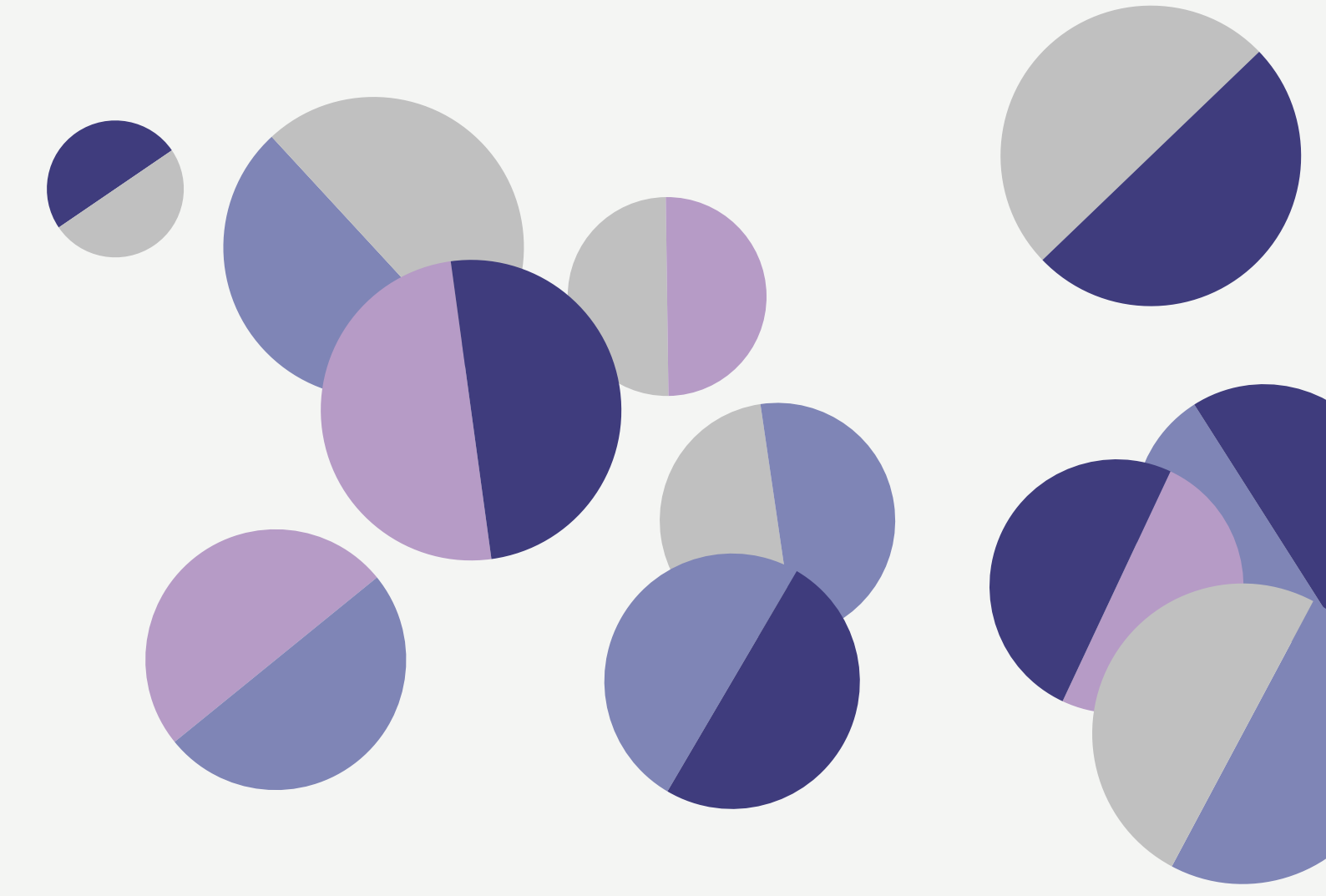
Ownership and Governance of State-Owned Enterprises

A Compendium of National Practices 2021



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Foreword

The Working Party on State Ownership and Privatisation Practices is the world's only international body overseeing ownership and governance in the state-owned sector. It is in charge of the implementation of the world's only multinationally endorsed instrument in this regard, the *OECD Guidelines on Corporate Governance of State-owned enterprises* ("SOE Guidelines") (OECD, 2015[1]). The Working Party's unique expertise on state ownership is an area where the OECD provides significant value-added to the international policy community, including with regards to encouraging and supporting SOE reform.

The *Compendium on Ownership and Governance of State-Owned Enterprises* ("SOE Compendium"), first published in 2018, serves as a public repository of the Working Party's accumulated knowledge about national practices on the subject of SOE governance. It serves as a one-stop-shop of country-by-country, easily accessible and up-to-date information on individual countries' institutional, legal and regulatory frameworks for state ownership of enterprises. It is a sibling of the OECD's biennial *Corporate Governance Factbook* which focuses on listed companies. The Compendium's target audience includes government officials involved in the oversight of SOEs, as well as SOE boards and management, and the broader policy and business communities that interact with the SOE sector on a regular basis. By providing such a reference resource, the Compendium facilitates greater awareness and more effective implementation of the SOE Guidelines.

This 2021 edition of the Compendium builds on a compilation of information gathered from delegates to the Working Party, as well as its regional networks, as part of the publications issued by the OECD between 2017 and 2021. As such, this edition collects in one easily accessible publication the Working Party's expertise accumulated over the last four years in various cross-country stocktaking reports and thematic reviews issued by the OECD in that period.

The Compendium includes five substantive chapters providing cross-country comparative data on: (1) the state ownership function; (2) SOEs in the marketplace; (3) Transparency and integrity in the SOE sector; (4) SOE boards of directors; and (5) Privatisation and the broadening of ownership of SOEs. The two chapters on "Transparency and Integrity in the SOE sector" and "Privatisation and the broadening of ownership of SOEs" stand as new additions to the Compendium, reflecting extensive work in this area undertaken by the Working Party in recent years.

To the greatest extent possible, the jurisdictional scope of the Compendium includes information covering 54 countries, including all OECD and G20 members, and other regular participants in the Working Party's work. Country coverage differs across chapters and sections, reflecting differences in the number of questionnaire responses and availability of data. Coverage and sources used are specified for each section. Going forward the Secretariat foresees repeating this procedure at regular interval to ensure that the Compendium remains up to date and accurate.

The Compendium was prepared by Chung-a Park of the Corporate Governance and Corporate Finance Division of the OECD Directorate for Financial and Enterprise Affairs, with inputs from Emeline Denis and under the supervision of Hans Christiansen from the same division. Special thanks

are due to the members of the division who provided valuable inputs and comments. The authors are grateful for contributions from delegates from all jurisdictions, who reviewed and updated the information to ensure accuracy. This publication was finalised thanks to Katrina Baker and Henrique Sorita Menezes from the Directorate for Financial and Enterprise Affairs who assisted with editing and typesetting and prepared the manuscript for publication.

