



# SOE OWNERSHIP PRACTICES, THEIR EVOLUTION, AND OECD RECOMMENDATIONS

PRESENTATION GIVEN AT A ROUNDTABLE ON “SOE REFORM IN UKRAINE: CORPORATE GOVERNANCE MATTERS” IN KIEV, 12 OCTOBER 2015.

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## The OECD and its work on state-owned enterprises (SOEs)

### The OECD

- Hosts the world's only standing body representing the owners of SOEs
- Oversees the implementation of the world's only multilaterally endorsed recommendation - the OECD Guidelines on Corporate Governance of State-Owned Enterprises (Guidelines)

### The Guidelines

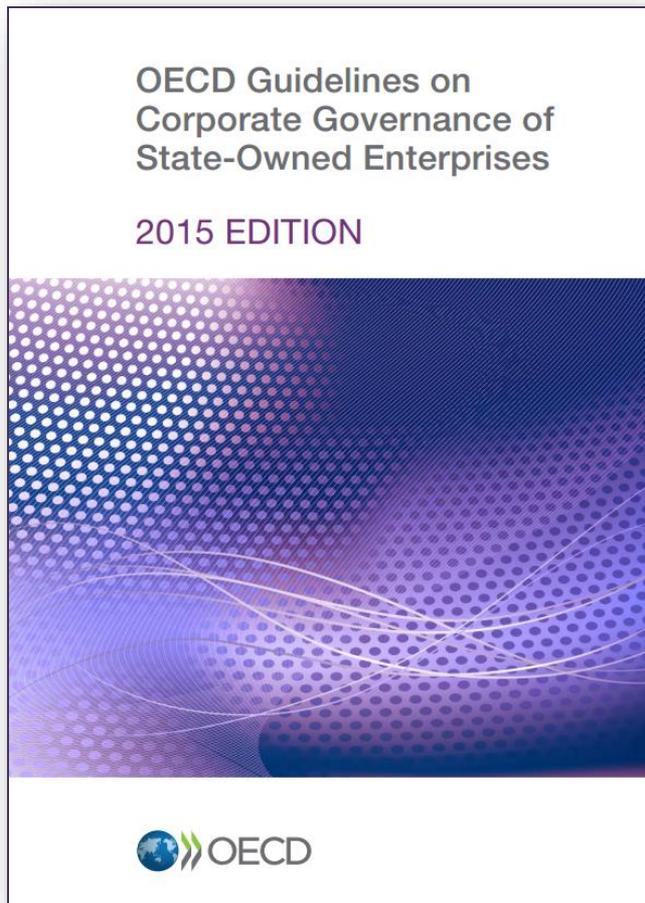
- Acts as a powerful driver for SOE reform by holding national practices against a benchmark of internationally agreed good practices.
- Is also an important signalling device to reassure foreign regulators and policy makers of high governance standards, especially as SOEs become more involved in international trade and investment

### Membership

- Brings benefits beyond adherence
- Opens the way to co-shaping the agenda and participating in a continued process of peer discussions and exchange of experiences. This is particularly relevant for emerging economies whose development process depends on the efficiency of large and economically important SOE sectors



# The OECD Guidelines on Corporate Governance of State-Owned Enterprises: An overview of the seven chapters



- I. Rationales for state ownership
- II. The state's role as owner
- III. State-owned enterprises in the marketplace
- IV. Equitable treatment of shareholders and other investors
- V. Stakeholder relations and responsible business
- VI. Disclosure and transparency
- VII. The responsibilities of the boards of state-owned enterprises



# The OECD Guidelines on Corporate Governance of State-Owned Enterprises

## *The “OECD model” implies:*

- The ownership of SOEs is separated from regulation
- Each ownership decision should be taken at the appropriate level



- Sets ownership policy
- Coordinates at cabinet level

- Defines objectives for individual SOEs
- Monitors performance

- Approves strategy
- Monitors management

- Runs the company

Independent regulation



## The Guidelines and SOE sector reform

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*In the early phases of reform, the following questions impose themselves:*

- *What is the rationale for state ownership of enterprises?*
- *How should the state exercise its ownership rights?*
- *How best to separate the exercise of ownership from the state's regulatory functions?*



## The rationale(s) for state ownership

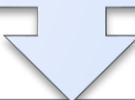
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### Guidelines:

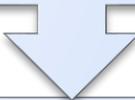
“The government should develop an ownership policy... [defining] the overall rationales for state ownership”. “

“The state should define the rationales for owning individual SOEs and subject these to recurrent review”.

