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ACCOUNTABILITY AND VALUE CREATION  
IN **PEMEX** AND **CFE**

The analysis was prepared based on information available at the Internet portals of the State-Owned Productive Enterprises (SPE) in Mexico during 2018 between May and October, and corroborated or expanded through the access to information mechanism of both Petróleos Mexicanos (Pemex) and Federal Electricity Commission (CFE).

Also, direct interviews were conducted with directors, managers and employees of both institutions, as well as users of the information that these companies disseminate proactively, among which are academics, consultants and energy lawyers, specialized journalists, contractors of these companies and experts in the subject of corporate governance.

México Evalúa is a think tank that focuses on the evaluation and monitoring of the government operation to raise the quality of its results. We support the processes of improvement of public policies at federal, state and local levels through the generation and /or review of evidence and the formulation of recommendations. Performed by our researchers and by our academics and external experts who collaborate with us, our studies are impartial, independent and nonpartisan and serve to make transparent, evaluate and compare government actions.

We appreciate the time and effort that Marta Vaca, Rodrigo Rébora, Gonzalo Monroy, Carlos Martínez, Atzayaelh Torres, Miriam Grunstein, Ramón Olivas, Lourdes Melgar, Alejandra Ríos, Patricio Orendain, Nancy Flores, César Hernández, Mariana Campos, Jacobo Pastor Villareal, María Novoa, Christel Rosales, David Ramírez and Germán Loyola dedicated to provide us with feedback on their experience as users of information and/or experts in governance, corporate governance, transparency and the energy sector and specially in terms of corporate transparency of State Productive Enterprises in Mexico..

The presentation, database, and full report are available on the web page of México Evalúa ([www.mexicoevalua.org](http://www.mexicoevalua.org)).

México Evalúa,

Centro de Análisis de Políticas Públicas, A.C.

April, 2019



This project was supported by a grant from the Center for International Private Enterprise in Washington, DC.

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# Presentation

**EDNA JAIME | CHIEF EXECUTIVE OFFICER OF MÉXICO EVALÚA**



The Energy Reform of 2013 completely changed the concept of state-owned companies in the sector. Petróleos Mexicanos (Pemex) and the Federal Electricity Commission (CFE), now as competitors of markets open to private investment, changed their purpose and internal structure to adjust to the a new reality.

Under the figure of State Productive Enterprises (SPE), the main objective of these companies was limited to the generation of commercial value. To comply with this purpose, some elements of corporate governance were introduced for contributing to making these companies more efficient, more competitive and capable of identifying and preventing acts of corruption.

The need to alleviate the rigidity of certain governmental processes that established a disadvantage for them in the face of the dynamism in the processes and decisions of their competitors served as justification for the application of a special regime. As for acquisitions, leases, services and works, as well as budgetary matters, public debt, administrative responsibilities, remunerations and contracting, these companies were allowed to abide by their own regulations and generate their own control and performance mechanisms. This is an important change, since it modified the external accountability controls that exist for the rest of the government entities.

While flexibility is important and it is undeniable that the nature of these companies is different from that of other public entities, it is necessary to design new forms of accountability that are compatible with the special regime in question. Especially, if we consider that in the field of state-owned companies it is known that these corporations face management problems, caused by: 1) Political interference by the authority that delegitimizes decision-making processes and cause efficiency losses or waste of resources; 2) The transgression of principles of competitive neutrality that weakens the guarantee of equal conditions for private and state-owned companies in the markets in which they compete, privileging the latter against the former, and 3) The weakness or inexistence of internal supervisory mechanisms capable of preventing corruption, which makes it difficult to establish incentive systems for employees, managers and directors to act in the best interest of the company and the citizens.

A comprehensive policy of corporate transparency and public dissemination of information can be an effective accountability tool against risks that are specific to state-owned companies related to political interference and supervisory work related to integrity and corruption. Through the dissemination of information and more transparent processes, these state-owned companies

could generate an environment of trust about their performance, in such a way that it is possible to report frequently and clearly to different stakeholders interested in their performance and that include mainly investors, business partners and citizens, who are the ultimate shareholders.

Corporate transparency in SPEs must be a transversal policy that emanates from the Board of Directors and permeates at all levels of the organization. When it is effective, this policy has a function of “public window” (Villanueva, 2015)<sup>1</sup> that enables the creation of virtuous circles for the generation of value for the same company, for its commercial partners and for the Nation.

Therefore, transparency in SPEs implies an organizational challenge, which involves production, distribution and information management tasks. It is, after all, a policy designed by the highest government body, which has by law the power to issue guidelines and rules that derive from the legal capacity of self-regulation.

At México Evalúa, we want to contribute to raise the quality of the work of the SPEs. We have identified the need to create a tool that allows the diagnosis of their corporate transparency, derived from the special regime they were granted as of the Energy Reform.

This analysis aims to promote better corporate transparency practices in SPEs so that these companies can be more efficient, more competitive and more effective. In addition, with processes more visible to scrutiny, it is intended to discourage corrupt practices within them. In short, this work seeks to change the face of CFE and Pemex, with better practices of transparency and corporate governance that generate greater value, and contribute to shielding them from acts of corruption.

Our Corporate Transparency Index in SPEs (IT SPE) allowed us to identify the presence or absence of corporate transparency practices in the exercise of the governments of these companies; measure their degree of quality, and issue concrete recommendations for improvement.

The **global rating** obtained by both for Pemex and CFE at the IT SPE **was insufficient**, in terms of the tabulator that we use to measure the quality of their corporate transparency practices. However, we believe that this conclusion is a starting point of a larger context –even foreseeable–, as we believe the Index can be useful for the SPEs subject to analysis, because at the end it reveals the variables with the greatest areas of opportunity within the companies. The elements of the methodological construction will be summarized in the following chapters.

For its thoroughness and depth, we believe that this study is unprecedented. For emphasizing the relationship between transparency, accountability and corporate governance –in the context of state productive enterprises–, we also believe that its approach is original. In short, we make available to the federal government and the general public an important tool for the strengthening of SPEs, which is deeply linked to México Evalúa’s mission of monitoring and evaluating the government operation.

<sup>1</sup> Cfr. Villanueva, Ernesto, “Ideas to Disorder Ideas”, in MERINO, Mauricio (Coordinator), *Transparencia: libros, autores e ideas*, IFAI-CIDE, Mexico, 2005, p.66. Available in: [http://rendiciondecuentas.org.mx/wp-content/uploads/2013/01/transparencia\\_merino.pdf](http://rendiciondecuentas.org.mx/wp-content/uploads/2013/01/transparencia_merino.pdf)

## CHAPTER 1

# Context and Relevance of the Evaluation

**T**he need for IT SPE arises from the importance of evaluating transparency practices in Pemex and CFE after the changes that occurred in its legal nature as part of the Energy Reform. With the transformation to the State Productive Enterprises (SPE) regime, both its objective and its institutional design underwent major changes. The role of transparency in this new model becomes fundamental because it serves to report back to different stakeholders, which in addition to having an important democratic value for any public entity, in the case of SPEs, can help meet their objective of generating greater commercial value, as we will explain later.

Therefore, it is essential to verify that transparency has been incorporated as a core principle of the new model of state-owned companies in the energy sector. That is the ultimate goal of this evaluation.

Before describing our evaluation, we will briefly explain the context in which the SPEs were created, their main axes of change as well as the role that transparency can play in this new design of corporate governance.

## Creation of State Productive Enterprises

On August 12th, 2013, one of the most significant constitutional reforms of the last 70 years was carried out in our country. The so-called Energy Reform transformed the hydrocarbon industry and the electricity industry, ending the state monopoly that existed on these activities and establishing a model of economic competition. Its ultimate goal was to establish new legal bases to achieve a better use of the country's natural resources, and that in the long term could translate into greater economic growth, energy security and strengthening of the Mexican State in its role as rector and regulator of the energy industry.

One of the most important changes of the reform was the transformation of Pemex and the CFE from decentralized agencies to Productive Enterprises of the State. The main purpose of these companies now is "to generate economic value and profitability for the Mexican State, acting transparently, honestly, efficiently, with a sense of equity and social and environmental responsibility, and seeking improvement of productivity to maximize income oil company"<sup>2</sup>.

<sup>2</sup> The laws of Petróleos Mexicanos and the Federal Electricity Commission published in the Official Gazette of the Federation on August 11th, 2014, are in force as of the date of preparation of this study.

The then President Enrique Peña Nieto explained that the new mandate had been due to two reasons. In the first place, state-owned enterprises needed to have full capabilities to make their own decisions and manage their risks –with their own legal personality and assets, technical, operational, budgetary and management autonomy–; only then could they compete with the private sector, whose participation in the sector was possible due to the constitutional reform. Second, government control over them had been excessive, to the extent of preventing them from the business flexibility necessary to operate efficiently<sup>3</sup>.

Thus, the new laws that gave rise to a new corporate and organizational life in Pemex and CFE sought to guarantee autonomy, efficiency and transparency. The axes of change, in accordance with the explanatory statement of the initiatives of these laws, included<sup>4</sup>:

### A New Legal Figure for SPEs with a Special Regime

Unlike the entities and dependencies of the Federal Public Administration (FPA), and for the effective realization of their new object, the SPEs enjoy a special regime regarding acquisitions, leases, services and works, budget, public debt, administrative responsibilities, remunerations and contracting<sup>5</sup>. The intention was to set up a flexible legal framework that obeyed the principle of maximum self-regulation.

### A New Role of the State as Owner

Although the State owns SPEs under this new corporate scheme, it should not interfere in the day-to-day operation of its companies. That is to say, it must let them make their decisions autonomously following a business logic and marking distance from the political conjuncture.

### A Solid and Effective Corporate Governance

The Organization for Economic Cooperation and Development (OECD) defines corporate governance as a key element to increase economic efficiency and boost growth and investor confidence. Corporate governance covers a whole series of relationships between the management of a company, its Board, its shareholders and stakeholders.

Corporate governance also provides a structure for the establishment of objectives by the company, and determines the means to achieve them while monitoring compliance. Good corporate governance should offer appropriate incentives to the Board and the administrative body of the company, so that objectives that serve the interests of the company and its shareholders are pursued, as well as facilitating supervision. The existence of an effective system of corporate governance within a given society contributes to generating the degree of confidence necessary for the functioning of a market economy.

Pemex and CFE laws establish their respective Boards of Directors as their maximum governing bodies. Such Boards are responsible for the direction the management must follow (strategic direction and the integral planning) which includes delimiting the policies of the special regime.

### New Transparency and Accountability Mechanisms

Corporate transparency has taken on a major dimension in the governance of companies, due to the positive impact it has on the markets. There is evidence that confirms that a practice of greater transparency helps investors at understanding the decisions of the company's top management, reduces information asymmetries, strengthens confidence in the capital markets and attracts greater investment<sup>6</sup>.

<sup>3</sup> Peña Nieto Enrique (2014). Explanatory statement of the Decree Initiative issuing the Law of Petróleos Mexicanos

<sup>4</sup> Idem. Page 3.

<sup>5</sup> Idem. Page 2.

<sup>6</sup> Briano Guadalupe and Rodríguez Lázaro. "Corporate Information Transparency on the Internet by Listed Companies in Spain (IBEX35) and Mexico (IPYC)". The International Journal of Digital Accounting Research. Vol 12, 2012. Page 2



Therefore, there are compelling reasons for companies to communicate more information than that they are obliged to reveal, and for them to build effective communication systems with different stakeholders to increase or maintain levels of confidence that finally result in greater value for the company.

For example, those companies that reveal more information about the extension and depth of their research and development activity, or segmented information about license fees and royalty collection; that share more accurate data on growth rates or customer turnover, are finally compensated generously by investors in the form of lower capital costs, lower price volatility or greater monitoring of the company by the rating agencies<sup>7</sup>.

Corporate transparency is, therefore, a good practice that responds to the commitment of the company with its long-term stakeholders, and that the markets reward accordingly. In this sense, state-owned companies must disseminate and report business information that includes aspects that affect the State as owner and, ultimately, the citizens that comprise it.

A high level of publicity in state-owned companies is essential given the important objectives of general interest that they have, and the significant impact that their performance has on the Federal or National budgets, on the risks assumed by this, or at the social sphere such as the case of the supply of fuels. Our research and evaluation is concerned with corporate transparency practices performed at Pemex and CFE.

## About our Evaluation

As indicated above, from the creation of the SPEs, Pemex and CFE had to adjust to a new commercial object, accompanied by rules and control and monitoring mechanisms that allowed them to move to operate more as companies and less as departments of the government.

This transformation implies a substantial change in organizational culture. Transparency becomes

a continuous, systematic, standardized and totally integrated exercise to routine activities, a focus to be present at all activities employees, directors and members of the Board perform and that are meant to be converted to information of general interest for subsequent publishing.

If this new institutional arrangement does not impose itself on SPEs processes in accordance to their special regimes and State supervisory mechanisms, the whole business activity is automatically delegitimized and mistrust is generated in their environment, which ultimately damages performance and causes value losses.

Therefore, in this study we face the question of how have the SPEs modified their corporate transparency practices since the reform came into effect?

In this sense, corporate transparency can be classified as an active transparency policy that, unlike the right of access to information exercised at the request of a party, is verified without a request, with a specific objective of public policy –for example, improve the quality of a public service or fight corruption–. In this type of active transparency policies, it is important to define the objective pursued and the target audience, since what is sought is to encourage behaviors of the recipient<sup>8</sup> (either individual or institution)<sup>9</sup>.

In our case, transparency is one of the most important elements of corporate government to comply with the commercial objectives of the company and for the rendering of accounts to different stakeholders. Thus, what we evaluated in this study is, in first instance, whether good practices of corporate transparency were present in the SPEs and, later, if they had quality, in such a way that the possibility of positively incentivizing the behavior of employees, directors and advisors, and advance in the fulfillment of the corporate objectives established by law was feasible. This would ultimately make the policy have the potential to be an effective transparency policy.

<sup>7</sup> Lev Baruch (2011). Ganar la confianza de los accionistas. Harvard Business Review Press. Boston, Massachusetts. Page 180-182.

<sup>8</sup> It is pertinent to clarify that although the obligations regarding public transparency –to which the SPEs are obligated as regulated institutions according to article 73 section IV of the Federal Law of Transparency and Access to Public Information (LFTAIPI)– are also an example of active transparency policy, their objective is reduced to accountability as public entities and, therefore, has a much more limited and less specialized scope. Due to the need and interest of corporations such as SPEs to attract investment, generate certainty and reputation, this evaluation is not about such lawful Transparency Obligations, but about elements of a more specialized corporate transparency policy and with a greater scope than that established by the public governmental transparency framework.