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The state ownership function

According to the SOE Guidelines, the exercise of ownership rights should: (i) be clearly identified within the state administration; (ii) be centralised in a single ownership entity or, if this is not possible, carried out by a coordinating body; and (iii) should have the capacity and competencies to effectively carry out its duties. National practices in this respect are summarised below.

- ***Ownership model***: While there is a continuing trend toward centralisation or co-ordination in the state ownership function, which is consistent with the recommendations of the SOE Guidelines, a variety of different ownership structures and governance arrangements co-exist. Sixty percent of the 52 reviewed countries have vested the ownership rights and responsibilities with one entity (with or without exceptions) or have established a central co-ordinating agency overseeing SOEs on a whole-of-government basis to further centralise the state ownership function, as recommended in Chapter I and Chapter II of the SOE Guidelines. At the same time, as much as 17% of the surveyed countries retain the characteristics of a decentralised model through which line-ministries (or in some cases SOEs themselves) set and monitor corporate objectives and exercise ownership rights over SOEs.
- ***Requisite capacities of the ownership entity or the institutions that are responsible for the ownership function***: The SOE Guidelines suggest that more generally, the ownership entity should enjoy a certain degree of flexibility vis-à-vis its responsible ministry, where applicable, in the way it organises itself and takes decisions with regards to procedures and processes. However, while as many as 75% of the state ownership entities or the institutions that are responsible for the ownership function in the reviewed 52 countries reported that they are fully staffed by public servants, only 8% of them reported that they are staffed by a mixture of public servants and secondees from the private sector. At the same time, 65% of the surveyed state ownership entities reported that they are fully funded by government budget, and around 16% of them indicated that they are financed by either dividends they earn (10%) or a mixture of dividends and the government budget (6%), implying a weak degree of budgetary autonomy in these entities that can allow flexibility in recruiting, remunerating and retaining the necessary expertise, for instance through fixed-term contracts or secondments from the private sector.
- ***Ownership policies***: Governments have various approaches to expressing their logic of state enterprise ownership. Of the 50 surveyed jurisdictions, 27 jurisdictions set forth an explicit state ownership policy defining the general objectives of state ownership, while the objectives of state enterprise ownership may be implicit in others. State ownership policies in these countries are set out in different ways including in specific legislation; through a government decision, resolution or decree; via a government policy statements or via some combination of these elements.

SOEs in the marketplace

The SOE Guidelines state that the legal and regulatory framework for SOEs should ensure a level playing field and fair competition in the marketplace when SOEs undertake economic activities, in order to ensure that these activities be carried out without any undue advantages or disadvantages relative to other SOEs or private enterprises. Overall, jurisdictions may pursue aspects or elements of competitive neutrality in diverse ways through ownership, competition, public procurement, tax and regulatory policies or a combination of these policies. Transparency and disclosure around cost allocation and the compensation of public policy objectives are also important. However, only a few countries have established an encompassing policy framework for ensuring competitive neutrality, including suitable complaints handling, enforcement and implementation mechanism in consistency with international commitments. National practices are further summarised below.

- ***Competitive neutrality commitments***: While almost all the reviewed countries subject their SOEs to competition law, the extent of exemptions provided by competition law and the role of competition authorities in the promotion of competitive neutrality vary across countries. In addition, there is still a lack of comprehensive mechanisms in place to ensure that SOEs do not operate at low rates-of-return and/or benefit from low-interest rate loans from commercial lenders perceiving an implicit state guarantee for SOEs.
- ***Regulatory and tax exemptions***: In half of the 54 surveyed countries, public undertakings are subject to the same or similar tax and regulatory treatment as private enterprises, especially where they are conducted as legally incorporated businesses operating at arm's length from the government. Some exceptions apply to specific categories of SOEs which may be carrying out non-commercial objectives, such as public service obligations, and which may be exempt from tax on income derived from such obligations.
- ***Transparency and disclosure around cost allocation***: Around half of the 49 surveyed jurisdictions require SOEs to separate the accounts of commercial and non-commercial activities. Enhancing transparency and disclosure in the SOE sector can be done, for instance, through a dedicated section of an aggregate report on the SOE sector covering the estimated costs taken on by SOEs for the implementation of "special obligations", and the amount of compensatory funding provided by the state. At present, only 20% of the countries that produce annual aggregate reports on the entire SOE sector include information in their aggregate reports on the costs related to SOEs' public policy objectives and the related funding provided from the state budget.
- ***Compensation of public policy objectives***: Although almost all countries compensate undertakings (public or private) which deliver public service obligations alongside their commercial activities, only 61% of the 49 surveyed jurisdictions reported that that have put in place legal provisions or other rules on direct state support to SOEs delivering public services.

Measures to ensure market consistency of debt and equity financing are also important in achieving competitive neutrality. Overall, most countries either base SOE financing decisions on broad guidelines concerning capital structure efficiency, or establish financial performance targets for at least some aspects of SOEs' operations. Seventy percent of the 36 reviewed countries either benchmark SOEs' capital structure with private sector peers, or report that in practice SOEs' capital structure is comparable with that of private sector peers. Additional trends are summarised below.

- ***Debt financing***: In most countries, SOEs access debt financing from the marketplace. However, only few countries have set mechanisms to ensure market consistency of financing terms or to neutralise any actual or potential preferential terms on SOE debt financing.
- ***Equity financing from the state budget***: While recapitalisations from the state budget are a common form of SOE financing, very few countries have established mechanisms to ensure that related costs are market consistent.

- ***Rate-of return requirements***: Most countries have established rate-of-return requirements for SOEs. However, it is difficult to assess whether they are comparable with those imposed on private enterprises, especially in cases where there is no structural separation between the commercial and non-commercial activities of SOEs. In this respect, some countries have established mechanisms to align return targets with those achieved by competing private enterprises.
- ***Dividend pay-out expectations***: In around half of the 36 surveyed countries, dividends are negotiated annually between SOE boards and the state shareholder, and are not subject to guidelines. This could potentially hinder capital structure optimisation.

Transparency and integrity in the SOE sector

Transparency regarding the financial and non-financial performance of SOEs is key for strengthening the accountability of SOE boards and management, and for enabling the state to act as an informed owner. The SOE Guidelines are founded on the principle that SOEs should be as transparent towards the general public as listed companies are expected to be towards their shareholders in order to ensure that the state exercises its powers in accordance with the public's best interest. This includes keeping accounts in accordance with internationally-agreed accounting standards, subjecting financial statements to an independent external audit, and establishing comprehensive internal audit procedures.

