Although there are various legislative restrictions that prevent many SOEs from adjusting the number of Directors or incorporating more independent members, it is essential to continue working on operational and dynamic aspects over which each company has autonomy and direct influence. Therefore, SOEs should focus their efforts on strengthening their Boards of Directors in the context of changes and adoption of new technologies and the need to adapt the vision and operations of the Boards of Directors by optimizing internal processes such as the annual agenda; the frequency,

duration, and dynamics of the meetings; the time required to provide quality information prior to the meetings; the fostering of a culture of responsibility, diligence, and transparency in its Boards of Directors as well as the enhancement of the role of the Secretary of the Board.

### **4. Focus on the ESG Agenda**

Recently, the corporate sector and institutional investors have been pushing for the activation of an environmental, social, and governance (ESG) sustainability agenda in corporate policies and strategies. SOEs must continue to make progress in this area by adopting practices that recognize not only economic, but also social, environmental, and climate change impacts. This is to ensure that their application has a positive impact on their reputation and their ability to relate to the communities they serve, investors, and other stakeholders while contributing positively to sustainable development and economic resilience in the region.

### **5. Compensation and talent retention**

In order to attract and retain high quality talent on Boards, a task for SOEs that is still pending is to encourage and establish competitive and equitable compensation packages for Directors, and even for the companies' management teams. These plans should ensure that the members of the Board of Directors and upper management are suitably incentivized to contribute to the success and sustainability of the SOE.

It is also important to implement civil liability policies that provide greater peace of mind to the Directors in the assumption of risks involved in the decision-making processes. These policies are essential to protect Directors from potential litigation and the risks associated with their decisions and actions, and thereby attract talent to the Boards of Directors of these companies in order to facilitate an environment in which they can focus on their strategic work without excessive legal concerns.

In short, Latin American SOEs have demonstrated significant progress in the implementation of good corporate governance practices even with the complex regulatory frameworks and the frequent transition processes their main governance stakeholders have undergone. These efforts enable a new wave of professionalism and commitment to efficiency in public management. The expectation is that by continuing to reinforce, formally and especially practically, the implementation of stronger and more resilient corporate governance measures, adjusted to the new realities, SOEs will be increasingly better positioned to honor their corporate purpose and thereby serve the citizens they have an impact on with the goods and services they provide.