<sup>9</sup> Fung, A., Graham, M., & Weil, D. (2007). Full Disclosure: The Perils and Promise of Transparency. Cambridge: Cambridge University Press. doi: 10.1017 / CBO9780511510533

## What is Evaluated?

### Object of the Evaluation and Its Scope

We evaluate corporate transparency based on the information that the SPEs disseminate proactively to different stakeholders interested in their performance. On one hand, public in general –as users of its services and the last owners of these companies– are to be considered from the perspective of transparency, as a non-expert audience. In that case, we consider that the objective of the dissemination of information is accountability of the SPEs as public entities.

On the other hand, current and potential investors and business partners, interested in the company, are to be considered expert audiences. The objective of disseminating information for this audience is to create greater economic value by generating trust that can trigger a greater attraction of investment. In these cases, the objective is also accountability but at a more specialized level because it is linked to providing legal certainty to present and potential business partners, which implies for SPEs the assumption of more complex responsibility in terms of dissemination of information.

It is important to say that this evaluation deals only with what is known as active transparency for expert and non-expert audiences<sup>10</sup>.

The diagnosis presented here was made based on the publicly available information that the SPEs have proactively made available to the general public, since their inception, during the Energy Reform on August 11th, 2014, and until November 2018. Our information review period started in May and ended in November 2018, and

was limited to reviewing the information contained in the official websites of Pemex and CFE.

In order to determine the information components in the SPEs whose dissemination is relevant, we used as baseline the pillars of Corporate Governance established in the OECD Guidelines on Corporate Governance of Public Enterprises, and considered how transparency as a tool may enable the compliance with each one of them. This approach was born from the idea that transparency is more effective when it is adopted as part of an organizational culture within the state-owned company, at each level of operation of its corporate governance<sup>11</sup>.

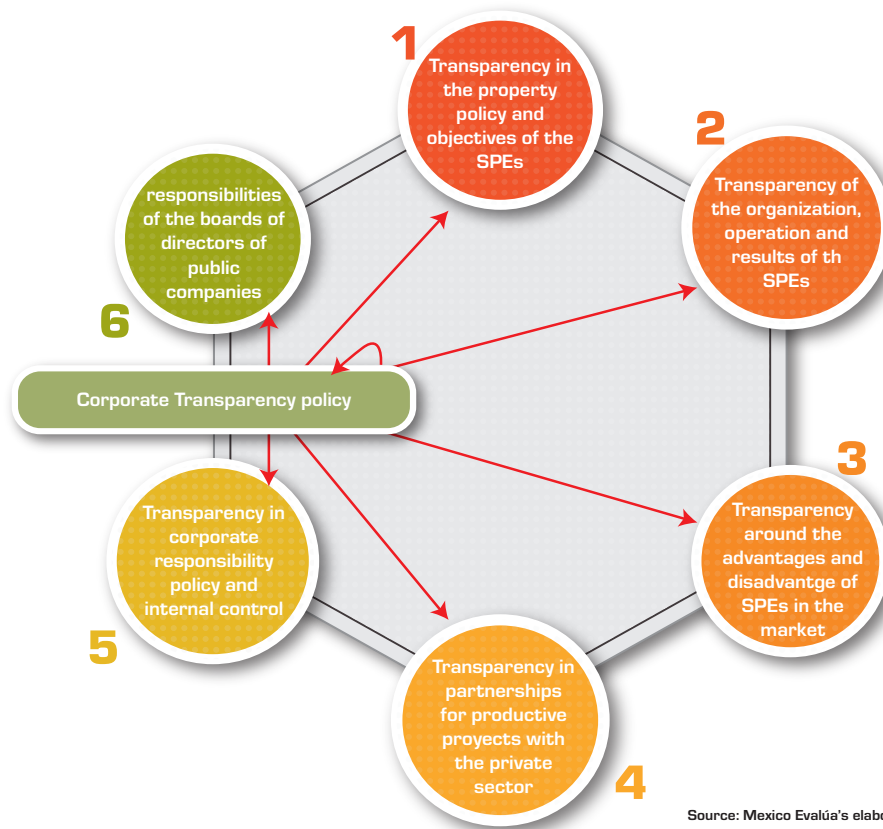
In this way, the IT SPE was structured as a matrix composed by these guidelines from which sets of categories and variables are derived. The **categories** were based mainly on the compilation of good international practices of corporate governance, transparency and accountability according to the OECD. The **variables**, on the other hand, were worked on and adapted to the Mexican reality based on the study of secondary sources specialized in the evaluation of corporate transparency in companies, such as the Transparency Index of Public Companies of Transparency International Spain (INDEP), the Information Dissemination Guide for State-owned companies of the Extractive Sector of the Natural Resource Governance Institute, and the 10 anti-corruption principles for state-owned companies of Transparency International. From these sources, the vertical axis of the matrix was finally composed of **six guidelines** (Figure 1), **19 categories and 50 corporate transparency variables**<sup>12</sup>, which were individually subject to a transparency quality analysis, and that will be explained in the next section.

<sup>10</sup> Active transparency: defined as "the inherent quality of public institutions to improve communication and honest and responsive dialogue with society through the identification, publication and dissemination of information and socially useful knowledge." On the other hand, an open government is defined as "the policy management and production scheme oriented to the attention and collaborative solution of public problems based on plural collegiate bodies and whose work converges transparency and citizen participation as basic criteria in an environment of accountability and social innovation", National Institute of Transparency (2017). Policies of Open Government and Proactive Transparency. CDMX. Page 16

<sup>11</sup> Information Dissemination Guide for State-owned companies of the Extractive Sector of the Natural Resource Governance Institute. p. 3.

<sup>12</sup> For more information about our methodology, see Annex, Methodological Note.

**FIGURE 1. CORPORATE TRANSPARENCY GUIDELINES FOR IT SPE**



Source: Mexico Evalúa's elaboration based on OECD Guidelines (2016).

## How is it Evaluated?

### Information Quality Criteria

For a transparency policy to be effective, information must be disseminated in the correct format, time and place so that people may access to it, understand it, verify it, use it and trust in it. From this perspective, a policy with these characteristics not only increases

the amount of public information, but also increases informed knowledge for decision making.

So, with the IT SPE we seek to quantify and evaluate the existence or nonexistence of a set of relevant content –related to the exercise of SPEs corporate government– disseminated by the SPEs , and also we intend to evaluate the quality attributes with which such content is disseminated<sup>13</sup>. We have defined the following quality criteria in the information<sup>14</sup>:

<sup>13</sup> Fung, A., Graham, M., & Weil, D. (2007). Full Disclosure: The Perils and Promise of Transparency. Cambridge: Cambridge University Press. doi: 10.1017 / CBO9780511510533

<sup>14</sup> These components are identified by the NRGi in its Transparency and Information Dissemination Guide. The quantification of the variables was determined by the team according to the parameters established in this guide, which are explained in greater detail in the Methodological Annex. It is important to point out that these dimensions of the quality of the information disseminated are also elements that are found in Mexican legislation, specifically in article 4 of the General Law on Transparency and Access to Government Public Information.



**ACCESSIBILITY**

The information is reachable and understandable to a variety of audiences (experts and non-experts). It includes open data or data that can be accessed for free, and that can be used and shared. Use of formats according to the needs of each type of audience.



**RELIABILITY**

Accuracy of published information; publication about methodologies or sources to verify, contrast data and reports (i.e. audits, certifications, etc.).



**COMPLETENESS**

The information is gathered in one place in an orderly and consistent manner over time (i.e. libraries, approved formats, historical series). The presentation of the information is consistent. The metrics comply with international standards.



**OPPORTUNITY**

Current information and updated frequently, which supports trends and credibility tracking.

Fuente: NRGi (2017).

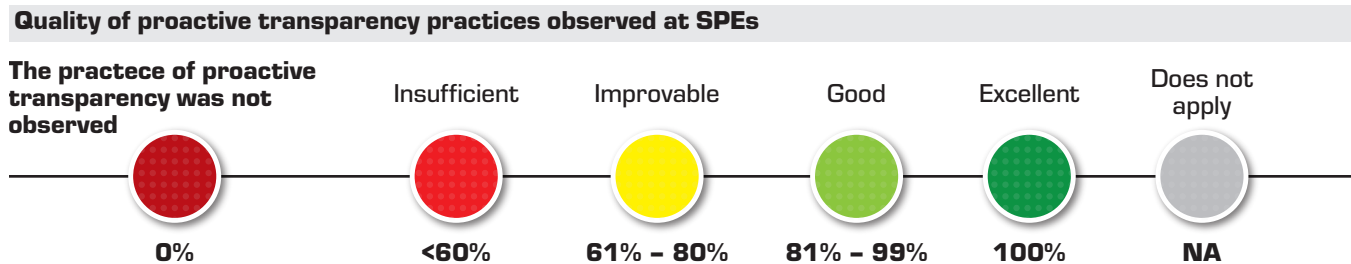
In addition, we chose specific companies to serve as a parameter or reference, supporting the rating in each of the 50 variables that made up our IT SPE. The election resulted in a comparison of international best practices of corporate transparency. The 15 international companies that we identify are, for the most part, state-owned:

Once the parameters of good practices were defined, an assessment was made for each variable, observed in the referent or comparable company, in Pemex and in CFE. The sum of all the ratings determined an absolute value for each indicator. Subsequently, the distance –measured as a proportion– of the value of each indicator for Pemex and CFE was calculated, with respect to the value obtained by the referent of best practice, which was translated into a traffic light evaluation, according to the following tab:

Country	Reference Company for Best Practices
Brazil	Petrobras
Chile	Codelco
Hong Kong (China)	CLP ROMA
Colombia	ECOPETROL
South Korea	KEPCO
Denmark	AMBU
Israel	The Israel Electric Corporation
Italy	ENI
Malaysia	Petronas
Mexico	Pemex before the 2013 energy reform <sup>15</sup>
Norway	Equinor
New Zealand	Transpower New Zealand Limited
UK	NHS Bolton / Vodafone
South Africa	DBSA
Suecia	Vatenfall

**EVALUATION TAB**

QUALITY OF CORPORATE TRANSPARENCY (IT SPE)


















## CHAPTER 2

























# Findings

































In this section we present, first, the general results of the study. That is, the final evaluation of the 50 variables –as well as certain characteristics that could be observed cross-sectionally in most of the categories of analysis–.
























Afterwards, a summary of the main problems detected and correspondent recommendations for better transparency and dissemination of information in each of the corporate governance guidelines will be depicted .

## General Results

























OECD Corporate Governance Guidelines	OECD and NRGJ Corporate Governance Categories	Variables	PEMEX	CFE
1. Transparency in the property policy and objectives of the SPEs   <b>Improvable</b>	1.1 Mission, objective and priorities of the SPEs	1.1.1. Are the SPE objectives disseminated?		
		1.1.2. Are the SPE priorities disseminated?		
	1.2 Commercial and non-commercial activities	1.2.1. Are non-commercial activities transparent?		
		1.3 State property policy	1.3.1. Is the role of the State in corporate governance diffused?	
2. Transparency of the organization, operation and results of the SPE   <b>Insufficient</b>	2.1 Structure and internal organization of the SPE	2.1.1. Is an updated organization chart of the SPE that includes the structure, responsible persons, functions, dependency relations and contact information disseminated?		
		2.1.2. Is the existence of all the subsidiaries and branches, and information of their organic structure transparent?		
		2.1.3. Does the SPE disseminate information about its human resources policy and practice?		

OECD Corporate Governance Guidelines	OECD and NNGI Corporate Governance Categories	Variables	PEMEX	CFE
<p>2. Transparency of the organization, operation and results of the SPEs</p>  <p><b>Insufficient</b></p>	2.2. Performance of the SPE (Includes objectives, performance indicators and financial reports)	2.2.1. Does the company disseminate its risk status?		
		2.2.2. Are key performance indicators and financial information disseminated in accordance with internationally recognized accounting and financial standards?		
	2.3. Public purchases	2.3.1. Are the contracting regulations of the company that regulate and / or detail contracting procedures transparent?		
		2.3.2. Are the contracting and project plans and the requirements of each one transparent?		
		2.3.3. Is basic information disseminated on all contracts made by the company (including minor contracts), indicating at least the object, the amount of tender and award, the procedure used, the instruments through which, where appropriate, was publicized, the number of bidders participating in each contract and the identity of each of the winners?		
		2.3.4. Are information and statistics about failures that identify percentages of contracting according to categories (i.e. direct award vs. competitive processes) disseminated?		
		2.3.5. Is information disseminated on all the modifications of the Contracts (through a direct and specific link on the website), indicating their purpose, reasons on which the modifications are based?		
	2.3.6. Are mechanisms disseminated to evaluate and, where appropriate, punish misconduct, in accordance with the policy of integrity and corporate ethics by contractors?			
<p>3. Transparency around the advantages and disadvantages of SPEs in the market</p>  <p><b>Improvable</b></p>	3.1. Separation between functions of the State as owner and regulator	3.1.1. Is there a distinction between regulations that imply an additional burden or advantage for the state company?		
	3.2. Impartiality in the procurement of justice	3.2.1. Is information about legal proceedings / litigation / arbitration that the SPE faces disseminated?		
	3.3. Dissemination of private and public banking financing	3.3.1. Is financing information disseminated?		