Overall, around two-thirds of the 54 surveyed countries have introduced or strengthened requirements for disclosure and transparency in the SOE sector in the last five years. Positive developments have included, new requirements concerning the role of audit committees in SOEs, clarifications regarding the role of the state in selecting audit firms and, in a few countries, the introduction of aggregate reporting on the entire SOE portfolio. The main findings are summarised below.

- ***Requirements for financial and non-financial disclosure***: In almost all surveyed jurisdictions, disclosure and reporting requirements for SOEs are mainly driven and defined by company law and/or listing requirements. These are often supplemented with SOEs-specific requirements covering in particular reporting on public service obligations, and on funding and financing of non-commercial objectives. Almost all OECD member countries and an increasing number of partner countries have also established some form of performance evaluation system for SOEs. However, half of the reviewed countries do not have public disclosure requirements in place for financial assistance, including guarantees, granted by the state to the SOE.
- ***Control environment***: The majority of surveyed countries require their SOEs to have an internal audit function in place, and to submit their financial statements to independent external audit. In at least one-fourth of the reviewed countries, state audit is mandatory on an annual basis in addition to existing internal and independent external controls. However, in several partner countries, information collection across SOEs and implementation of auditing requirements often remain challenging due to a lack of IT infrastructure in some SOEs, low quality of financial statements and weak corporatisation of SOEs.
- ***Accounting and audit standards***: It is now a common practice across OECD Member countries to have SOE auditing and accounting standards that are comparable to those of stock-market listed companies. The International Financial Reporting Standards (IFRS) or the national equivalent often prevail among the reviewed countries, although some jurisdictions may still use national accounting standards depending on the size and nature of a SOE's operations.
- ***Aggregate reporting practices***: Fifty-nine percent of the 54 reviewed governments produce annual aggregate reports on the entire SOE sector or have an online inventory that are considered to be functionally equivalent to an aggregate report. The percentage is slightly higher when the

sample is restricted to the 38 surveyed OECD Member countries (62%). Most of them include all, or the majority of, SOEs in the reports.

SOE boards of directors

The SOE Guidelines indicate that boards play a central function in the governance of SOEs. The board carries ultimate responsibility, including through its fiduciary duty, for SOE performance. In this capacity, the board acts essentially as an intermediary between the state as a shareholder, and the company and its executive management. With the growing "commercialisation" of SOEs in recent decades, an increasing number of governments have made efforts to professionalise boards of directors and to give boards greater level of autonomy. The main findings are summarised below.

- ***Board nominations***: In jurisdictions where the state enterprise ownership function is centralised – for example via a dedicated state enterprise ownership agency – one minister may be in charge of the ownership function, including nominating members to SOE boards. In a majority of the participating countries, the responsibility for board nominations is shared between the agency exercising the state enterprise ownership function and sectorial ministries.
- ***Setting clear minimum criteria for board nominations***: Around half of the surveyed countries reported they had established minimum qualification criteria for board members.
- ***Board composition and size***: A majority of the surveyed countries have a mix of directors representing the state and "independent" directors sitting on their SOE boards. At the same time, there is a growing consensus that ministers, state secretaries, or other direct representatives of, or parties closely related to, the national executive powers should be represented on SOE boards. Board sizes vary significantly within the range from 3 to 20 members, but most boards of directors have 5-8 members.
- ***Gender diversity***: Around one-third of the 49 surveyed jurisdictions have adopted mandatory quotas for SOEs setting a minimum number or percentage of women on SOE boards, while a smaller share (16%) of jurisdictions have taken more a flexible approach through the adoption of voluntary goals or targets. Overall, provisions specific to SOEs are in many countries more ambitious than those set for listed companies
- ***Board training and remuneration***: Nearly all of the surveyed jurisdictions have now established policies and criteria for executive and director remuneration. However, remuneration for SOE boards in a majority of the OECD Member countries falls below market levels. Of the jurisdictions participating in this exercise, 70% have adopted statutory or policy limits on remuneration for SOE boards. Nearly a third of these reported, at least anecdotally, that remuneration levels impacted candidate quality.
- ***Board evaluations and risk management***: Governments are increasingly encouraging board evaluations – a long-time and commonplace practice in private companies – as a way of maximising board performance and minimising risk. Further, a key responsibility of boards of directors relates to the management and, where needed, mitigation of financial and operational risks.

Privatisation and the broadening of ownership of SOEs

SOE ownership should focus on maximising value for society through an efficient allocation of resources, and listing of SOEs on the stock market is a mechanism to raise funding efficiently. This requires raising the level of accountability and transparency, and subjecting the company and its management to higher degree of shareholder scrutiny and/or market discipline over the medium-term. This section takes stock of

evolving national practices in 24 countries on privatisation and the broadening of ownership of SOEs that have recent privatisation experiences. The main findings are summarised below.

- ***Motives for privatisation***: Motives vary across countries, mainly depending on 1) whether the privatising country has a large and sophisticated economy, and 2) whether or not the government has issued a state ownership policy. Where an ownership policy exists, the privatisation of an SOE will typically be justified by the fact that the company no longer falls within the rationale for state ownership established by the policy. In mature economies, the rationales for ownership are mostly limited to the need to remedy market failure and to provide goods and services for which there is no likely private supplier. By contrast, in emerging economies where rationales for ownership may be defined more broadly, privatisation may be undertaken in an effort to rebalance the public and private shares of the productive economy.
- ***Legal and regulatory framework***: Laws and other formal rules on privatisation vary considerably across jurisdictions. Some countries have one unifying privatisation law while others have a mosaic of laws. More infrequent privatisers mostly have no overarching law but, in many cases, pass a privatisation bill for each transaction. Of note, some countries apply a more "public finance approach" according to which the conversion of corporate assets into financial assets is mostly a question of value-for-money which does not require legal measures. In these cases, however, parliamentary approval is usually required. Relatively few countries have a formalised, recurrent review procedure to establish whether individual SOEs should be privatised.
- ***Organising the process of privatisation***: Privatisation methods have varied according to the size of the SOEs privatised and the relative maturity of the economy in which the privatisation took place. While the post-transition economies have mostly sold off rather small SOEs through trade-sale auctions to strategic private investors, most other countries have relied on share offerings to privatise large companies and trade sales to privatise smaller firms. Privatisation through management buy-outs has become rare, but still occurs. In general, pre-privatisation restructuring of SOEs is more commonplace prior to IPOs than in the case of trade sales where acquirers presumably will want to make their own arrangements. Where restructuring occurs, it frequently concerns either the balance sheet or the payroll of the privatised company. For almost all jurisdictions, a valuation of SOEs prior to privatisation is customary, and in some cases mandatory. While at least one type of external advisor is almost always employed, the process for appointing external advisors is established, in almost all cases, by national procurement rules.
- ***Employment conditions post privatisation***: The treatment of SOE employees during and after the privatisation process varies significantly across countries, inter alia reflecting national labour laws and civil service codes. While in some countries, civil service status cannot be rescinded, in other countries, contractual situations and salaries are adapted to conditions in the private sector. In some countries retaining actual privatisation programmes, an element of job security is offered to SOE employees, which can either take the form of employment retention guarantees as part of the state's agreement with the buyer, or post privatisation controls.