“Commercial” SOEs vs. vehicles for public policy objectives



SOEs competing in the market place vs. monopolistic operators



Profit/value maximising SOEs vs. “strategic” enterprises



## Exercising the state's ownership rights (part 1)

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### Guidelines:

“The exercise of ownership rights should be clearly identified within the state administration. The exercise of ownership rights should be centralised in a single ownership entity or, if this is not possible, carried out by a coordinating body.”

### *Why does OECD recommend centralisation?*

- *Decisions must be made at a whole-of-government basis*
- *The separation of ownership and control is easier to achieve when ownership lies with a specialised entity*
- *Shrinking SOE portfolios strengthen the case for “teams of specialists”*



## Exercising the state's ownership rights (part 2)

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### Guidelines:

“The state should act as an informed an active owner.”

“The state should allow SOEs full operational autonomy to achieve their defined objectives and refrain from intervening in SOE management.”

“The state’s responsibilities include: setting and monitoring the implementation of broad mandates and objectives for SOEs; setting up reporting systems that allow the ownership entity to regularly monitor, audit and assess SOE performance.”

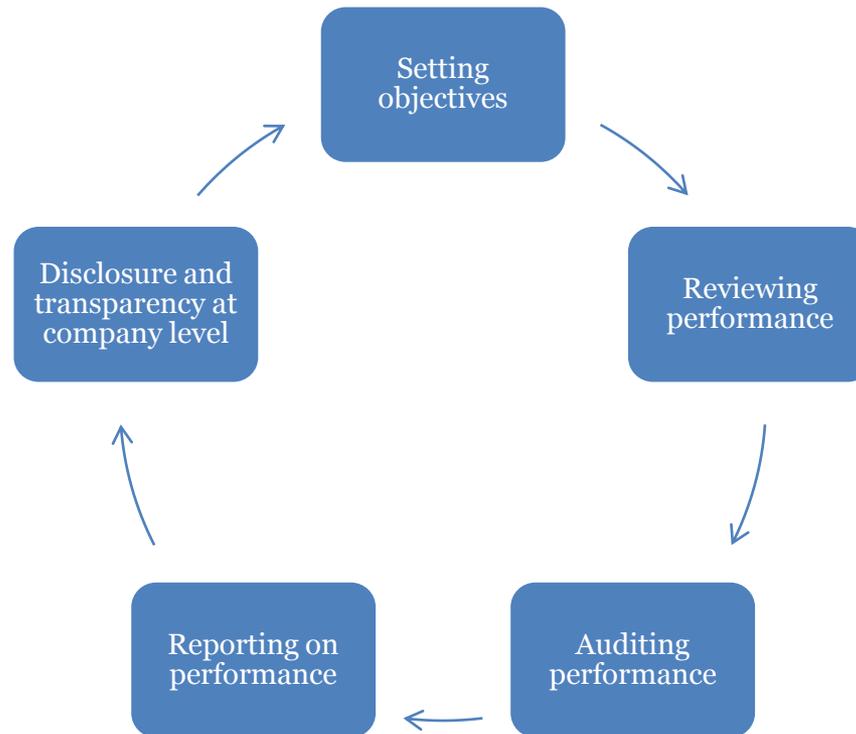
- *In other words, the state can be too “hands on” as well as too “hands off”.*
- *The solution to this is the combination of operational autonomy for the SOEs and high quality state mechanisms for objectives setting and performance monitoring.*



## Exercising the state's ownership rights (part 3)

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*OECD's 2010 "Accountability and Transparency Guide provides guidance on how to do this in practice"*