OECD Corporate Governance Guidelines	OECD and NNGI Corporate Governance Categories	Variables		
<p>3. Transparency around the advantages and disadvantages of SPEs in the market</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <p style="text-align: center;"><b>Improvable</b></p>	<p>3.4. Transfers from the federal government or subnational governments</p>	<p>3.4.1. Is information about transfers to national and subnational governments by the state company disseminated?</p>		
		<p>3.4.2. Is information about the transfers that the company receives from the government disseminated?</p>		
		<p>3.4.3. Is information about internal policies and regulations that apply to the transparency of transfers (non-routine) disseminated?</p>		
	<p>3.5. Contracts or assignments between the SPEs and government at all levels (federal, state, municipal)</p>	<p>3.5.1. Is information about contracts or assignments of a productive nature made between SPEs and governments disseminated? (Ronda Cero - Pemex / Electrification contracts in states and municipalities - CFE)?</p>		
<p>4. Transparencia en asociaciones para proyectos productivos con el sector privado</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <p style="text-align: center;"><b>Improvable      Good</b></p>	<p>4.1. Associations, partnerships, agreements, production-sharing projects with the private sector</p>	<p>4.1.1. Does the SPE disseminate information on the guidelines or regulations for projects in partnership?</p>		
		<p>4.1.2. Does the SPE disseminate the name of the partner, country of residence and nature of the contract related to associations, partnerships, and joint production projects carried out with private sector partners?</p>		
		<p>4.1.3. Does the SPE disseminate data on sales or income and costs related to associations, partnerships, and joint production projects carried out with private sector partners?</p>		
		<p>4.1.4. Are details about studies of social, environmental impact of the project disseminated?</p>		
<p>5. Transparency in corporate responsibility policy and internal control</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div> <p style="text-align: center;"><b>Insufficient</b></p>	<p>5.1. Relations with creditors, debtors, workers and affected communities (Corporate social responsibility)</p>	<p>5.1.1. Is a Corporate Social Responsibility Report published?</p>		
		<p>5.1.2. Is the feedback of the corporate social responsibility report promoted among the stakeholders?</p>		
	<p>5.2 Internal Control System</p>	<p>5.2.1. Are the guidelines of the internal control system disseminated?</p>		
		<p>5.2.2. Is information on non-financial risk analysis that includes issues of ethics and integrity and mechanisms for compliance disseminated?</p>		

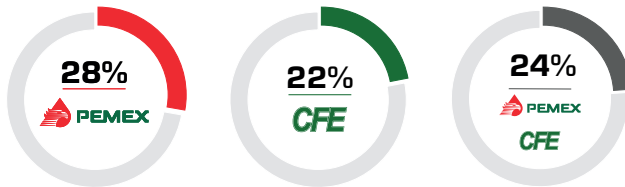
OECD Corporate Governance Guidelines	OECD and NNGI Corporate Governance Categories	Variables		CFE
5. Transparency in corporate responsibility policy and internal control    Insufficient	5.3 Ethics and corporate integrity policy	5.3.1. Are the objectives and commitments of the ethics and corporate integrity policy disseminated?		
		5.3.2. Are the results of the ethics and corporate integrity policy disseminated?		
		5.3.3. Are the objectives and commitments of the conflict of interest policy disseminated?		
		5.3.4. Are there progress and achievements regarding the objectives and commitments of the conflict of interest policy shown?		
	5.4 Anti-corruption policy and mechanisms	5.4.1. Are guidelines for "special" mechanisms such as "whistle-blowers protection policies" disseminated?		
		5.4.2. Is progress on "special" mechanisms such as "whistle-blowers protection policies" disseminated?		
		5.4.3. Are objectives and commitments of the Anticorruption Program disseminated?		
		5.4.4. Are there advances in the Anticorruption Program disseminated?		
		5.4.5. Are guidelines or specific criteria to shield the corporate government of the SPE from political campaigns disseminated?		
		5.4.6. Are criteria related to the treatment of politically exposed persons disseminated?		



OECD Corporate Governance Guidelines	OECD and NNGI Corporate Governance Categories	Variables		
<p data-bbox="155 342 375 394">6. Transparency of the Board of Directors</p> <div data-bbox="180 449 383 520">   </div> <p data-bbox="207 531 342 558">Insufficient</p>	<p data-bbox="427 342 781 394">6.1 Information related to the people that make up the Board of Directors</p>	<p data-bbox="839 321 1216 405">6.1.1. Are the selection processes and qualifications of the directors disseminated?</p>		
		<p data-bbox="839 443 1216 527">6.1.2. Are the Means of contact with the Board of Directors or the directors disseminated?</p>		
		<p data-bbox="839 539 1216 623">6.1.3. Is the remuneration policy for directors, including their updates disseminated?</p>		
		<p data-bbox="839 636 1216 720">6.1.4. Is the treatment of specific cases of conflicts of interest for directors disseminated?</p>		
	<p data-bbox="427 774 781 827">6.2 Information regarding how the Board of Directors operates</p>	<p data-bbox="839 758 1216 842">6.2.1. Is information on operating mechanisms of the Board of Directors disseminated?</p>		
		<p data-bbox="839 896 1216 1022">6.2.2. Is information on the existence, composition and functions of specialized committees of the Board of Directors disseminated?</p>		
	<p data-bbox="427 1060 781 1155">6.3 Information regarding the decisions made by the Board of Directors</p>	<p data-bbox="839 1064 1216 1148">6.3.1. Is information about the activities of the Board of Directors disseminated?</p>		
		<p data-bbox="839 1199 1216 1304">6.3.2. Is information on the external audit policy and qualification of auditing companies disseminated?</p>		
		<p data-bbox="839 1354 1216 1438">6.3.3. Is information about the annual general meeting disseminated?</p>		
		<p data-bbox="839 1493 1216 1598">6.3.4. Are mechanisms and evaluation of the performance of the Board of Directors disseminated?</p>		

From our evaluation we can formulate two big conclusions on corporate transparency practices in SPEs:

a) The quality of the corporate transparency practices of Pemex and CFE is **insufficient** in terms of the measurement tab used by México Evalúa.



Much remains to be done to promote an effective corporate transparency policy in SPEs, which helps to generate a culture of transparency within them.

From the results obtained by both companies we can conclude that neither Pemex nor CFE use transparency and information dissemination as tools to generate greater value to the company. That is, transparency and dissemination of information are not used as tools to generate certainty for current and potential business partners and investors, nor to discourage behavior within the company to reduce corruption, as will be seen in detail throughout the report in the results per guideline. Only 28% of the variables analyzed in the case of Pemex and 22% in the case of CFE registered good or excellent practices of corporate transparency. (See table 1).

In addition the null dissemination of information in several components was also analyzed. Out of 50 variables, in 12 of them (24%), both Pemex and CFE obtained a zero rating ("0"). Particularly noteworthy are the components related to corporate responsibility,

integrity policies and anti-corruption mechanisms, analyzed in Guideline 5.

According to Transparency International, transparency and dissemination of information are considered to be the most effective tools in the fight against corruption in state-owned companies<sup>15</sup>; However, neither Pemex nor CFE have explored this option, as can be seen in the analysis of Guideline 5. Such SPEs do not disseminate information on commitments, follow-up and results from the implementation of policies related to corporate responsibility, integrity and corruption.

It is important to mention that, unlike Pemex, at CFE there were no elements of corporate governance before the Energy Reform. In Pemex since 2009, elements of Corporate Governance had being incorporated<sup>16</sup>, so the development of this type of policies and their assimilation within the institution takes longer than in CFE.

b) The main sources of information of the SPE are **little accessible to inexperienced audiences**.

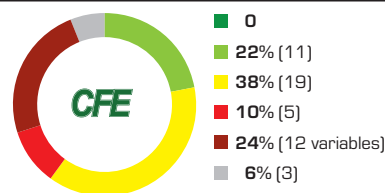
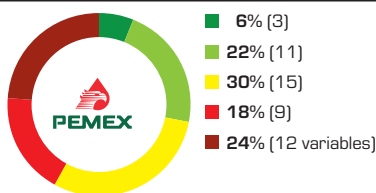
In relation to quality of information, the analysis demonstrated that some of the generalized problems observed in almost all categories coincide in the fact that much of the information disclosed by Pemex and CFE –in relation to their activities in the markets– responds to regulatory requirements set by Mexican and foreign authorities –mainly the Securities and Exchange Commission of the United States–, given the obligations contracted for their participation at the national and at international debt markets, in the case of Pemex. Said regulations oblige them to report, in a timely manner, information provided in specific formats, which are finally integrated into annual reports, with some financial and statistical data.

<sup>15</sup> [https://www.transparency.org/whatwedo/tools/10\\_anti\\_corruption\\_principles/0](https://www.transparency.org/whatwedo/tools/10_anti_corruption_principles/0)

<sup>16</sup> Unlike CFE, whose administration before the Energy Reform was organized as a decentralized public body of the FPA, through a general director and a governing board –made up of high-level public officials from the Ministry of Finance and Public Credit, Social Development, Agriculture, Livestock and Rural Development, Economy, the Secretary of Energy (who presided over it), the director of Pemex and five members of the union–, in 2009 the then President Felipe Calderón reformed the Pemex law in order to reorganize its governance. Although it remained a decentralized public body, it was based on a CEO and a board of directors made up of 6 representatives of the State, 5 members of the union and 4 professional advisers who, in contrast to the current independent directors, were considered by law public servants.

**TABLE 1. EVALUATION STATISTICS OF 50 VARIABLES OF THE CORPORATE TRANSPARENCY INDEX**

	Pemex	CFE		Pemex	CFE		Pemex	CFE		Pemex	CFE		Pemex	CFE		Pemex	CFE	
<b>Total</b>	<b>0%</b>	12	12	<b>&lt;60%</b>	9	5	<b>61-80%</b>	15	19	<b>81-99%</b>	11	11	<b>100%</b>	3	-	<b>NA</b>	-	3
		24%	24%		18%	10%		30%	38%		22%	22%		6%	0%		0%	6%
<b>Total per guideline</b>	<b>D1</b>	-	-	<b>D1</b>	3	2	<b>D1</b>	1	2	<b>D1</b>	-	-	<b>D1</b>	-	-	<b>D1</b>	-	-
	<b>D2</b>	2	2	<b>D2</b>	3	2	<b>D2</b>	3	4	<b>D2</b>	3	3	<b>D2</b>	-	-	<b>D2</b>	-	-
	<b>D3</b>	1	1	<b>D3</b>	1	-	<b>D3</b>	2	3	<b>D3</b>	2	3	<b>D3</b>	-	-	<b>D3</b>	-	-
	<b>D4</b>	-	-	<b>D4</b>	1	-	<b>D4</b>	1	-	<b>D4</b>	2	1	<b>D4</b>	-	-	<b>D4</b>	-	3
	<b>D5</b>	7	7	<b>D5</b>	-	-	<b>D5</b>	2	4	<b>D5</b>	3	3	<b>D5</b>	2	-	<b>D5</b>	-	-
	<b>D6</b>	2	2	<b>D6</b>	1	1	<b>D6</b>	6	6	<b>D6</b>	-	1	<b>D6</b>	1	1	<b>D6</b>	-	-



This type of information is public and, therefore, may be useful for expert audiences. However, we found out that little information disseminated is actually accessible to most people due to the way it is presented, and sometimes because it is published in English and/or in a more technical language. Only 26% of the variables analyzed in the case of Pemex, and 28% in the case of CFE, registered good or excellent transparency practices in the category of accessibility.

In that sense, it is necessary to generate documents that are accessible to different audiences. Throughout the analysis by guideline, we found examples –in the companies that we used as referents or comparables– of how information addressed to the regulators can be considered only as a minimum content base, that is, the

starting point for the processing of different formats (reports, presentations, videos, audios, manuals, brochures ...), addressed to different audiences.

In addition, we found that not all information is linked to official websites of Pemex or CFE. For example, the PMI group portal, a subsidiary of Pemex, and the CFE portal of the Hannover Fair –which contain information of interest to expert audiences– are not linked to the SPEs portals. Specifically, the PMI portal contains information about its structure and subsidiaries, but the routes to reach this information are not clear; so discovering this information can take a lot of work or require a dose of luck. The above symbolizes the problems of accessibility, reliability and completeness which can be faced by any citizen who seeks proactive information published by the SPE.

## CHAPTER 3

# Results per Guideline

In addition to the problems we identified in all the categories analyzed, we present below a summary of the problems and ratings per guideline<sup>17</sup>.

## Guideline 1: Transparency in the property policy and objectives of the SPE

### What is analyzed and why is it important?

One of the main challenges of corporate governance in state-owned companies is to separate the function of the State as owner and administrator. This implies clearly establishing, on one hand, the supervisory role of the State, as well as the entity or people in which the

representation of the property falls; on the other hand, the reasons that justify the regime of public ownership of the company and how it is reviewed in a timely manner if it is being complied with.

Transparency around this information is essential to improve the operation within the company, in accordance with the objectives and priorities that are followed. Also to generate confidence before relevant actors, among them, potential investors and business partners.

In this guideline we will evaluate the quality of the information that the SPEs disseminate regarding: 1) Their objectives and priorities; 2) The non-commercial activities that they carry out; 3) The representatives or entities in charge of representing the property of the State.

<sup>17</sup> Complete information related to the analysis of each variable is available in digital version at [www.mexicoevalua.org](http://www.mexicoevalua.org)

**EVALUATION**

**A) RATING**



**1.1 MISSION, OBJECTIVE AND PRIORITIES OF THE SPES**

Variables	Referent	Quality	Accessibility	Reliability	Completeness	Frequency	Total
1.1.1. Dissemination of the SPE objectives	Vattenfall   Suecia 	PEMEX	Improvable	Insufficient	Insufficient	Good	Insufficient
		CFE	Insufficient	Insufficient	Good	Improvable	Insufficient
1.1.2. Dissemination of the SPE priorities	Vattenfall   Suecia 	PEMEX	Improvable	Insufficient	Insufficient	Good	Insufficient
		CFE	Insufficient	Insufficient	Improvable	Improvable	Insufficient

**1.2 DISSEMINATION OF COMMERCIAL AND NON-COMMERCIAL ACTIVITIES**

1.2.1. Dissemination of information on non-commercial activities.	ENI   Italy 	PEMEX	Improvable	Insufficient	Improvable	Insufficient	Insufficient
		CFE	Improvable	Insufficient	Improvable	Insufficient	Improvable

**1.3 STATE PROPERTY POLICY**

1.3.1. Dissemination of the proprietary entity or entity in charge of representing the property of the State	Vattenfall   Suecia 	PEMEX	Improvable	Improvable	Good	Good	Improvable
		CFE	Improvable	Improvable	Insufficient	Good	Improvable

**B) MAIN CONCERN**

**SERIOUS FAULTS TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY**

**1.** Regarding objectives, neither Pemex, nor CFE explain the reasons that justify the public property regime. That is, they do not explain their public interest objectives, or whether these objectives are being met or require adjustments. Disseminating information on compliance with this type of objectives is essential to reduce uncertainty about what is considered of public interest and so that potential investors can calculate risks related to these objectives. In Brazil, the State-owned enterprises Law, for example, obliges annually to quantify activities of public interest and disseminate them, as this reduces the risk of deviation from public interest objectives.

**2.** Regarding non-commercial activities, we recommend that Pemex publishes information about the health service it offers to its employees, especially about its hospitals. It was not possible for México Evalúa to find information on how these are handled, nor reliable disaggregated information about the expenses it has involved.

**3.** In relation to the diffusion that Pemex makes of donations –considered for the purposes of this study as non-commercial activities–, we find that it is information difficult to verify and, therefore, unreliable, since the figures published in annual reports are not compatible with what is reported through open data. In addition, the company does not recognize these activities as non-commercial activities, and there is no justification to support the reason for this expense, which can also be interpreted as incomplete information.