1 The state enterprise ownership function

According to the *SOE Guidelines*, the exercise of ownership rights should: (i) be clearly identified within the state administration; (ii) be centralised in a single ownership entity or, if this is not possible, carried out by a coordinating body; and (iii) should have the capacity and competencies to effectively carry out its duties. While the consensus toward the greatest feasible degree of centralisation of the ownership function is embodied in the *SOE Guidelines*, the ownership entity (or entities) should operate in an institutional set-up that enables it to exercise its functions without undue influence from, for example, influential members of the cabinet of ministers and/or politically-connected SOE executives and board members.

Institutional arrangements for the exercise of the state ownership function

This section provides an overview of national practices for the exercise of state enterprise ownership[1], including the degree to which good practices have been implemented in practice. It focuses on the ownership of SOEs that are considered as "commercial" in the sense that they engage in economic activities in markets where competition occurs, or could occur. For the purposes of this report, the "ownership function" of SOEs is defined as an entity that exercises the power, responsibility, or steering ability to appoint boards of directors; set and monitor objectives; and vote company shares on behalf of the government.

Organisation of the ownership models for commercially-operating SOEs

It is often difficult to categorise existing organisational structures into a rigid model. No two state ownership models of SOEs are exactly the same, and no one country generally applies one single ownership model without exceptions to certain organisational structures or legal requirements (general company law, listing requirements, antitrust legislation). Nevertheless, ownership models can be broadly classified into one or more of the following types: a centralised model, a coordinating agency model, a dual ownership model, a twin track model and a decentralised ownership model. A breakdown of 52 jurisdictions' application of these models is provided in Table 1.1.

While there is a continuing trend toward centralisation or co-ordination in the state ownership function, which is consistent with the recommendations of the *SOE Guidelines*, a variety of different ownership structures and governance arrangements co-exist. Around 41% of the reviewed countries have been vesting the ownership rights and responsibilities with one entity (with or without exceptions) to further centralise the state ownership function through simplifications and reassignments of ownership functions, as recommended in Chapter I and Chapter II of the *SOE Guidelines*. The consensus extends beyond OECD economies as this trend includes a growing number of partner countries that have in recent years established either central ownership units or co-ordination agencies overseeing SOEs on a whole-of-government basis (Table 1.1). Not least, countries that have undertaken SOE reviews or undergone OECD

[1] Drawing upon evidence reported in (OECD, 2020[2]; OECD, 2020[3]; OECD, 2020[11]).

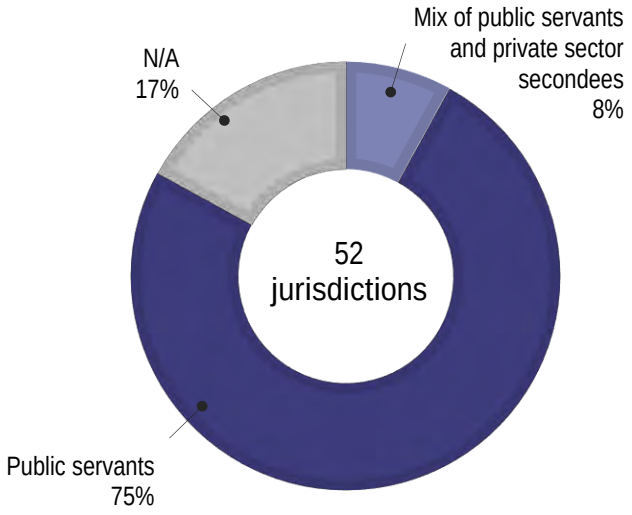
accession reviews have largely implemented this Recommendation to improve policy frameworks for state enterprise ownership function.

At the same time, it is worth noting that as many as nine of the surveyed countries (17%) retain the characteristics of a decentralised model through which line-ministries (or in some cases SOEs themselves) set and monitor corporate objectives and exercise ownership rights over SOEs.

Requisite capacities of the ownership entity or the institutions that are responsible for the ownership function

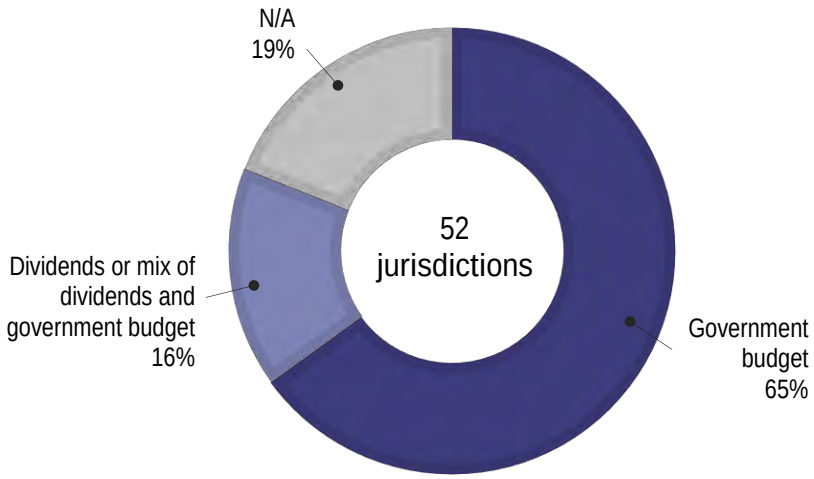
The *SOE Guidelines* suggest that more generally, the ownership entity should enjoy a certain degree of flexibility vis-à-vis its responsible ministry, where applicable, in the way it organises itself and takes decisions with regards to procedures and processes. However, while as many as 75% of the reviewed state ownership entities or the institutions that are responsible for the ownership function reported that they are fully staffed by public servants, only 8% of them reported that they are staffed by a mixture of public servants and secondees from the private sector (Figure 1.1). At the same time, 65% of the surveyed state ownership entities reported that they are fully funded by government budget, and around 16% of them indicated that they are financed by either dividends they earn (10%) or a mixture of dividends and the government budget (6%), implying a weak degree of budgetary autonomy in these entities that can allow flexibility in recruiting, remunerating and retaining the necessary expertise, for instance through fixed-term contracts or secondments from the private sector (Figure 1.2).