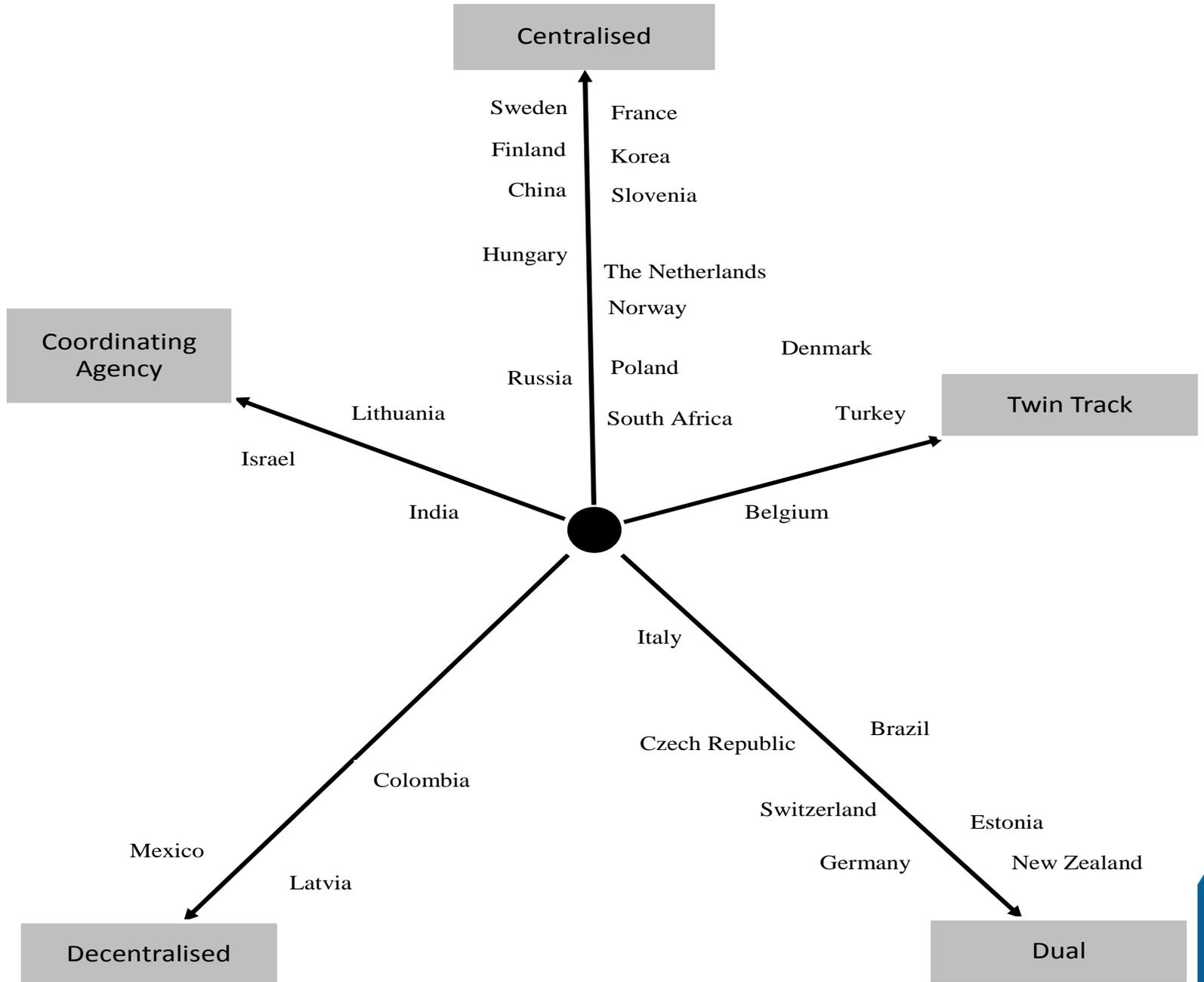


## But what SOE landscape is actually out there? Learning from other countries' experiences

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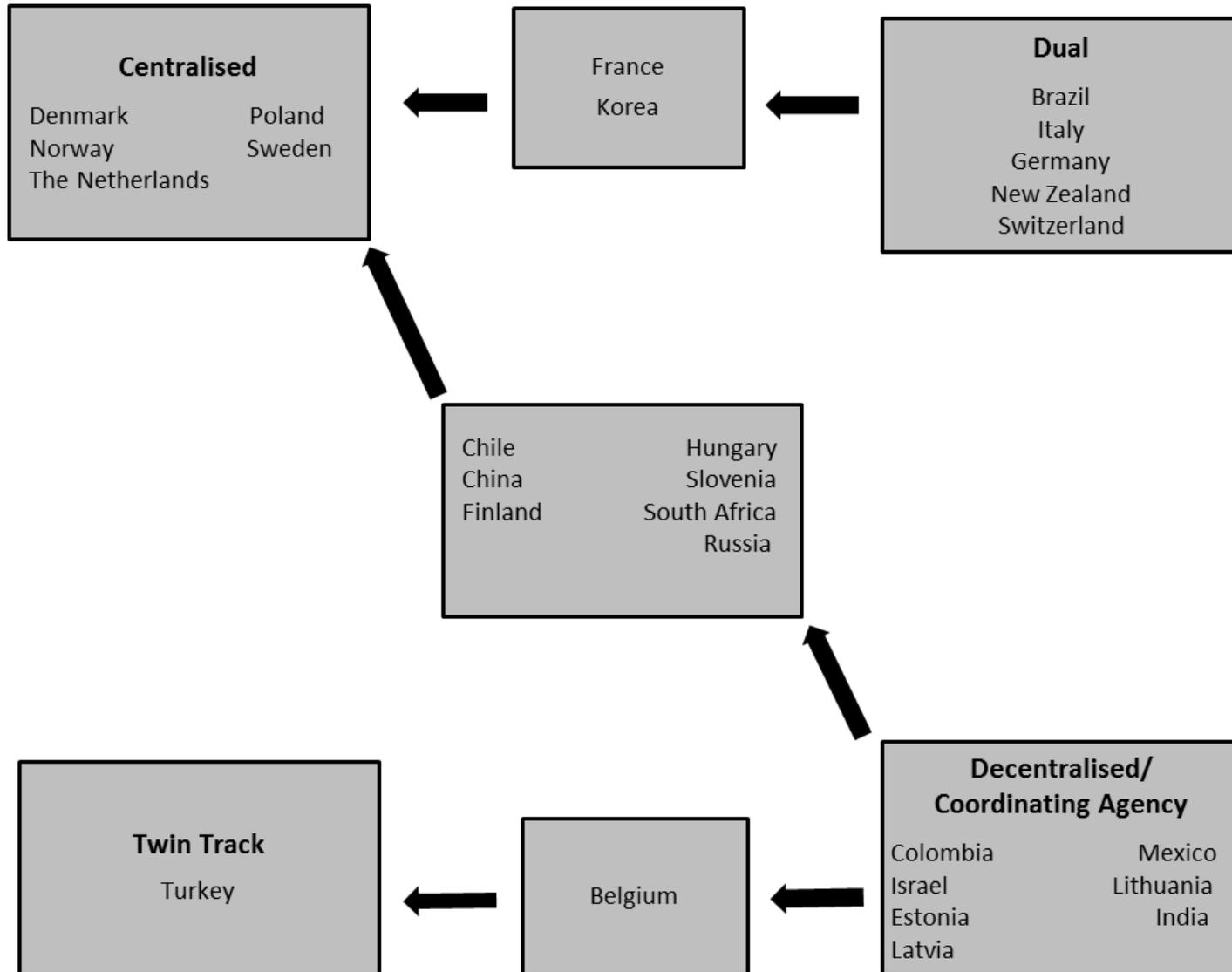
*An ongoing OECD study aims to shed light on evolving SOE ownership models. Some preliminary findings are:*

- ***Continued convergence toward a centralised model, i.e. vesting the ownership rights and responsibilities “under one roof”.*** The consensus now extends beyond OECD economies.
  - Since 2000, several countries have moved toward **centralized model: Chile, China, Finland, France, Hungary, Korea, Slovenia, South Africa, and Russia.**
- ***Post-transition economies of Europe have woven finite responsibilities of government units to a more detailed list of performance objectives.*** Hungary and Poland have belied domestic political concerns of central ownership.
- ***Fewer economies retain the characteristics of a decentralised model in the face of a greater consensus.*** In Mexico and Colombia, line-ministries or SOEs set and monitor their own commercial and public policy objectives.





# Change in ownership over the last 10 years





**Thanks for your attention!**

For more information on OECD work on state-owned enterprises, please visit:

<http://www.oecd.org/daf/ca/soemarket.htm>

Questions can be addressed to:

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