### MODERATE FAULTS TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY

1. Regarding the objectives and priorities, we recommend both Pemex and CFE, that in order to make the information more complete and accessible, they should disseminate the expected results. This would allow them to quantify the fulfillment of these objectives or medium and long-term goals, as the referent company does.
2. In relation to representatives of state-owned property, the information disseminated by the companies does not allow to clearly distinguish who the representatives of the State are as owner of the companies, and how is the relationship with the authorities in charge of managing them. It is recommended to generate a document that better explains who has representation of the property and what is the relationship that the company has with different public entities.
3. CFE does not have a simple access to its Business Plan from its portal. To reach it, it is necessary to use external search engines on the Internet. Improving the accessibility of this important document would boost CFE's transparency practices. Likewise, making public quantitative information or ways to measure its objectives would generate an environment of greater transparency around CFE.

## Guideline 2: Transparency of the organization, operation and results of the SPEs

### What is analyzed and why is it important?:

In order to operate under the best standards of accountability, it is necessary that state-owned companies have mechanisms that allow monitoring, inspection and regular evaluation by the interested parties, both of their structure and of the activities related to their operation and their results as public companies.

The diffusion of the performance of these companies must start from a base of understanding. Therefore, publicizing the different characteristics of their institutional structure and organization is vital as a starting point for effective accountability. In addition, the organization of their human capital, which usually reveals a very important part of their operation, their corporate identity and their integrity, must be included.

The performance of state-owned companies is the most important piece of information for stakeholders. Therefore, these companies must establish information mechanisms that make possible the monitoring, supervision and constant evaluation of their performance. But also operational factors that affect it, such as monitoring the conclusion of purchase-sale contracts that impact the company's income statement, the analysis of risks that allow discerning the logic and cost of its administration, as well as the probability of occurrence and the degree of remaining vulnerability that could have an impact on the results and the equity value of the company should it occur<sup>18</sup>. Likewise, public purchases, being an activity particularly vulnerable to corruption, warrant a profound revision in the way in which projects are conceived and executed.

<sup>18</sup> OECD (2015). OECD Guidelines on the Corporate Governance of Public Enterprises

## EVALUATION

## A) RATING



## Quality components



## 2.1 OPERATIONAL AUTONOMY OF THE SPE WITH RESPECT TO THE GOVERNMENT

Variables	Referent	Quality	Accessibility	Reliability	Completeness	Frequency	Total
2.1.1. Dissemination of an updated organization chart of the SPE that includes the structure, responsible employees, functions, dependency relations and contact information.	ENI   Italy 						
2.1.2. Dissemination of the existence of all subsidiaries and branches.	Equinor   Norway ENI   Italy 						
2.1.3. Dissemination of information about its human resources policy and practice.	Equinor   Norway 						

## 2.2 PERFORMANCE OF THE SPE (INCLUDES OBJECTIVES, PERFORMANCE INDICATORS AND FINANCIAL REPORTS)

2.2.1. Dissemination of the company's risk status.	Equinor   Norway 						
2.2.2. Dissemination of key performance indicators and financial information, in accordance with internationally recognized accounting and financial standards.	Equinor   Norway 						

## 2.3 PUBLIC PROCUREMENT

2.3.1. Dissemination of the contracting regulations of the company, in which the contracting procedures are regulated and / or detailed.	Equinor   Norway 						
2.3.2. Dissemination of the contracting and project plans and the requirements of each one.	Ecopetrol   Colombia 						

							Quality components									
							the practice was not observed	insufficient	Improvable	Good	Excellent	Not apply	Accessibility	Reliability	Completeness	Frequency
Variables	Referent	Quality					Total									
2.3.3. Dissemination of basic information on all contracts made by the company (including minor contracts), indicating at least the object, the amount of tender and award, the procedure used, the instruments through which, where appropriate, was publicized, the number of bidders participating in each contract and the identity of each of the winners.	Ecopetrol   Colombia 	PEMEX														
		CFE														
2.3.4. Dissemination of information and statistics on failures that identify contracting percentages according to categories (i.e. direct award vs. competitive processes).	Ecopetrol   Colombia 	PEMEX														
		CFE														
2.3.5. Dissemination of information on all the modifications of the contracts (through a direct and specific link on the website), indicating their purpose, reasons on which the modifications are based.	Ecopetrol   Colombia 	PEMEX														
		CFE														
2.3.6. Dissemination of mechanisms to evaluate and, where appropriate, punish misconduct, in accordance with the policy of integrity and corporate ethics by contractors..	Codelco   Chile 	PEMEX														
		CFE														



**B) MAIN CONCERNS**

**SERIOUS FAULT TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY**

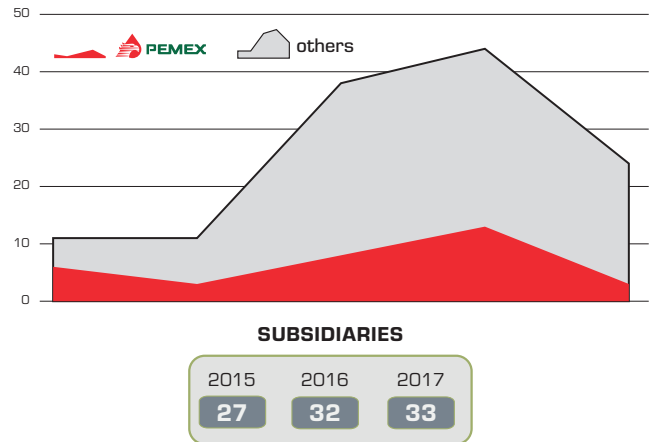
1. In relation to the structure and performance of subsidiaries and branches of Pemex, the little information available is worrisome:

- From the information disseminated by Pemex audiences can not access with certainty the number, name, address, directory, organization chart, property, or transaction terms of its subsidiaries and branches
- Only three subsidiaries publish minutes and agreements of Council sessions.
- The directors of each subsidiary are responsible for submitting reports to the Pemex Corporation; however, no information related to them is disseminated.
- The financial statements, being consolidated, do not allow accessing to segmented information of their performance.
- Users may find through search machines interesting financial information in different Internet portals. This information, however, is not systematized in the Pemex portal, nor disseminated in annual reports. For example, Grupo PMI investments were found in the Repsol

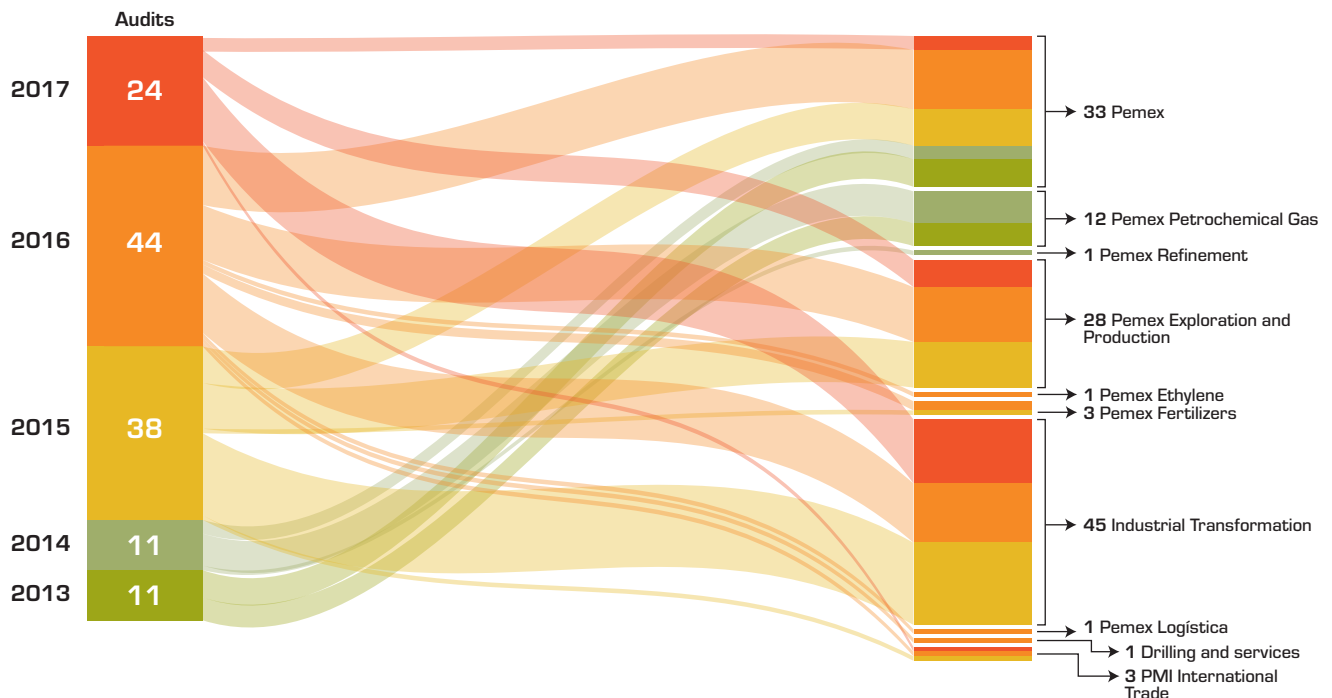
company, nevertheless such information is not available at the Pemex portal nor mentioned in annual reports.

- The Superior Audit Office of the Federation (ASF) has shown concern about the risk posed to the public account by the fact that there are subsidiary companies that carry out fundamental activities (payment of dividends, contracting debt, granting loans to other companies, investments in capital of foreign companies, etc.) without the information being transparent. Pemex does not mention this type of information in any of its annual reports, nor in any of the audits that the ASF has done. [See tables 3 and 4].

**AUDITS PERFORMED TO PEMEX BY ASF**  
between 2013 y 2017





**GRAPHIC 1. AUDITS CONDUCTED BY ASF TO PEMEX AND ITS SUBSIDIARY PRODUCTIVE COMPANIES BETWEEN 2013 AND 2017**



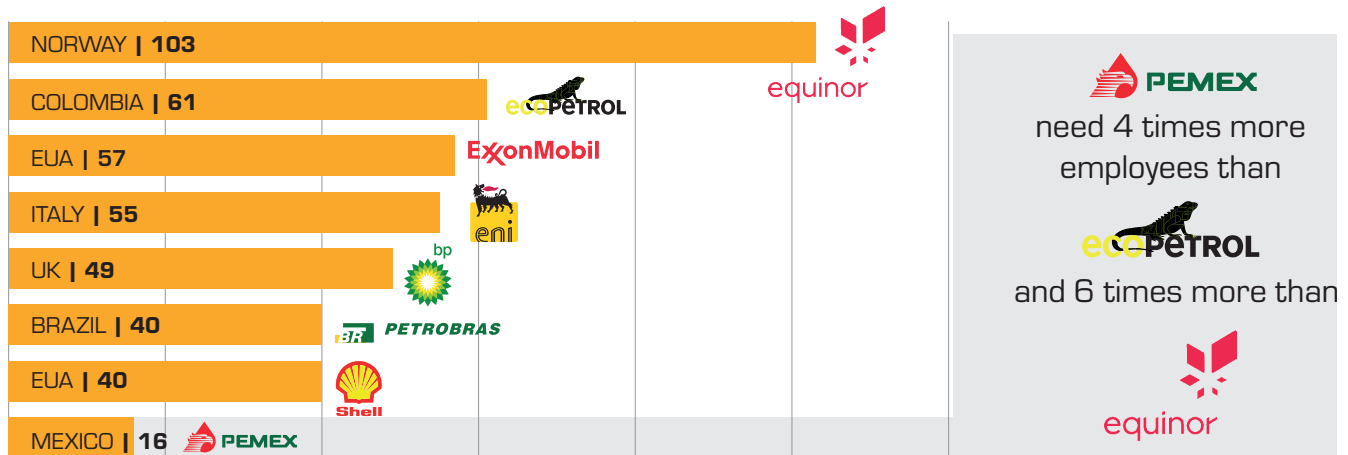
**2.** Policy and practice of human resources. In both companies information provided is incomplete. Neither Pemex nor CFE show data that other companies tend to disseminate such as: reports on performance of their employees, opportunities that the company offers them, possibilities of development that their evaluation systems provides, their policy of attracting and retaining talent, and relevant aspects of their union relations. (See tables 5 and 6).

**3.** Regarding financial risks for companies in terms of theft of fuel and theft of electricity, SPEs spread little information. We recommend expanding the transparency effort of these phenomena and providing more detailed contexts, so that the user can better understand the actions that are being carried out.

**TABLE 2. COMPARISON OF CATEGORIES OF PUBLIC INFORMATION ON HUMAN RESOURCES DISCLOSED BY EQUINOR (NORWAY) VS. PEMEX AND CFE**

			
1. Number of employees	✓	✓	✓
2. Type of employee	✓		✓
3. Type of contract	✓		
4. Age	✓		✓
5. Gender policies	✓	✓	✓
6. Relationship with the unions	✓	✓	✓
7. Training policies	✓		
8. Health	✓	✓	
9. Professional growth	✓		
10. Retirement	✓	✓	✓
11. Compensation cost for senior managers and the Board of Directors	✓		
12. Human resources policy vs trade union positions	✓		
13. Indicators and productivity strategy	✓		
14. Service outsourcing evaluation	✓		
15. Program to manage changes, transitions	✓		

**GRÁFICO 2. COMPARATIVE PRODUCTIVITY OF PEMEX AGAINST LEADING EQUIVALENT COMPANIES IN ITS FIELD(DAILY BARRELS PER PERSON OCCUPIED)**



**MODERATE FAULTS TO BEST PRACTICES  
STANDARD OF CORPORATE TRANSPARENCY**

1. Structure and performance of CFE subsidiaries and branches. Although financial statements of the subsidiaries of CFE are available in the budget transparency portal of the Ministry of Finance and Public Credit, they are not accessible from the company's portal. At least address, internal organizational structure, name of managers and not consolidated financial statements must be specified.
2. Public procurement Both companies must disseminate the modifying agreements in the clear, accessible and timely manner that the contracts have had. ECOPEPETROL company from Colombia, for example, is a good reference since it adds the modifications within the same contract database.

of conditions so that there is an effective competition. In this logic, Pemex and CFE should not benefit from any differentiated support or treatment from other authorities that give them an advantage over their private competitors.

Likewise, their economic activities must use inputs at prices or conditions no more favorable than those enjoyed by their private competitors. However, in the case of the development of non-commercial activities or activities of general interest, state-owned companies should be as transparent as possible. For these cases, even if the cause of public interest puts other players on the market at a disadvantage, disseminating information of public interest about these activities helps reduce uncertainty and is also a fundamental accountability exercise.