Figure 1.1. Staff composition of the institution(s) responsible for the state ownership function



Source: OECD analysis, based on information reported in (OECD, 2020[2]; OECD, 2020[3]). See Annex A for details.

Figure 1.2. Funding mechanisms of the institution(s) responsible for the state ownership function



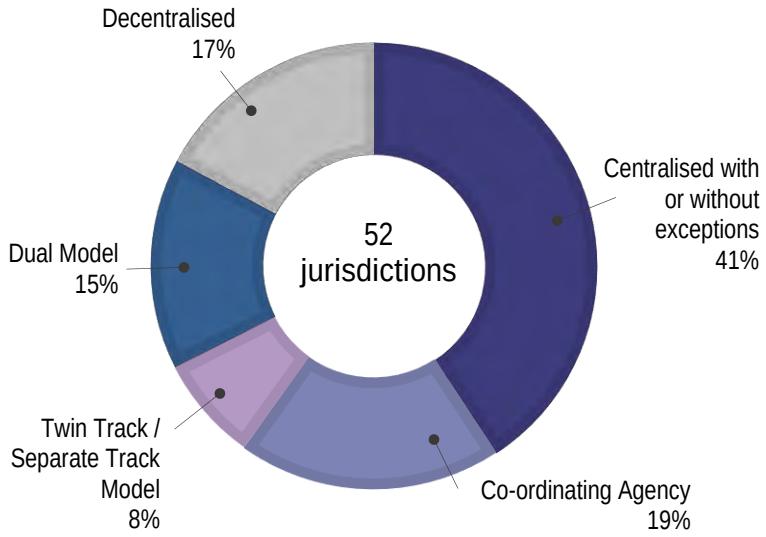
Source: OECD analysis, based on information reported in (OECD, 2020[2]; OECD, 2020[3]). See Annex A for details.

Table 1.1. Types of ownership models in 52 jurisdictions

Centralised ownership ↑ Decentralised ownership	Centralised model: One government institution carries out the mission as shareholder in all companies and organisations controlled by the state (with or without exceptions). This institution can either be a specialised ownership agency or a designated government ministry. Financial targets, technical and operational issues, and the process of monitoring SOE performance are all conducted by the central body. Board members are appointed in different ways but essential input comes from the central unit.	Austria, Chile, China, Colombia, Finland, France, Greece, Hungary, Iceland, Israel, Italy, Korea, Netherlands, New Zealand, Norway, Peru, Russia, Slovenia, South Africa, Spain, Sweden
	A coordinating agency/department with non-trivial powers over SOEs formally held by other ministries (and institutions). For example, a co-ordinating department or specialised unit acting in an advisory capacity to shareholding ministries on technical and operational issues, in addition to being responsible for performance monitoring.	Bulgaria, Costa Rica, India, Ireland, Latvia, Lithuania, Morocco, Philippines, Poland, United Kingdom
	Twin Track Model: Two different government institutions exclusively exercise ownership functions on their respective portfolios of SOEs.	Belgium, Turkey
	Separate Track Model: A small number of ownership agencies, holding companies, privatisation agencies or similar bodies owning portfolios of SOEs separately.	Kazakhstan, Malaysia
	Dual ownership: Two ministries or other high-level public institutions jointly exercise the ownership. This would be the case where different aspects of the ownership functions are allocated to different ministers – e.g. one ministry is responsible for financial performance and another for operations, or each ministry appoints a part of the board of directors.	Australia, Brazil, Croatia, Czech Republic, Estonia, Indonesia, Romania, Switzerland
	Dispersed ownership: a large number of government ministries or other high-level public institutions exercise ownership rights over SOEs (in the absence of a coordinating agency)	Argentina, Canada, Denmark, Germany, Japan, Mexico, Saudi Arabia, Tunisia, Ukraine

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2020[3]; OECD, 2020[4]).

Figure 1.3. Breakdown of the application of ownership models



Note: Some countries exhibit key characteristics of centralised ownership but with some exceptions, whereby a distinct collection of SOEs remains outside the central institution's purview.
Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2020[3]; OECD, 2020[5]). See Table 1.1 for details.

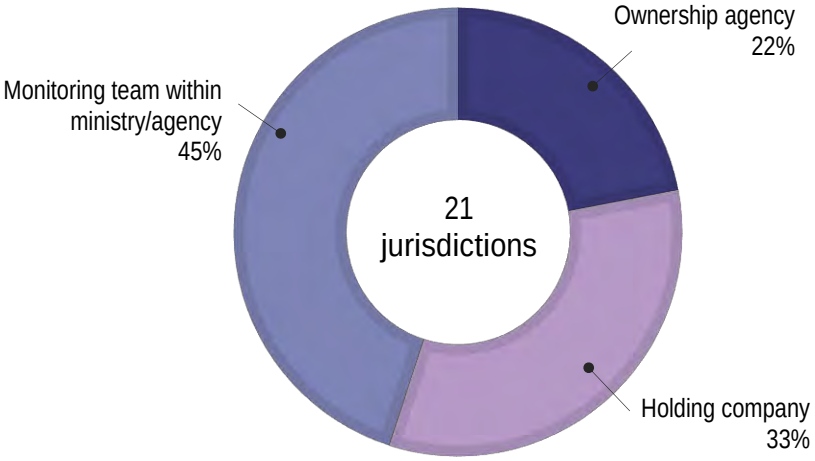
Centralised model

A centralised ownership model is characterised by one central decision-making body undertaking the mission as shareholder in all companies and organisations controlled or held, directly or indirectly by the State (such as in **Austria**, **China**, **Colombia**, **France**, **Israel**, **Italy**, **Korea**, **Netherlands**, **New Zealand**, **Slovenia**, **Spain** and **Sweden**). Financial targets, operational and technical issues, and the process of monitoring SOE performance are all co-ordinated by the central body. While there are different ways for appointing board members, essential input usually comes from the central unit. Some countries exhibit key characteristics of centralised model but with some exceptions (such as in **Chile**, **Finland**, **Greece**, **Hungary**, **Iceland**, **Norway**, **Peru**, **Russia** and **South Africa**). Often in these cases, a distinct collection of SOEs remains outside the central institution's purview.

Centralised ownership is an efficient way of ensuring the separation of the exercise of the ownership function from other potentially conflicting activities performed by the state, particularly market regulation and industrial policy, provided that the ownership can be sufficiently well resourced and its operations shielded from ad-hoc intervention and irregular practices.

When centralisation of the ownership becomes a policy priority, it should be combined with commitment to retaining the roles of overseeing and managing SOEs through the appropriate levels in a "command chain" extending from the highest levels of government to the individual enterprises. The success of this model often depends on the quality of overall public governance, the legal environment, the political importance assigned to the ownership function, adequate corporatisation of SOEs and competition and regulation in the marketplace. In jurisdictions with weak rule of law and high corruption levels, pooling large amounts of corporate powers in a central agency could accompany regulatory risks. Overall, the ownership function is most commonly exercised by a monitoring team within a ministry or an agency (45%), while holding companies and ownership agencies play this role in around one-third and one-fifth of countries, respectively (Figure 1.4).

