The OECD Guidelines on Corporate Governance of State-Owned Enterprises

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Experience with SOE and experiments over the years

- Politicisation—responsibility, staffing, meritocracy
- Poor productivity and management
- Fiscal issues
- Responses: management contracts, budget caps, partial privatisation
- Conclusion: none really effective. See Comparative Report

Rationale for developing the Guidelines: A pragmatic response

- Scale and scope of the state sector
- Pressure for reform deriving from globalisation and liberalisation, technology: WTO agreements
- Specific governance challenges and more general corporate governance issues
- Expected benefits from improvments of SOE governance– not just a private sector issue
- Strong demand also from non OECD economies

What enterprises are dealt with?

- Entities taking a corporate form and separated from a line ministry
- Listed companies with the state as majority or minority shareholder
- Central government and predominantly commercial.
- **But**, still of use for lower levels of government and for companies with an important policy orientation

Process and main characteristics of the Guidelines

- Extensive and inclusive consultations with relevant players from OECD members and non member countries
- Pragmatic based on experience
- The Guidelines are:
  - non-binding,
  - complementary to the *OECD Principles of Corporate Governance,*
  - not preclude/alter Privatisation policies
  - Based on a factual *Comparative Report* of experience

Priorities in the Guidelines

- Ensure a level-playing field with the private sector
- Reinforce the ownership function within the state administration
- Improve transparency of SOEs' obectives and performance
- Strenghten and empower SOE boards
- Equitable treatment of minority shareholders)

Ensure a level-playing field with the private sector

- Separate regulation and the shareholding function
- Transparency of special obligations
- Harmonisation in legal forms and in the legal framework
- More flexibility in capital structure
- Competitive conditions in access to finance

Reinforce the ownership function within the state administration

- Centralisation/coordination of the ownership function
- Clear and fully disclosed ownership policy
- No direct interference in day-to-day activities
- Let boards carry out their responsibilities
- Accountability secured
- Effective exercise of ownership rights

Improve transparency

- Consistent disclosure (also aggregate disclosure of the SOE as a whole: not consolidated accounts)
- Reinforced internal audit
- Independent external audit
- High quality standards for accounting and audit
- Disclosure as listed companies
- Disclosure of material information, including financial assistance from the state, transactions with related entities and risk factors

Empower SOE boards

- Structured and skill-based nomination process
- Clear mandate and full responsibility
- Able to appoint CEO and accountable
- Able to exercise independent judgement
  - no excessive number of state representatives
  - Separation Chair / CEO
- Systematic evaluation

Thank you

The *Guidelines* can be downloaded from our website at:

www.oecd.org/corporate-affairs/soe

A background *Comparative Report* will also be published and posted on our website soon