**Guideline 3: Transparency around the advantages and disadvantages of SPEs in the market**

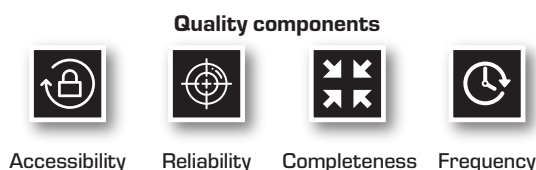
**What is analyzed and why is it important?**

A basic requirement so that state and private companies can coexist in a market is that the legal, regulatory and institutional framework guarantees them equality

In this sense, transparency is relevant regarding any advantage or disadvantage that SPEs have in comparison with the rest of the companies in the market. The advantages or disadvantages that may exist are of different nature. In this guideline we develop the analysis of information dissemination in lines such as: 1) Regulatory differences that Pemex and CFE are obliged to comply with; 2) Updates on the main litigations that are being waged in courts. 3) Access to financing at market value by public and / or private banks; 4) Accounting and reporting of money transfers from and to the government at all levels (national, state and municipal) and 5) Information on contracts or productive allocations held with the government at its various levels.

**EVALUATION**

**A) RATING**



**3.1 DIFFERENCES IN REGULATORY FRAMEWORK FOR STATE AND PRIVATE COMPANIES**

Variables	Referent	Quality				Total	
3.1.1. Transparency of information related to additional regulatory burdens or advantages for the SPE.	<b>Equinor   Norway</b> 						

**3.2 BENEFITS FROM OTHER AUTHORITIES**

3.2.1. Transparency of main legal proceedings / litigation / arbitration that the SPE faces.	<b>Codelco   Chile</b> 						

**Quality components**

the practice was not observed
 insufficient
 Improvable
 Good
 Excellent
 Not apply

Accessibility
 Reliability
 Completeness
 Frequency

**3.3 DISSEMINATION OF PRIVATE AND PUBLIC BANKING FINANCING**

Variables	Referent	Quality	Total
3.3.1. Dissemination of information on private and public financing.	<b>Petrobras   Brazil</b> 	<span></span> <span></span> <span></span> <span></span>	
		<span></span> <span></span> <span></span> <span></span>	

**3.4 TRANSFERS FROM THE FEDERAL GOVERNMENT OR SUBNATIONAL GOVERNMENTS**

3.4.1. Transfers to national and subnational governments by the SOE.	<b>Equinor   Norway</b> 	<span></span> <span></span> <span></span> <span></span>	
		<span></span> <span></span> <span></span> <span></span>	
3.4.2. Dissemination of information about the transferences that the company could receive from the government	<b>Codelco   Chile</b> 	<span></span> <span></span> <span></span> <span></span>	
		<span></span> <span></span> <span></span> <span></span>	
3.4.3. Internal policies and regulations that apply to transparency of transfers.	<b>Codelco   Chile</b> 	<span></span> <span></span> <span></span> <span></span>	
		<span></span> <span></span> <span></span> <span></span>	

**3.5 CONTRACTS OR ASSIGNMENTS BETWEEN THE SPES AND GOVERNMENT AT ALL LEVELS (FEDERAL, STATE, MUNICIPAL)**

3.5.1. Dissemination of contracts or assignments between the SPEs and governments. (Ronda Cero - Pemex / Electrification contracts in states and municipalities - CFE).	<b>Equinor   Norway</b> <b>The Israel Electric Corporation   Israel</b> 	<span></span> <span></span> <span></span> <span></span>	
		<span></span> <span></span> <span></span> <span></span>	

**SERIOUS FAULT TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY**

1. Regarding money transfers between SPE and different government authorities, we discovered that neither Pemex, nor CFE present the information completely. In particular, from 2013 to 2015, extraordinary transfers were made under the "Aprovechamientos de la Nación", without clarifying in the annual reports

what the purpose of these transfers was, nor the legal support with which they were carried out. This type of exceptional actions does not allow for clarity or certainty regarding the transfer policy. In addition, in terms of accessibility, the information disseminated by the SPE is deficient, since the information presented to regulatory authorities (annual reports and 20F reports) disseminates consolidated amounts, without a proper breakdown and in a scattered manner throughout the document, with context and justification only in some cases. In this regard, state-owned companies such as

**TABLE 3. GOVERNMENT TRANSFERS (EQUINOR CASE)**

Country detail - Payments per project and government entity that receives the payment



(In millions of dollars)	Taxes	Royalties	fee	Bonds	Payment of fees to the receiving government (value in millions of dollars)	Payment of fees to the receiving government (billions of barrels of oil)	Total value 2017
<b>Algeria</b>							
<b>Payments per project</b>							
Statoil North Africa Gas AS	55.2	0	0	0	0	0	55.2
Statoil North Africa Oil AS	66.2	0	0	0	0	0	66.2
En Amenas	0	0	0	0	75.7	1.8	75.7
En Salah	0	0	0	0	38.2	1.4	38.2
Exploration Algeria	0	0	0.3	0	0	0	0.3
<b>Total</b>	<b>121.4</b>	<b>0</b>	<b>0.3</b>	<b>0</b>	<b>113.9</b>	<b>3.2</b>	<b>235.6</b>
<b>Payments by government entity</b>							
Direction des Grandes Entreprises			0.3				0.3
Sonatrach	121.4				113.9	3.2	235.3
<b>Total</b>	<b>121.4</b>		<b>0.3</b>		<b>113.9</b>	<b>3.2</b>	<b>235.6</b>

Codelco and Equinor are a good example of how transfers with broken down amounts and the specification of the different authorities with whom this transfers took place including description of concepts provides audiences with clarity and accessibility. (See table 3).

2. With regard to field assignments to Pemex in Ronda Cero, although there is information that is disseminated in its 20F annual report, it is dispersed throughout the annual reports, which makes it difficult to follow up and analyze it in terms of order, perspective and evolution of the results. There is still a need to advance in the dissemination of studies of social and environmental impact associated with assignments.

## B) MAIN CONCERNS:

Regarding the contributions that states and municipalities grant to CFE for the expansion of the electricity distribution network in rural areas and poor neighborhoods, information reported by the company is incomplete and inconsistent over time. Only in some years amounts contributed, number of projects per state and number of beneficiary population are published. It is striking that the flow of information has been decreasing since 2017. In addition, the amount of information is presented in an aggregated form, without specifying at least federative entities benefited, amount of electrification works and beneficiary population in its annual reports.

Finally, there are electrification programs with the federal government, such as the "Cruzada contra el Hambre", in which only the existence of a collaboration agreement is

stated, and it is not clear where the resources came from, nor their amounts.

## MODERATE FAULTS TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY

### Guideline 4: Transparency in partnerships for productive projects with the private sector

#### What is analyzed and why is it important?

The best practices of corporate governance dictate that, when state-owned companies participate in cooperative projects –joint ventures, association contracts, strategic alliances, and public-private partnerships– all interested parties and the general public must be informed about them (OECD, 2015). This means that entities must develop a reporting policy that may consider all types of audiences so that the reports may be sufficiently clear in relation to the performance and evolution of companies and projects.

Given that SPEs in Mexico are entirely state-owned, there are no private shareholders, so, this analysis was limited to evaluating the proactive dissemination of qualitative and quantitative information with private investors, mainly in joint-production projects (excluding contractors, which for purposes of this analysis are considered within the universe of public procurement

**EVALUATION**

**A) RATING**



**4.1 ASSOCIATIONS, PARTNERSHIPS, AGREEMENTS, JOINT-PRODUCTION PROJECTS WITH THE PRIVATE SECTOR**

Variables	Referent	Quality	Accessibility	Reliability	Completeness	Frequency	Total
4.1.1. Dissemination of information on the guidelines or regulations for projects in partnership.	<b>Transpower New Zealand Limited</b>   New Zealand 						
4.1.2. Dissemination of the name of the partner, country of residence and nature of the contract related to associations, partnerships, and joint production projects carried out with private sector partners.	<b>Equinor   Norway</b> 						
		 In the evaluation to CFE: the analysis "does not apply" because at the date of this study, no documents or information related to productive co-investments between the Commission and the private sector were identified.					
4.1.3. Data dissemination on sales or income and costs related to associations, partnerships, and joint production projects carried out with private sector partners.	<b>KEPCO   South Korea</b> <b>Equinor   Norway</b> 						
4.1.4. Details of studies of social, environmental impact of the projects.	<b>ENI   Italy</b> 						

activities of SPEs). This implies that everything related to the process of productive association has to be as transparent as possible; information has to be available to all types of audiences –expert and non-expert audiences; the language used allows full understanding; and has to be available in different formats and languages.

1. Not enough information is disseminated regarding studies of social and environmental impact in the places and communities where projects are carried out in partnership. The information that is disseminated points to the global or total level of the company, and does not have an individualized approach by project or by set of projects, as different international companies do, including ENI. According to the 2017 Pemex Sustainability Report, a specific area was established to address Social Impact Assessments (EVIS); however, the EVIS are not accessible at the Pemex portal.
2. The information presented by Pemex about partnerships is incomplete and not very accessible. Although the National Hydrocarbons Commission (CNH) as a regulatory body performs an exercise of transparency and dissemination of information on these contracts (and which has been internationally recognized), it is considered that the company must develop its own dissemination strategy in which it presents, among other things, statistical information about the contracts that have been entered into with third parties and the impact they have on the state-owned company's performance.

## B) MAIN CONCERNS:

### SERIOUS FAULT TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY

## Guideline 5: Transparency in corporate responsibility policy and internal control

### What is analyzed and why is it important?

It is increasingly important for the reputation of companies to have a corporate responsibility policy in which the values that characterize it are communicated, and responsibilities are recognized and disseminated to different stakeholders, including information on social and environmental impact, integrity, and business ethics.

Both for policies related to corporate responsibility and compliance policy, it is important to: 1) Present information about guidelines or rules; 2) Explain the strategy that will be followed for the implementation and 3) Publicize the progress and results of these policies and strategies. In this way, the dissemination of information allows to generate culture within the company. In addition, showing these compliance results can discourage certain inappropriate behaviors.

This information also helps inform interested external stakeholders and generate greater confidence. This is particularly important in the case of SPEs, since they were given the power to issue their own guidelines and create their own control mechanisms.

For state-owned companies, it is particularly relevant to make transparent and disseminate information that helps to promote integrity and prevent corruption. The reason: their chains of accountable agents tend to be more complex than in private companies, and there are intrinsic conflicts of interest given the political or public policy objectives pursued.

To promote a culture of integrity, there must be a risk management system with predetermined objectives, including a set of internal control mechanisms, ethics and compliance measures, developed from a risk assessment<sup>19</sup>.

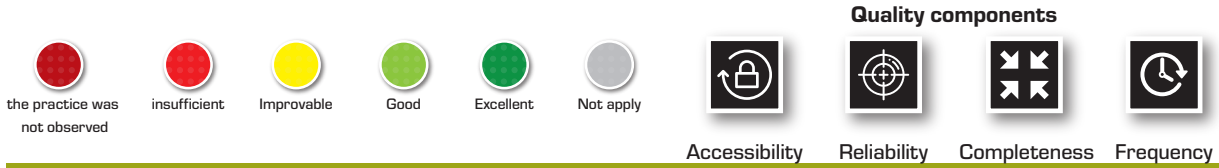
In turn, the dissemination of information related to these processes, the establishment of commitments and the monitoring of results are, by themselves, effective tools to combat corruption within state-owned enterprises<sup>20</sup>.

<sup>19</sup> OECD (2018), State-Owned Enterprises and Corruption: What Are the Risks and What Can Be Done? <https://doi.org/10.1787/9789264303058-en>

<sup>20</sup> [https://www.transparency.org/whatwedo/tools/10\\_anti\\_corruption\\_principles/0](https://www.transparency.org/whatwedo/tools/10_anti_corruption_principles/0)

**EVALUATION**

**A) RATING**



**5.1. RELATIONS WITH CREDITORS, DEBTORS, WORKERS AND AFFECTED COMMUNITIES (CORPORATE SOCIAL RESPONSIBILITY)**

Variables	Referent	Quality	Accessibility	Reliability	Completeness	Frequency	Total
5.1.1 Dissemination of the Corporate Social Responsibility (CSR) Report.	ENI   Italy 						
5.1.2 Dissemination of the CSR report feedback among the stakeholders.	CLP   Hong Kong (China) 						

**5.2 INTERNAL CONTROL SYSTEM**

5.2.1 Dissemination of the mechanisms of the internal control system.	ENI   Italy 						
5.2.2. Dissemination of information on non-financial risk analysis (that includes issues related to ethics and integrity as well as mechanisms for compliance).	Ecopetrol   Colombia 						

**5.3 ETHICS AND CORPORATE INTEGRITY POLICY**

5.3.1 Dissemination of the objectives and commitments of the ethics and corporate integrity policy.	Petronas   Malaysia 						
5.3.2 Dissemination of the results of the ethics and corporate integrity policy.	Codelco   Chile 						
5.3.3 Dissemination of the objectives and commitments of the conflict of interest management policy.	NHS Bolton   UK 						



		Quality components									
	the practice was not observed		insufficient		Improvable		Good		Excellent		Not apply
			Accessibility		Reliability		Completeness		Frequency		
Variables	Referent	Quality								Total	
5.3.4 Dissemination of progress and achievements regarding the conflict of interest policy.	NHS Bolton   UK										
<b>5.4 ANTI-CORRUPTION POLICY AND MECHANISMS</b>											
5.4.1 Dissemination of protection mechanisms and policies to whistleblowers (informants inside the organization that warn about illicit or illegal activities).	Ecopetrol   Colombia										
5.4.2 Dissemination of progress in special mechanisms such as whistleblowers protection policies.	ENI   Italy										
5.4.3 Dissemination of the objectives and commitments of the Anti-Corruption Program.	Ecopetrol   Colombia										
5.4.4 Dissemination of progress regarding the Anti-Corruption Program.	Ecopetrol   Colombia										
5.4.5 Dissemination of the guidelines to shield the corporate government of the SPE from political campaigns.	Pemex antes de Reforma Energética   Mexico										
5.4.6 Dissemination of criteria related to the treatment of politically exposed persons.	DBSA   South Africa										

**B) MAIN CONCERNS:**

**SERIOUS FAULT TO THE PRACTICES STANDARD OF CORPORATE TRANSPARENCY**

1. CFE disseminates very little information about policies and mechanisms related to corporate responsibility:

- It does not disseminate any report, nor it disseminates more information regarding the scope and mechanisms of its corporate responsibility policy, despite the fact that social and environmental responsibility are part of the objectives of the company in accordance with the political Constitution of the United Mexican States.
- Does not disseminate information about an anti-corruption program.
- Does not broadcast any conflict of interest management policy as such. It is only defined in general terms in the code of ethics and exhorts its workers not to place themselves in such a situation.
- Does not disseminate any compliance policy different from the internal control activities.

2. For its part, Pemex disseminates its internal rules for all the policies analyzed under this fifth corporate governance guideline, but in no case does it disseminate goals or commitments, nor indicators to measure progress or results..