Figure 1.4. Centralised ownership model: institutions exercising the ownership function



Note: Based on 21 jurisdictions following a centralised ownership model.
Source: OECD analysis, based on information reported in (OECD, 2020[2]; OECD, 2020[3]).

Coordinating agency

In **Bulgaria, Costa Rica, India**, **Latvia**, **Lithuania**, **Morocco**, **the Philippines**, **Poland, the United Kingdom** and **Viet Nam**, specialised government units perform the role of "co-ordinating agencies". They operate in an advisory capacity to other shareholding ministries on technical and operational issues and their most important mandate often is to monitor SOE performance (Table 1.2). In case the role of these central agencies are more limited and the autonomy of line-ministries is kept, this model could potentially lead to considerable overlap with the decentralised model.

Table 1.2. Examples of coordinating agencies in Costa Rica, India, Latvia, Lithuania, the Philippines, Poland, the United Kingdom and Viet Nam

Country	Coordinating Agency	Tasks	Role in board nominations
Bulgaria	The Public Enterprises and Control Agency (PECA)	The Agency is in charge of developing and monitoring the state ownership policy, aggregate reporting and board nomination procedure. It is also in charge of assisting line ministries with formulating the general strategic objectives of their enterprises and to cooperate with other state administrations on issues related to the management of SOEs, amongst other aspects. It exercises the powers of the State in SOEs when delegated by the Council of Ministers.	PECA is in charge of appointing the Nomination Committee and to monitor the competitive procedure for the appointment of independent board members in large SOEs. The appointment of all SOE board members (including state representatives) is to be reviewed by PECA.
Costa Rica	Advisory Unit for the Direction and Co-ordination of State Ownership and the Management of Autonomous Institutions	Assist the President and the Executive. Support decision-making regarding SOE performance.	Evaluate and recommend a shortlist of candidates considering board composition. Develop and publish the candidate profiles.

Country	Coordinating Agency	Tasks	Role in board nominations
India	Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises	Formulate policy guidelines on performance improvement and evaluation, autonomy and financial delegation and personnel management in SOEs. Collects and maintains information in the form of a Public Enterprises Survey on several areas in respect of SOEs.	Monitor, create or upgrade board level posts in SOEs. Recommend non-official directors of SOEs. Assist Public Enterprises Selection Board (PESB) to select directors of SOEs.
Latvia	Cross-sectoral Coordination Centre (CSCC)	Coordinate the corporate governance of state-owned enterprises – leaving the shareholder rights in the hands of sectoral ministries. There are 65 wholly-owned SOEs and four majority-owned SOEs, which report to coordinating agency and their respective line ministries.	Organise supervisory board nomination and participate in executive board nomination committees
Lithuania	Governance Coordination Centre (GCC)	Assist in establishing objectives of SOES Monitor the performance and implementation requirements by legal acts of SOEs Facilitate information disclosure through annual aggregate report. Coordinates target setting and SOE strategic planning practices by providing recommendations and inputs to all SOEs and their respective ownership entities. Provide Ministry of Economy with insights on policy implementation and areas of potential improvement.	Suggest candidate for consideration. Participate in the nomination committee of independent board members.
Philippines	Governance Commission on GOCCs (GCG)	Safeguard the State's ownership rights and monitor the performance of 104 GOCCs.	Establish board nomination processes in fully- or majority-owned SOEs. Participate in the nomination of all SOEs' boards.
United Kingdom	UK Government Investments (UKGI)	Oversee the state ownership function for a portfolio of 18 assets and lead on major asset sales and privatisations.	In most cases SOEs in the UKGI portfolio will appoint board directors based on an SOE-led process using external third-party headhunters. A UKGI employee, usually the UKGI shareholder NED for the relevant asset, will also form part of the interview panel. UKGI is also involved in determining the selection criteria for individual board roles at the outset. Shareholder/Ministerial consent will be required before the SOE's preferred candidate can be appointed.
Viet Nam	Committee for Management of State Capital (CMSC)	The government established in late 2018 a special co-ordination agency acting state ownership function named the Committee for Management of State Capital (CMSC) in accordance with the Law on Investment and Business for State Capital. Its aim was to integrate state ownership functions of the government, line ministries and provincial committees. As of now, CMSC is managing 19 biggest SOEs operating in sectors such as oil, gas, coal and mineral with total state capital of nearly 45 billion USD. However, state ownership is still exercised by the line ministries, provincial committees and State Capital Investment Corporation (SCIC) responsible for sectoral policy and regulation in the relevant markets.	All potential applicants should be suggested by SOE board and appointed by state authorities. In shareholder meeting, applicants who are nominated by ministers should be voted to SOE board.

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2020[3]).

Twin track model or Separate track model

The twin track model is a unique offshoot of centralisation but within simultaneously established "ownership systems". **Belgium** and **Turkey** have a twin track model of SOE ownership with some exceptions. The “twin track model” of state enterprise ownership is functionally similar to the centralised model, but with two individual portfolios of SOEs overseen by two different government institutions. There exist two SOE ownership units operating simultaneously for separate sets of SOEs based on their designations. **Kazakhstan** and **Malaysia** follow a Separate Track Model under which a small number of ownership agencies, holding companies, privatisation agencies or similar bodies own portfolios of SOEs separately.

Dual model

The defining characteristic of the dual model is that two ministries, or other high-level public institutions share the ownership function commanding each individual SOE (**Australia**, **Brazil**, **Croatia**, **Czech Republic**, **Estonia**, **Indonesia**, **Romania** and **Switzerland**). Usually, one ministry sets financial objectives and another ministry develops and formulates the operational strategy. If established, with well-articulated responsibilities, the dual model could strike a balance between a form by which numerous and contradictory ownership objectives result in a “passive conduct” of the ownership function and a form that allows for excessive intervention by the state. **Croatia** is a hard-to-classify hybrid case, with the not-for-privatisation SOEs dispersed but with some residual powers vested in the Ministry of Planning. If the structure is to be categorised, it is closest to the dual model.

Decentralised model

In countries with a decentralised ownership model, no one single institution or state actor acts on the responsibilities of the ownership function (**Argentina**, **Canada**, **Denmark**, **Germany**, **Japan**, **Mexico**, **Saudi Arabia**, **Tunisia** and **Ukraine**). In the decentralised model, the ownership of each SOE is conducted by one line-ministry or other government institution. Various institutions are typically involved (Table 1.3). In this case, SOEs could be often publicly perceived as an extension of the ministerial powers of the ownership ministries.

Table 1.3. Dispersed ownership: Agencies executing the ownership function

Country	Agencies exercising the ownership function
Argentina	The ownership of SOE is exercised by the Ministry or decentralised Administrative Agency, whose jurisdiction has been assigned by the Law on Ministries No. 22,520 (current text approved by Decrees Nos. 7/2019 and 706 and 777/2020), generally based on connection between their jurisdictional competences and the respective corporate purposes of the SOEs
Denmark	The Ministry of Finance oversees a portfolio of SOEs, but other ministries including the Ministry of Transport and the Ministry of Business and Growth also exercise direct ownership rights in a number of companies.
Germany	The Federal Ministry of Finance has a co-ordinating role on the government’s policy on state holdings but has no general supervisory function or power. In general, the ministries holding the participations are responsible for the SOEs. The Ministry of Finance plays a central role in the German Government’s policy on state holdings and privatisation. The Ministry defines the general framework for managing state holdings to line ministries. The responsible government department is responsible for applying these standards within their fields of responsibility. This framework is entitled “Principles of Good Corporate Governance and Active Management of Federal Holdings”. Although “responsibilities” for SOEs are in the hands of line-ministries, if those line-ministries wish, for example, to write a sale or purchase option, they can only do so through the support of the Ministry of Finance.
Japan	Financial Bureau of the Ministry of Finance (MOF), Civil aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), and Japan Railway Construction, Transport and Technology Agency (JRTT) are main agencies of the ownership function. Although the bureaus have regulatory function for some SOEs (e.g. JT and two airport SOEs), the division which is in charge of regulatory function is required to be separated from the division which is in charge of ownership function in the bureau. On the other hand, the bureau doesn’t have regulatory function for the other SOEs.

Country	Agencies exercising the ownership function
Mexico	Each Ministry heads a government sector to which SOEs are assigned to. In 2020, Mexico has 19 Ministries and 10 of them have ownership functions related to SOEs that engage exclusively or largely in economic activities and/or compete in economic markets. In accordance with the Official Gazette of the Federation, dated December 14, 2020 lthe Ministry of National Defense began to carry out ownership functions in the year 2020. The government foresees an increase in the number of Ministries exercising ownership functions going forward.
Saudi Arabia	Public Investment Fund exercises ownership for certain SOE portfolio. SOEs are also held by various line ministries, e.g. the Ministry of Communications and Information Technology.
Ukraine	SOE ownership in Ukraine is decentralised among more than 80 different entities, including the Cabinet of Ministers (CMU), line ministries and agencies. Certain ownership entities (particularly ministries) are involved in simultaneously performing ownership, policy and regulatory functions, and lines are not always clearly separated. Previously the government sought to establish a centralised ownership entity to transfer some SOEs under its ownership. However, the budget line for its establishment was removed in 2020 due to Covid-19 and further plans regarding its development remain unclear.

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2020[3]; OECD, 2018[6])

Rationales for state enterprise ownership

A state ownership policy provides SOEs, the market and the general public with a clear understanding of the overall goals and priorities of the state as an owner. Establishing a clear and consistent ownership policy is critical. Internationally-recognised recommendations suggest that the ownership policy take the form of a concise, high-level policy document that describes the general justifications and rationales for ownership of SOEs. This section provides an overview of how the surveyed countries state and communicate their justifications for SOE ownership and the most common objectives that these rationales entail. The information included in this section draws upon submissions from national authorities as well as self-reporting from 32 jurisdictions that participated in two relevant studies that were undertaken in 2020 (OECD, 2020[2]; OECD, 2020[3]). The national practices on state ownership rationale are provided in Table 1.4.

Approaches to expressing a state enterprise ownership rationale

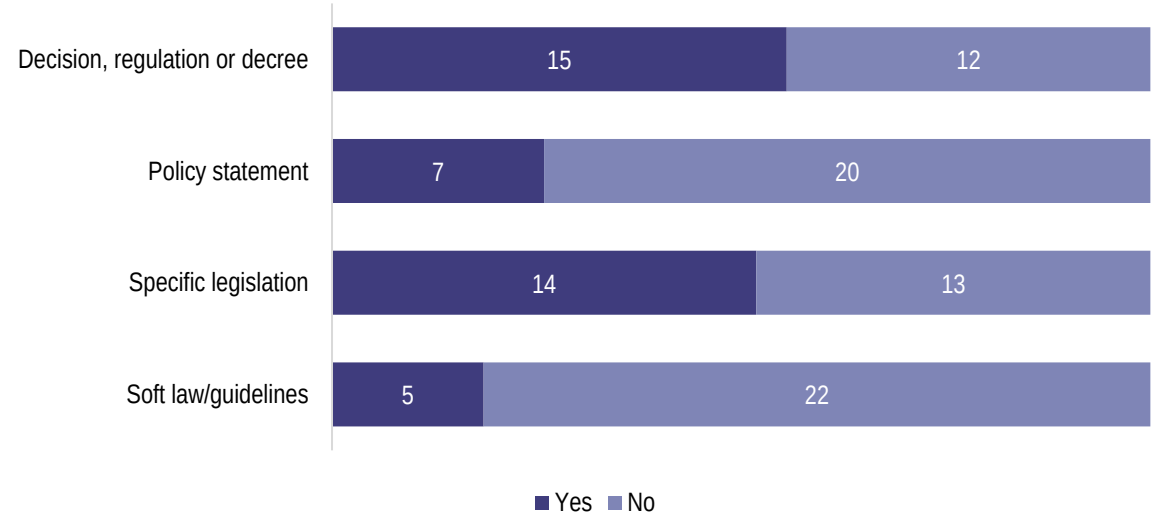
Governments have various approaches to expressing their logic of state enterprise ownership. Some jurisdictions set forth an explicit state ownership policy defining the general objectives of state ownership, while the objectives of state enterprise ownership may be implicit in others. Of the 50 surveyed jurisdictions, 27 jurisdictions report having explicit ownership policies. State ownership policies in these countries are set out in different ways including in specific legislation (such as in **Hungary**, **Korea**, **Latvia**, **Lithuania**, **New Zealand**, **Philippines**); through a government decision, resolution or decree (such as in **Chile**, **Estonia**, **Finland**, **Germany**, **Norway**, **Sweden** and **Switzerland**); via a government policy statements (such as in **Colombia**, **Costa Rica**, **Iceland** and the **Netherlands**) or via some combination of these elements (such as in **Australia**[2], **Czech Republic** and **France**) (Table 1.4).