3. Neither Pemex nor CFE disseminate documents on the status of their internal control systems. A Risk Committee does not exist as such at the Board of Directors level. Pemex does has guidelines for reporting risks, but only financial ones, such report is addressed solely to the Audit Committee. This means that there is very little public information about risks and internal control disseminated in 2OF reports and annual reports [See Table 4].

**MODERATE FAULT TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY**

1. In relation to the corporate responsibility policy, Pemex disseminates an annual sustainability report; nevertheless, the observations of the Citizen Participation Group have not been updated since 2015.

**TABLE 4. COMPARISON OF CATEGORIES OF PUBLIC INFORMATION ON INTERNAL CONTROL SYSTEMS OF CODELCO (CHILE) AND ECOPETROL (COLOMBIA) V. PEMEX AND CFE**

				
1. Progress and results of ethics and integrity policy	✓	✓		Incomplete
2. Progress and results of the anti-corruption plan	✓	✓		
3. Reports of a risk committee	✓	✓	Incomplete not accessible (2OF)	Incomplete not accessible (A. Report)
4. Case studies to identify risks	✓	✓	Incomplete not accessible (2OF)	Incomplete not accessible (A. Report)
5. Reports on violations of internal policies	✓	✓		
6. Investigations on acts of corruption	✓	✓	Incomplete not accessible (2OF)	
7. Information on remedial and corrective actions	✓	✓		
8. Actions to be taken to comply with regulations (compliance)	✓	✓		
10. Training and evaluations for employees and contractors in anti-corruption matters	✓	✓	Incomplete	Incomplete
11. Existence of preventive and civil protection programs	✓	✓	✓	✓

## Guideline 6: Transparency of the Board of Directors

### ¿Qué se analiza y por qué es importante?

For state-owned companies, it is very important to disseminate who is part of and how the Board of Directors –the main corporate governance body of the companies– operates, as well as the nature of the decisions made by the Board itself and the criteria that support them.

Disseminating the information described in the variables presented below can be a powerful tool for accountability and to increase the credibility of the institution vis-à-vis shareholders, potential investors and business partners.

In the Mexican case, the mixed composition of the Boards of Directors in the SPEs, made up of both public officials and external and independent Directors, makes the dissemination of diverse information even more important in order to inhibit the existence of undue political interference, as well as conflicts of interest to the detriment of the company.

### EVALUATION

#### A) RATING



#### 6.1 INFORMATION RELATED TO THE PEOPLE THAT MAKE UP THE BOARD OF DIRECTORS

Variables	Referent	Quality	Accessibility	Reliability	Completeness	Frequency	Total
6.1.1 Dissemination of the selection processes and qualifications of the Board directors.	Ecopetrol   Colombia 	PEMEX					
		CFE					
6.1.2 Dissemination of means of contact with the Board of Directors or the directors.	Pemex   Mexico 	PEMEX					
		CFE					
6.1.3 Dissemination of the remuneration policy for directors, including their updates.	Ambu   Denmark 	PEMEX					
		CFE					
6.1.4 Dissemination of the treatment of specific cases of conflicts of interest for directors.	NHS Bolton   UK 	PEMEX					
		CFE					

#### 6.2 INFORMATION REGARDING THE BOARD OF DIRECTORS OPERATION

6.2.1. Dissemination of operating mechanisms of the Board of Directors.	Equinor   Norway 	PEMEX					
		CFE					

		Quality components					
		Accessibility	Reliability	Completeness	Frequency		
	the practice was not observed						
	insufficient						
	Improvable						
	Good						
	Excellent						
	Not apply						
Variables	Referent	Quality				Total	
6.2.2 Dissemination of information on the existence, composition and functions of specialized committees of the Board of Directors.	ENI   Italy 						
<b>6.3. INFORMATION REGARDING THE DECISIONS MADE BY THE BOARD OF DIRECTORS</b>							
6.3.1 Dissemination of information on activities of the Board of Directors.	Codelco   Chile 						
6.3.2 Dissemination of the external audit policy and ratings.	Ecopetrol   Colombia 						
6.3.3 Dissemination of information on the annual general meeting.	Equinor   Noruega 						
6.3.4 Dissemination of mechanisms and evaluation of the performance of the Board of Directors.	Vodafone   Canada 						

**B) MAIN CONCERNS::**

**SERIOUS FAULT TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY**

- In relation to the decision-making process of both Pemex and CFE Boards of Directors, there exist three important moments that must be documented and disseminated:
  - Information prepared by the CEO addressed to the Board for decision-making;
  - Discussion and deliberation for decision-making during the Board sessions;
  - Board follow-up exercise to already taken decisions.

Regarding the aforementioned three moments, Pemex and CFE disseminate very little information. In spite of the fact that law obliges SPEs to disseminate acts of

the sessions, in general, there is not a formalization of the decision-taking processes that enables the general public to understand how the Board operates.:

- There is no dissemination of quarterly reports of the Board activities, nor self-made performances assessments of each committee, or documents that are mandated to be presented to the Board in accordance to the operation rules.
- Public versions of minutes of the Board meetings or committees' meetings are not disseminated.
- There is no transparency regarding the votes of Board members.
- SPEs' web pages do not provide the user with friendly search engines that may allow accessing to relevant decision-taking documents easily.

- SPEs Boards do not disclose information regarding their follow-up to decisions already taken.

2. Pemex policy of remunerations of independent directors is not available at its website. This had to be requested via an information request. In the case of both companies, the amounts of the remuneration received is incomplete, since it does not describe what was given to each director in the fiscal year. This information would allow calculating the operating cost of the Board, used in different companies to assess the performance of the Board.
3. Pemex does not disseminate in an accessible way the guidelines and policies issued by its Board of Directors; they are not found in a regulatory virtual library, nor in the portal of the Board, but only as annexes to the Board meetings where they were voted. It is, therefore, difficult to know the totality of guidelines.
4. We did not find information regarding the evaluation of the CFE Board as an organ, except for the sheet submitted by the Statutory Auditor or "Comisario" in 2017. In the case of Pemex, the Congress did not appoint its correspondent Statutory Auditor, so there is no report on the performance of the company and its Board.

#### MODERATE FAULT TO BEST PRACTICES STANDARD OF CORPORATE TRANSPARENCY

1. With respect to information related on the Board members:
  - a) It is important to disseminate both the qualifications and the reasons behind the selection of all the directors, including those selected by the Executive.
  - b) The conflict of interest management policy for directors is not disseminated, nor any other information about potential conflicts around them. From 2014 to 2017, no conflicts were revealed in the annual reports. It was also found that the representative of the CFE union carried out votes related to labor issues and human resources in which it would seem there was a conflict.
2. CFE's information on the remuneration policy for independent directors and the amounts received is incomplete, since it does not describe what was given to each director in the fiscal year. This information would allow calculating the operating cost of the Board, which could be useful to make a cost-benefit ratio of the body itself.

# Recommendations

**T**he new legal framework that was generated with the Energy Reform incorporates important changes in the form of government of these companies. We believe that a proper implementation of this model, and its follow-up, can help boost its efficiency, competitiveness and ability to prevent acts of corruption.

At México Evalúa we believe that it is crucial to work on strengthening these companies, in the face of the great challenges arising with the opening of the energy sector. All Mexicans are responsible for their correct performance.

The new objective of SPEs to generate economic value and the elements of corporate governance incorporated represent a change in institutional culture that does not happen overnight. Good practices of corporate transparency facilitate this change of culture. It is the central objective of our evaluation exercise.

Here are some measures that SPEs can implement to boost a culture of corporate transparency within them:

## **1. Transparency in the property policy and objective of the SPE**

**a.** The dissemination of objectives of a state-owned company goes beyond stating the general objectives that are in law. Both Pemex and CFE must do an exercise in which they can define goals and expected results of each objective, as well as quantify their level of compliance. The information disseminated must also be accessible to expert and non-expert audiences, so it is advisable to present it in different formats.

**b.** Although defining the property policy and its representatives is a faculty of the State and not of the productive enterprise, we recommend that both companies generate a document that explains the processes and related mechanisms. This would answer clearly to questions such as: To whom do SPEs respond and through which mechanisms are they accountable? Who has the representation of the property and what is the relationship that the company keeps with the different public entities?

The best international practices dictate that when there is a proprietary entity, the supervision of the operation of the public company is attributed to it. For this purpose, it is endowed with adequate competencies in accounting, auditing and communication, with the relevant counterparts of the State, the financial services of public companies, an internal control department and external auditors and specific comptrollers.

Under these conditions, the owner entity requires a performance report from the Board of Directors that includes the design and implementation of ethical codes and anti-corruption program measures, as well as the preparation of a disclosure policy that specifies the type of information that must be reserved, the appropriate channels for dissemination and the mechanisms to ensure their quality (OECD, 2015).

As in Mexico there is no proprietary entity and the functions that theoretically correspond to it are assigned in some way to the proprietary directors –integrated in the Board of Directors–,

it is necessary that the SPEs be clear in relation to the aforementioned criteria. This guarantees a better accountability on their performance.

## **2. Transparency of the organization, operation and results of the SPEs**

- a.** The lack of most basic information of subsidiaries and branches of Pemex shows the need for the Board of Directors to issue guidelines in this regard and / or disseminate the information reported by the companies themselves. Both CFE and Pemex must disclose unconsolidated financial statements, to know the performance of each company separately.
- b.** The lack of dissemination of information on human resources policy places both companies at levels far below the international best practice standard. Although in their annual reports the two SPEs disseminate information about their enormous labor liabilities, there is a lack of context information or details about the risks and strategies that are presented.

It is recommended that the Board of Directors of both companies recognize that transparency can be a useful tool for this purpose. Establishing goals related to productivity and recruitment policies and staff professional development, among others, would be a good base to be able to follow up on results for accountability purposes.

- c.** Self-regulation in the area of public procurement –considering that SPEs are the main buyers within the Federal Public Administration and that this is a practice in which corruption abounds– opens up the opportunity to make better use of transparency in the new regulation. Here we include the need to disseminate contract modifications and sanctioned contractors.

## **3. Transparency around the advantages and disadvantages of SPEs in the market**

- a.** It is recommended to include in the annual reports a section that presents the universe of transfers between SPEs and other government entities, which describes the policy, its purpose, legal support and the verification of proper use of resources. In addition, when extraordinary transfers are carried out, the level of transparency must be greater.

## **4. Transparency in partnerships for productive projects with the private sector**

- a.** Disseminate information on social and environmental impact, with an individualized approach.
- b.** Redirect users to the information already disseminated by the National Hydrocarbons Commission (CNH) at its website, but also SPEs should generate their own strategy for disseminating such information based on their own experience and vision of said projects would be a plus

## **5. Transparency in corporate responsibility policy and internal control**

We recommend that the Board of Directors (in each of the SPEs) pay more attention to non-financial risks of public interest and constitutional mandate, such as those related to social and environmental responsibility policies, and combating corruption. All this has a strategic nature and, therefore, the generation of standards must fall within the orbit of the highest governance body. In particular, the following actions are recommended:

- a.** The CFE must generate a corporate responsibility policy which includes the generation and dissemination of a specific report on the subject, as well as feedback mechanisms with stakeholders. The Board of Directors must consider it a priority.
- b.** Considering the corruption risks that exist in state-owned enterprises, CFE must issue a conflict of interest management policy (its correct classification and channeling), as well as an anti-corruption program.
- c.** If Pemex wants to use transparency as a deterrent tool –to help reduce acts of corruption– and accountability to citizens, it must disseminate goals, objectives or commitments related to the different integrity policies. The Board of Directors that issued the guidelines on this matter should be in charge of monitoring compliance.
- d.** Disseminate a public version about the status of the internal control system. (See table 5).

## 6. Transparency of the Board of Directors

1. In relation to information on conflicts of interest of the Directors, it is considered that although the regulatory framework is more exhaustive for the case of Directors and therefore determines the scope, assumptions and monitoring of conflicts, the dissemination of information on any of these mechanisms is non-existent. We recommend to inform, at least, in which Board of Directors meetings excuses for a conflict of interest were presented, especially in the case of directors who are Secretaries of State. In the case of CFE (which has a union representative within the Council), it is recommended to issue and publish mechanisms to guarantee that said representation contributes to the improvement of skills, safeguarding the independence of the Council.
2. Disseminate guidelines for the remuneration policy, as well as the amount received by each director annually. This, in order to see the operating cost of the Board.
3. Greater transparency in the decision-making process of the Board:
  - a. Dissemination of the calendar and program with specifics on matters that will be resolved in a timely manner.
  - b. Formalization of previous discussion meetings.
  - c. Dissemination of minutes of meetings of the Board and its committees in a timely manner and with more information, to allow accountability.
4. Adopt and disseminate evaluation criteria of the Board as a body aligned with the best international practices. These evaluations would help to discover if the composition of the Board is adequate according to the tasks entrusted; if there are enough members; if they are qualified or if their independence has been verified in relevant cases for the company.

### About the strengthening of the Board

All these recommendations are addressed to the governing bodies of the SPEs. Many of them are strategic actions to develop a culture of corporate transparency within companies, in which the appropriate incentives are generated to see the advantages that a proper

management and dissemination of information can bring to the company.

Due to its strategic nature, many of the recommendations are addressed to the Board of Directors, the highest governing body of the SPEs. The Board must find ways to generate this culture within and follow up on its fulfillment. The implementation and execution by the Management is also fundamental and requires willingness and understanding of the benefits that this can bring to the company.

The Boards of Directors of companies owned by the State must have sufficient authority, competencies and objectivity to carry out their functions of strategic orientation and management supervision. They must act with integrity and take responsibility for their actions. The Boards of Directors of SPEs in Mexico take up several attributes described in the OECD Guidelines, although there are still many areas of opportunity in relation to the proposed regulatory design.

The Energy Reform contemplated, as one of its main points, the establishment of a modern model of corporate governance for SPEs, which included the creation of the Board of Directors as the supreme governing body of a company with these characteristics. The Board became directly responsible for strategic direction and comprehensive planning; therefore, it is the entity that must define the policies, guidelines and strategic vision of the SPEs, its subsidiaries and affiliates, and approve its business plan.

Regarding the composition of the Board, it is foreseen for the first time the inclusion of independent directors appointed by the Executive and ratified by the Senate. Other directors, appointed directly by the Executive, may be public servants. The Law provides that both independent Directors and public servants –with the exception of a Secretary of State– must be appointed based on their experience, capacity and professional prestige.

However, there are still some important adjustments that would be necessary to align the incentives so that this body is effectively the maximum body to which the managers of the company respond; and that it is a technical body whose members comply with their obligations objectively without undue interference or political interference.

Although it goes beyond the central objectives of this evaluation, due to the relevance of the role of the Board of Directors in the implementation of a proper model of



government and corporate transparency, here are some measures that would allow strengthening this body of the SPEs:

- 1.**As for its composition, having proprietary directors such as the secretary of Energy and Finance and Public Credit does not seem to be the best control mechanism. There are more effective ones to exercise the property of the State without interfering in the administration and strategic operation of the company.
- 2.**Directors appointed by the Executive should meet the same requirements related to qualifications as independent directors, including the case of the Secretaries of State.
- 3.**The Board must have a participation in the designation of the director of the company.
- 4.**An internal evaluation mechanism of the Board as a body, and an individual evaluation of each of its members should be defined.

# Conclusion

In this index, the status of the corporate transparency of the SPEs is evaluated. It is a diagnosis that should be useful to develop good corporate governance, in the model adopted by the Energy Reform. Its recommendations are based on best practices from international organizations and comparable companies.

If strengthening the state-owned companies in the energy sector is a priority of the new Mexican government, we believe that this evaluation clearly indicates opportunities in the path of corporate transparency. Transparency can be a powerful tool for building trust among stakeholders –business partners, investors and citizens– and combating corruption. However, the results of our evaluation show that until now it has been wasted.

We call on the governing bodies of Pemex and CFE to take into account our recommendations aimed at promoting greater transparency in SPEs at: 1) Their property policy and its objectives; 2) Their organization, structure, operation and results; 3) The advantages and disadvantages they have compared to other players in the market; 4) Partnerships for joint-production projects with the private sector; 5) Their corporate responsibility and internal control policies, and 6) Their Boards of Directors.

It is not enough to say that a company is transparent. This study analyzes the quality of the information that the SPEs disseminate based on parameters of good

practices of state-owned companies. We believe that the main contribution of this study is to evaluate how accessible information is to target audiences, or how timely, reliable and complete information is in order to achieve objectives –i.e. accountability for citizens or generating confidence in the investment community.

The promotion of a culture of transparency within SPEs is crucial to improve the government within those companies, and this will be reflected in their performance. Therefore, the Boards of Directors, as the highest governing bodies, have a pending task regarding this strategic issue. Many of the recommendations of our index are addressed to these bodies who must assume great responsibility in the proper functioning of the SPEs. In different ways, Boards can intervene in the transparency policy to be followed so that disclosure of information about the companies may be accessible, timely, reliable and complete.

Our findings in terms of corporate transparency, allowed us to find flaws in the design of corporate governance incentives within the SPEs. Some of the required changes may be related to the better implementation of the energy reform that triggered their transformation as SPEs. Others will require a change in their design. In any case, it will be solely through evaluation and diagnoses –such as those made by México Evalúa– that improvements for strengthening Pemex and CFE will benefit all Mexicans.

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# Annex

# Methodology

The methodological approach for the construction of the IT-SPE had as its starting point the question of how to analyze two cross-cutting agendas: on one hand, the analysis of the best international practices in corporate governance by a state-owned enterprises; and on the other, the evaluation of quality of the transparency of said corporate governance.

The leading organization for the establishment of criteria for good governance of state-owned enterprises is the Organization for Economic Cooperation and Development (OECD), which synthesizes “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined<sup>21</sup>”. The OECD, over the years, has regularly brought together the world’s leading companies to exchange and document experiences. The result of this effort was born in 2010, with the publication of OECD Guidelines on the Corporate Government of Public Companies (hereinafter “The OECD Guidelines<sup>22</sup>”), which are a guaranteed reference to establish parameters of good government in state-owned companies. A working line was also derived from this effort in terms of best practices of corporate transparency to exemplify how the systematization of

good practices can support state-owned enterprises to become more competitive. The reference document in this area is the Guide to Transparency and Accountability<sup>23</sup> for state-owned companies of the OECD.

## NRGI Transparency Dimensions

On the other hand, the Institute for the Governance of Natural Resources –an international organization dedicated to the analysis of good governance of companies that manage the extraction, processing and commercialization of natural resources, mainly in the area of mining and oil– frequently performs a Governing Index of Natural Resources. In its 2017 edition, the NRGi makes an effort regarding corporate transparency recommendations in its Advertising Guide for state-owned companies<sup>24</sup>. From this source, for purposes of this study, we took the four dimensions of quality in transparency as our analysis baseline for each corporate governance variable of the IT-SPE. Also, based on the NRGi Guide, we were able to identify attributes for each of the dimensions, as shown in Table 1.

For the NRGi, corporate transparency is also one of the indispensable pillars of good governance and accountability. NRGi emphasizes that transparency is more effective when adopted in state-owned companies as a comprehensive policy that permeates the entire

<sup>21</sup> OECD (2016b). Principles of Corporate Governance of the OECD and G20. Paris: OECD Publications Available in <https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>

<sup>22</sup> OECD (2016a). OECD Guidelines on the Corporate Governance of Public Enterprises Paris: OECD Publications Available in: <http://dx.doi.org/10.1787/9789264258167-es6>

<sup>23</sup> Organization for Economic Cooperation and Development [OECD]. (2010). Accountability and Transparency: a Guide for State Ownership [Accountability and Transparency: a Guide for State Ownership]. Paris: OECD Publications Available in: <http://www.oecd.org/daf/ca/accountabilityandtransparencyaguideforstateownership.htm7>

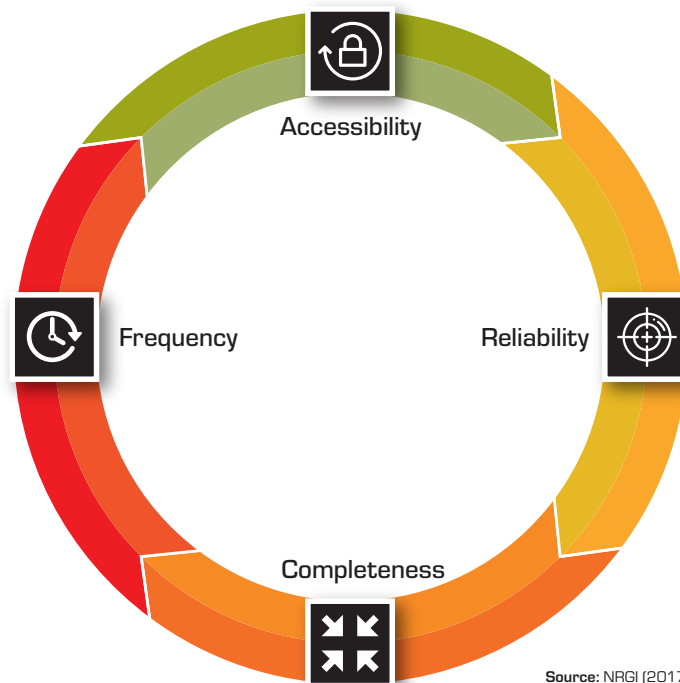
<sup>24</sup> Natural Resource Governance Institute [NRGI]. (2018), Guide to Extractive Sector State-Owned Enterprise Disclosures [Guide to display information in State-owned Extractive Enterprises]. London: NRGi. Available in <https://resourcegovernance.org/analysis-tools/publications/guide-to-extractive-sector-state-owned-enterprise-disclosures>

**FIGURE 1. OECD CORPORATE GOVERNANCE GUIDELINES**



Fuente: OCDE (2016).

**FIGURE 2. NRGi TRANSPARENCY DIMENSIONS**



Source: NRGi (2017).

## TABLE 1: NRG I TRANSPARENCY DIMENSIONS AND ATTRIBUTES

### 1. Accessibility

- 1.1. Scope
  - 1.1.1. The information is free
  - 1.1.2. Ease to find it
  - 1.1.3. Is the medium friendly?
  - 1.1.4. Can it be easily downloaded?
  - 1.1.5. Are the licenses and formats of the download accessible?
  - 1.1.6. Is the information in accessible language?
  - 1.1.7. Is there a mechanism to request additional information?
- 1.2. Apprehensible for non-expert audiences
  - 1.2.1. Are key concepts explained and defined?
  - 1.2.2. Is common language used and jargon avoided?
  - 1.2.3. Is important information emphasized?
  - 1.2.4. Is the information illustrated?
- 1.3. Apprehensible Understanding for expert audiences
  - 1.3.1. Is the information disaggregated?
  - 1.3.2. Is granular information presented (e.g. daily or monthly)?
  - 1.3.3. Are metadata published?
  - 1.3.4. Are formulas published?

### 2. Reliability

- 2.1. Are the sources of information published?
- 2.2. Is the information verifiable?
- 2.3. Has the information been verified by an internal or external auditor?

### 3. Completeness

- 3.1. Are measurements consistent with industry standards?
- 3.2. Has disseminated information increased over time?
- 3.3. Are different levels of information displayed to understand the full picture?
- 3.4. Are context and trends explained?
- 3.5. Have historical reports been kept on Internet portals?

### 4. Frequency and Opportunity

- 4.1. How frequently is the information updated?
- 4.2. How timely is the information disclosed?
- 4.3. Is the information reported at least 6 months after a critical milestone (e.g. end of fiscal year - December)?
- 4.4. Are conjunctures reported with data and context information?

Source: NRG I (2017).

organizational culture, as it is a daily practice at all levels of the company. In this sense, transparency goes beyond simply publishing reports that are often disconnected from sources of information, as well as the functions or culture of the institution. The NRG I recommends that state-owned enterprises strive to become organizations in which transparency is a continuous, systematic, standardized and fully integrated practice in the daily activities, in such a way that employees, managers and members of the Council act with a focus on transparency that reflects in the quality of everything the company publishes. (NRG I, 2017)

The NRG I also emphasizes that SPEs should consider the diversity of their audiences in the planning, processing

and dissemination of information to be published. Thus, the use of diverse formats adapted to the needs of each type of audience as well as the use of different communication products, Microsite Web, and useful applications to transmit information is recommended. The identification of the audiences involves identifying the actors most interested in accessing said information. Notable are civil society organizations, parliamentary groups or legislative committees, the investing public, business partners and the general public.

Transparency is such an important practice that if audiences can not access information, or if it is very complex or is presented too consolidated, the simple publication of information has no use (NRG I, 2017).

According to NRG, partial or isolated information –that is, without context– weakens the publication. Likewise, non-current or updated information is not very useful to evaluate the performance of the state company. In this way, the NRG took the key principles of transparency to guide state-owned enterprises in the development of their transparency methodologies. In the past decade, NRG recalls, efforts were made in state-owned companies to improve the transparency that led to the dissemination of numerous reports and publications. However, when analyzing that stage in the history of corporate transparency, the NRG discovered that many of those documents or data were disconnected or did not respond to a comprehensive policy or corporate transparency strategy. Nowadays, the point is to develop a perspective of transparency that complies with the four basic principles and that is useful for all the interested actors (or audiences) accessing the information. (NRG, 2017)

### Other Sources Reviewed

Corporate transparency has also been studied in the field of stock markets and financial markets, including

the central bank’s organizational transparency. Some outstanding evaluation works are the Index of Transparency of Public Companies (INDEP Spain), the Corporate Information Transparency on the Internet by Listed Companies in Spain (IBEX35) and Mexico (IPYC), the index IMF Central Bank Independence, Accountability and Transparency and, finally, the Initiative for the Extractive Industries Transparency (EITI) in Mexico<sup>25</sup>. The most recent work for Mexico on fiscal information transparency was developed in September 2018 by the International Monetary Fund: Fiscal Transparency Evaluation on Mexico.

México Evalúa took as a theoretical or bibliographic basis all the sources mentioned above, that is, both the primary ones –OECD and NRG– as well as the secondary sources and, in a detailed exercise, reviewed their relevance to be used as subordinate variables to the categories and corporate governance guidelines for state-owned companies of the OECD, in the light of an evaluation of the Mexican companies Pemex and CFE. Table 2 shows the 50 selected variables and their theoretical justification.

**TABLE 2: SOURCES OF INFORMATION USED DURING THE VARIABLES OPERATIONALIZATION PROCESS FOR THE IT-SPE**

OECD Corporate Governance Guidelines	OECD and NRG Corporate Governance Categories	Variables	Source
1. Transparency in the property policy and objectives of the SPEs	1.1. Mission, objective and priorities of the SPEs	1.1.1. Are the SPE objectives disseminated?	NRG Guide
		1.1.2. Are the SPE priorities disseminated?	NRG Guide
	1.2. Commercial and non-commercial activities	1.2.1. Are non-commercial activities transparent?	NRG Guide
	1.3. State property policy	1.3.1. Is the role of the State in corporate governance diffused?	NRG Guide
2. Transparency of the organization, operation and results of the SPEs	2.1. Structure and internal organization of the SPE	2.1.1. Is an updated organization chart of the SPE that includes the structure, responsible persons, functions, dependency relations and contact information disseminated?	International Transparency (INDEP)
		2.1.2. Is the existence of all the subsidiaries and branches, and information of their organic structure transparent?	International Transparency (INDEP)

<sup>25</sup> The EITI Standard requires disclosure of information throughout the extractive industry’s value chain from the point of extraction, to the way in which revenues continue on their way to government, and even how they benefit the general public. This includes how licenses are adjudicated and registered, who are the real beneficiaries of those operations, what are the legal and fiscal provisions, how much is produced, how much is paid, how are those revenues distributed and what is the contribution to the economy, including the job. The Mexican government requested entry to the EITI standard in 2015 and received confirmation of its admission in 2017. Ref. <https://eiti.org/es>

OECD Corporate Governance Guidelines	OECD and NRI Corporate Governance Categories	Variables	Source
2. Transparency of the organization, operation and results of the SPEs	2.1. Structure and internal organization of the SPE	2.1.3. Does the SPE disseminate information about its human resources policy and practice?	NRGI Guide
	2.2. Performance of the SPE (Includes objectives, performance indicators and financial reports)	2.2.1. Does the company disseminate its risk status?	NRGI Guide
		2.2.2. Are key performance indicators and financial information disseminated in accordance with internationally recognized accounting and financial standards?	NRGI Guide
	2.3. Public purchases	2.3.1. Are the contracting regulations of the company that regulate and / or detail contracting procedures transparent?	"International Transparency (INDEP); NRGI Guide"
		2.3.2. Are the contracting and project plans and the requirements of each one transparent?	OCDE Pemex Hiring Survey
		2.3.3. Is basic information disseminated on all contracts made by the company (including minor contracts), indicating at least the object, the amount of tender and award, the procedure used, the instruments through which, where appropriate, was publicized, the number of bidders participating in each contract and the identity of each of the winners?	International Transparency (INDEP)
		2.3.4. Are information and statistics about failures that identify percentages of contracting according to categories (i.e. direct award vs. competitive processes) disseminated?	International Transparency (INDEP)
		2.3.5. Is information disseminated on all the modifications of the Contracts (through a direct and specific link on the website), indicating their purpose, reasons on which the modifications are based?	International Transparency (INDEP)
		2.3.6. Are mechanisms disseminated to evaluate and, where appropriate, punish misconduct, in accordance with the policy of integrity and corporate ethics by contractors?	NRGI Guide
	3. Transparency around the advantages and disadvantages of SPEs in the market	3.1. Separation between functions of the State as owner and regulator	3.1.1. Is there a distinction between regulations that imply an additional burden or advantage for the state company?
3.2. Impartiality in the procurement of justice		3.2.1. Is information about legal proceedings / litigation / arbitration that the SPE faces disseminated?	International Transparency (INDEP)
3.3. Dissemination of private and public banking financing		3.3.1. Is financing information disseminated?	NRGI Guide
3.4. Transfers from the federal government or subnational governments		3.4.1. Is information about transfers to national and subnational governments by the state company disseminated?	NRGI Guide
		3.4.2. Is information about the transfers that the company receives from the government disseminated?	NRGI Guide
		3.4.3. Is information about internal policies and regulations that apply to the transparency of transfers (non-routine) disseminated?	Guidelines ; NRGI



OECD Corporate Governance Guidelines	OECD and NNGI Corporate Governance Categories	Variables	Source
3. Transparency around the advantages and disadvantages of SPEs in the market	3.5. Contracts or assignments between the SPEs and government at all levels (federal, state, municipal)	3.5.1. Is information about contracts or assignments of a productive nature made between SPEs and governments disseminated? (Ronda Cero - Pemex / Electrification contracts in states and municipalities - CFE)?	International Transparency (INDEP)
4. Transparency in partnerships for productive projects with the private sector	4.1. Associations, partnerships, agreements, production-sharing projects with the private sector	4.1.1. Does the SPE disseminate information on the guidelines or regulations for projects in partnership?	Guidelines ; NNGI
		4.1.2. Does the SPE disseminate the name of the partner, country of residence and nature of the contract related to associations, partnerships, and joint production projects carried out with private sector partners?	NNGI Guide
		4.1.3. Does the SPE disseminate data on sales or income and costs related to associations, partnerships, and joint production projects carried out with private sector partners?	NNGI Guide
		4.1.4. Are details about studies of social, environmental impact of the project disseminated?	NNGI Guide
5. Transparency in corporate responsibility policy and internal control	5.1. Relations with creditors, debtors, workers and affected communities (Corporate social responsibility)	5.1.1. Is a Corporate Social Responsibility Report published?	NNGI Guide
		5.1.2. Is the feedback of the corporate social responsibility report promoted among the stakeholders?	NNGI Guide
	5.2 Sistema de Control Interno	5.2.1. Are the guidelines of the internal control system disseminated?	International Transparency (INDEP); NNGI
		5.2.2. Is information on non-financial risk analysis that includes issues of ethics and integrity and mechanisms for compliance disseminated?	NNGI Guide
	5.3 Ethics and corporate integrity policy	5.3.1. Are the objectives and commitments of the ethics and corporate integrity policy disseminated?	NNGI Guide
		5.3.2. Are the results of the ethics and corporate integrity policy disseminated?	International Transparency (10 beginning)
		5.3.3. Are the objectives and commitments of the conflict of interest policy disseminated?	NNGI Guide
		5.3.4. Are there progress and achievements regarding the objectives and commitments of the conflict of interest policy shown?	International Transparency (10 beginning)
	5.4 Anti-corruption policy and mechanisms	5.4.1. Are guidelines for "special" mechanisms such as "whistleblowers protection policies" disseminated?	NNGI Guide
		5.4.2. Is progress on "special" mechanisms such as "whistleblowers protection policies" disseminated?	International Transparency (10 beginning)
		5.4.3. Are objectives and commitments of the Anticorruption Program disseminated?	NNGI Guide
		5.4.4. Are there advances in the Anticorruption Program disseminated?	International Transparency (10 beginning)

OECD Corporate Governance Guidelines	OECD and NRGi Corporate Governance Categories	Variables	Source
5. Transparency in corporate responsibility policy and internal control	5.4 Anti-corruption policy and mechanisms	5.4.5. Are guidelines or specific criteria to shield the corporate government of the SPE from political campaigns disseminated?	NRGI Guide
		5.4.6. Are criteria related to the treatment of politically exposed persons disseminated?	NRGI Guide
6. Transparency of the Board of Directors	6.1 Information related to the people that make up the Board of Directors	6.1.1. Are the selection processes and qualifications of the directors disseminated?	NRGI Guide
		6.1.2. Are the Means of contact with the Board of Directors or the directors disseminated?	OCDE Guide on Transparency and Accountability at State-owned enterprises
		6.1.3. Is the remuneration policy for directors, including their updates disseminated?	NRGI Guide
		6.1.4. Is the treatment of specific cases of conflicts of interest for directors disseminated?	NRGI Guide
	6.2 Information regarding how the Board of Directors operates	6.2.1. Is information on operating mechanisms of the Board of Directors disseminated?	NRGI Guide
		6.2.2. Is information on the existence, composition and functions of specialized committees of the Board of Directors disseminated?	Directrices OCDE; International Transparency (INDEP)
	6.3 Information regarding the decisions made by the Board of Directors	6.3.1. Is information about the activities of the Board of Directors disseminated?	NRGI Guide / OCDE
		6.3.2. Is information on the external audit policy and qualification of auditing companies disseminated?	NRGI Guide
		6.3.3. Is information about the annual general meeting disseminated?	NRGI Guide
		6.3.4. Are mechanisms and evaluation of the performance of the Board of Directors disseminated?	NRGI Guide

Source: Own elaboration

## Our Analysis

### Delimitation of the Problem

Based on the literature reviewed, and in order to narrow the analysis of this study, México Evalúa decided to develop an IT-SPE under a multidimensional approach, considering corporate transparency as an essentially integral issue. As previously stated, we understand corporate transparency as the expression of corporate governance linked to the stakeholders' interested in its performance and value.

If Figures 1 and 4 are compared, it is possible to observe the conceptual adaptation carried out for the IT-SPE and the use of the disclosure and transparency OECD corporate governance guideline as a pivotal axis for our transversal analysis..

### The IT-SPE Structure

The IT-SPE architecture is based on a matrix structure, composed mainly of soft or qualitative variables, in which 50 variables are displayed on a vertical axis, grouped into 19 categories and six adapted OECD guidelines on corporate governance. On the horizontal axis the NRGi transparency quality dimensions are

**FIGURE 3. CORPORATE TRANSPARENCY GUIDELINES FOR *IT EPE***

Source: Own elaboration based on OECD Guidelines (2016).

displayed<sup>26</sup>, from which 27 subdimensions are derived from the four transparency attributes or dimensions that NRGi establishes as the ideal characteristics of a good corporate transparency practice. We established criteria for tabulating rates to determine a total score of corporate transparency practices quality performed in each of the variables by: i) A company taken as a reference for the analysis of said variable (comparable company), ii) Pemex and iii) CFE.

The analysis included an examination of the information content disclosed proactively by the SPEs and their referents –or comparable companies– on their Internet webpages. Those documents valid for Pemex and CFE from the enactment of the Energy Reform in August 2013 to the present were considered.

National and international references of best practices of corporate transparency were chosen based on the

recognition that companies, mostly state-owned, have obtained from our bibliographic sources (NRGI, OECD and Transparency International) in different areas of corporate transparency practices. Table 2 shows the bibliographic sources used for the validation of each referent.

Exemplary companies usually disseminate information related to their corporate governance in different documents or on their Internet portals, so the referent selection was made for each of the areas of corporate governance of a company, which, for purposes of our Index, correspond to each one of the 50 variables.

From the set of exemplary companies, we carefully selected state-owned or mixed companies as our referents. Only in two exceptional cases we couldn't identify a good practice in state-owned companies; however, we did find it in private companies. This




<sup>26</sup> Natural Resource Governance Institute [NRGI]. (2018), Guide to Extractive Sector State-Owned Enterprise Disclosures [Guide to display information in State-owned Extractive Enterprises]. London: NRGi. Available in <https://resourcegovernance.org/analysis-tools/publications/guide-to-extractive-sector-state-owned-enterprise-disclosures>

**TABLE 3. BASIC CONSTRUCTION OF THE IT-EPE ANALYSIS METHODOLOGY**

Natural Resource Governance Institute

Dimensions and subdimensions of transparency quality

Evaluation of International Referents

Guideline Number	Guidelines	Analysis Category	Variable or Indicator	Best Practice Standard	Accessibility	Reliability	Consistency and completeness	Frequency and opportunity
					Scope / Understanding	Sources, verification, audit	Consistency, contexts, historical information	Updates, conjunctures, timing
6	6. Transparency of the board of directors	6.1. Corporate Governance Performance	6.1.1. Are the mechanisms for the operation of the Board of Directors disseminated?	Equinor 				
			6.1.2. Is the process for selecting directors and the procedure that guarantees that they met all the requirements of the law disseminated?	Codelco 				
			6.1.3. Is information disseminated about the participation of the union representative Director in the Board?	Ecopetrol 				

Source: Own elaboration based on OECD Guidelines (2016) y NRG (2017)

resulted in a list of 15 international referents of which four Latin American, four European, five Asian and one African companies stand out. In the findings section of the report, the comparable company chosen for each variable is named. In some cases, depending on the nature of the variable, it was decided to locate a specific referent for the electricity sector for CFE and the oil sector for Pemex. The characteristics of each referent, the rationale that the evaluators followed to select them as a comparison, the equivalent analysis for Pemex and CFE, and the conclusions and / or recommendations are described in the research files available at [www.mexicoevalua.org](http://www.mexicoevalua.org).

### Evaluation process

México Evalúa designed a possible ratings tab for each of the subdimensions of the NRG transparency

quality (horizontal axis of the matrix). Although in most subdimensions the possibilities allowed to evaluate with binary values of zero (0) or one (1) (i.e. The answer to the question Is the information free? can only be "yes" or "no"), in some cases, due to the possibility of assessing quality with certain nuances, we established some criteria in ordinal form in such a way that the evaluator

could qualify based on a range of options (from 0 to 2 or from 0 to 3). The following table illustrates the criteria used for the evaluation in each transparency quality subdimension.

As a separate document, the interested public is provided with a Guide for the Evaluator that contains a description of the series of steps, criteria and recommendations to replicate the tool. It is available on the website of México Evalúa.

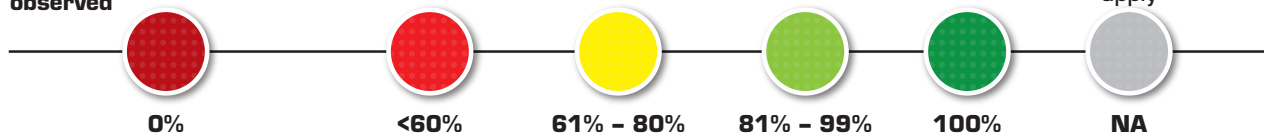
Subsequently, the proportion between the value of each indicator for Pemex and CFE, and the value obtained by the referent of the best selected practice was calculated. The results were subsequently translated into a traffic light evaluation according to the criteria shown below. Given the "soft" nature of the variables due to their qualitative origin, the researchers documented their observations in extensive files that are available within our portal.

To obtain the final rating of the index, all the values obtained for Pemex, for CFE, and for the referent of best practices were added. The final grade was obtained from calculating the proportion of the total sum of all the values obtained by the SPE with respect to the total sum from the values obtained by the referents.

Transparency quality dimensions according to NRG1	Evaluation Tab
<b>1. Accessibility</b>	
1.1. Scope	
1.1.1. The information is free	0= do not 1= yes
1.1.2. Ease to find it	0= very difficult 1=something difficult 2= relatively easy 3= very easy; in sigh
1.1.3. Is the medium friendly?	0= nothing friendly 1= something friendly 2= very friendly
1.1.4. Can it be easily downloaded?	0= do not 1= yes
1.1.5. Are the licenses and formats of the download accessible?	0= do not 1= yes
1.1.6. Is the information in accessible language?	0= do not 1= yes
1.1.7. Is there a mechanism to request additional information?	0= do not 1= yes
1.2. Apprehensible for non-expert audiences	
1.2.1. Are key concepts explained and defined?	0=They are not explained 1= They are explained but not defined 2=They are explained and defined
1.2.2. Is common language used and jargon avoided?	0= do not 1= yes
1.2.3. Is important information emphasized?	0= do not 1= yes
1.2.4. Is the information illustrated?	0= do not 1= yes
1.3. Apprehensible Understanding for expert audiences	
1.3.1. Is the information disaggregated?	0= aggregate information 1= little disaggregated information 2= very disaggregated information
1.3.2. Is granular information presented (e.g. daily or monthly)?	0=information at the granular level is not disseminated 1= some granular information is disseminated 2= granulated information is disseminated
1.3.3. Are metadata published?	0= do not 1= yes
1.3.4. Are formulas published?	0= formulas are not spread 1= some formulas are disseminated 2= formulas are widely disseminated
<b>2. Reliability</b>	
2.1. Are the sources of information published?	0= do not 1= yes
2.2. Is the information verifiable?	0= do not 1= yes
2.3. Has the information been verified by an internal or external auditor?	0= do not 1= yes
<b>3. Completeness</b>	
3.1. Are measurements consistent with industry standards?	0= do not 1= yes
3.2. Has disseminated information increased over time?	0= do not 1= yes
3.3. Are different levels of information displayed to understand the full picture?	0= do not 1= yes
3.4. Are context and trends explained?	0= do not 1= un poco 2= yes
3.5. Have historical reports been kept on Internet portals?	0= do not 1= algunos 2= yes
<b>4. Frequency and Opportunity</b>	
4.1. How frequently is the information updated?	0= It does not actualize 1= sometimes it is updated 2=Yes, as the best practice reference
4.2. How timely is the information disclosed?	0=Not timely 1= Little timely 2= Yes, as the best practice reference
4.3. Is the information reported at least 6 months after a critical milestone (e.g. end of fiscal year - December)?	0= Does not meet the time standard 1= sometimes it meets and sometimes it doesn't 2= Yes it meets the time standard
4.4. Are conjunctures reported with data and context information?	0= do not 1= yes

### Quality of proactive transparency practices observed

The practice of proactive transparency was not observed



*The Corporate Transparency Index for State Productive Enterprises* is the result of the efforts of the members of México Evalúa, Centro de Análisis de Políticas Públicas, A.C. (México Evalúa). Research, analysis and writing would not have been possible without the participation of each team member:

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