In jurisdictions without an explicit ownership policy, the objectives of state ownership are sometimes determined from the general legislative and policy framework, including company and public administration law and sectoral policies (such as in **Austria**, **India, Greece**, **Kazakhstan, Mexico** and **Turkey**) and/or from legislation establishing individual (statutory) SOEs, statutes of SOEs and contracts between the SOEs and relevant shareholder agencies concerned (such as in **Italy** and **Japan**). While there is no explicit state ownership policy in place in **India**, SOE objectives are developed by line ministries and SOEs in a "consultative manner", keeping in view of the overall federal policy direction of the government. In the case

[2] The Department of Finance of Australia notified the OECD Secretariat that the government is currently the reviewing *Resource Management Guide No. 126: Commonwealth Government Business Enterprises – Governance and Oversight Guidelines* and some changes regarding state ownership practices may ensue.

of **Belgium**, **Brazil**, **Peru** and the **United Kingdom**, there are no formal criteria for state ownership (Table 1.4). A 2012 OECD study that examined the ownership function in **Russia** determined that Rosimushchestvo, the central unit and "Federal Agency for Government Property Administration", would benefit from a publicly-disclosed, unified and up-to-date SOE ownership policy (OECD, 2012[7]).

Figure 1.5. Sources of ownership rationales where the rationale is explicit



Note: Based on a total of 27 jurisdictions where the rationale is explicit. Several sources may be used simultaneously (see Table 1.4 for details).
Source: OECD analysis, based on information provided by the national authorities, and information reported in (OECD, 2020[2]; OECD, 2020[3]).

Table 1.4. State enterprise ownership rationales in 50 jurisdictions

Country	Type of rationale	Source of rationale				
		Decision, regulation or decree	Policy statement	Specific legislation	SOE-specific measures	Soft law / guidelines
Argentina	Implicit	●		●		●
Australia	Explicit	●		●		●
Austria	Implicit		●			
Belgium	Implicit					
Brazil	Implicit	●		●		
Bulgaria	Explicit	●		●		
Canada	Explicit	●		●		
Chile	Explicit	●				●
Colombia	Explicit		●			
Costa Rica	Explicit		●			
Croatia	Implicit		●	●		
Czech Republic	Explicit	●	●	●		
Denmark	Explicit		●			
Estonia	Explicit	●				
Finland	Explicit	●		●		
France	Explicit	●	●	●		
Germany	Explicit	●				●
Greece	Implicit				●	

Country	Type of rationale	Source of rationale				
		Decision, regulation or decree	Policy statement	Specific legislation	SOE-specific measures	Soft law / guidelines
Hungary	Explicit	●		●		
Iceland	Explicit		●			
India	Implicit		●			●
Ireland	Explicit		●			
Israel	Implicit		●			
Italy	Implicit				●	
Japan	Implicit				●	
Kazakhstan	Implicit			●		
Korea	Explicit	●		●		
Latvia	Explicit			●		
Lithuania	Explicit			●		
Mexico	Implicit					
Morocco	Implicit					
Netherlands	Explicit		●			
New Zealand	Explicit			●		●
Norway	Explicit	●				
Peru	Implicit	●			●	
Philippines	Explicit			●		
Poland	Explicit			●		
Portugal	Explicit	●		●		
Romania	Implicit	●				
Saudi Arabia	Implicit					
Slovak Republic	Implicit			●		
Slovenia	Explicit			●		
South Africa	Implicit				●	
Spain	Implicit				●	
Sweden	Explicit	●				
Switzerland	Explicit	●				
Tunisia	Implicit					
Turkey	Implicit				●	
United Kingdom	Implicit					
Ukraine	Implicit	●		●	●	●

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2020[3]) and subsequent submissions from national authorities.

Reviewing and updating the ownership policy

The *SOE Guidelines* indicate that it is a good practice to regularly review and update the ownership policy. Practices for undertaking these reviews vary across jurisdictions. In around half of the countries with explicit ownership policies, rationales are reviewed regularly at the government level.

Chile, **Finland**, **Germany**, **the Netherlands** and **Norway** review their state ownership rationale on a regular basis, whereas **New Zealand** and **Switzerland** review it on an ad-hoc basis. In **Norway** and **Finland**, the government ownership policy is normally reviewed and updated in each parliamentary session, approximately every four years. In April 2020, the policy was tabled before Parliament for discussion in **Norway**, and approved by the cabinet in **Finland**. In **Germany**, such reviews are undertaken through regular annual aggregate SOE sector reporting. In the **Netherlands**, an evaluation of whether state ownership is the best instrument to safeguard the public interest for each SOE is conducted every seven years, along with the overall general policy for SOEs. Every year the country informs Parliament on the outcome of each evaluation in its annual report. The overall general policy for SOEs is also evaluated every seven years. In **Turkey**, the review usually takes place as part of the preparation of broader development, investment and financial planning programmes. In **Sweden**, since 2020, the state ownership policy is decided on an ad-hoc basis rather than on a regular basis.

Objectives for state enterprise ownership

As part of its duties and responsibilities as an active and professional owner, the state should use its ownership policy to clarify and prioritise the reasons why it should own any given enterprise and evaluate the rationale for continued state ownership. The overall objectives for state enterprise ownership in the reporting jurisdictions broadly fall into the following categories: support national economic and strategic interests; ensure continued national ownership of enterprises; provide specific public goods or services (when it is concluded that the market cannot supply the same goods or services); and perform business operations in a “natural” monopoly situation.

Almost all of the reviewed governments state that, regardless of whether they have an explicit or implicit state enterprise ownership policy, the overall ownership rationale is often complemented by objectives through complementary legislation, regulations bearing on individual SOEs or policies. These can include specific objectives for individual public enterprises including targets for earnings, rates of return and capital structure, as well as the delivery of SOE-specific public policy objectives.

In the case of companies established under general company laws, this may be done through their corporate bylaws and articles of association. In the case of statutory corporations, their goals and purpose can be included in the establishing legislation. All of the reporting jurisdictions have SOEs that operate on partially or purely public policy terms.

State ownership entities in several countries (**Greece**, **Israel**, **New Zealand** and **United Kingdom**) set Key Performance Indicators (KPIs) which allow them to monitor their performance against their financial and non-financial business objectives. In **Austria**, some of the ministries which exercise ownership functions have developed detailed ownership strategies for individual SOEs.

Finland, **Iceland**, **Lithuania**, **Norway** and **Sweden** have clarified the state expectations for each individual SOE by classifying SOEs into groups according to their objectives, for example, SOEs with purely commercial objectives; public enterprises with a combination of commercial and public policy objectives; and/or SOEs with purely public policy objectives.

In **Belgium**, **Chile**, **Lithuania** and the **Netherlands**, the public policy obligations that the state expects SOEs to carry out are stated in instructions laid down by law. In the case of **Korea**, they are specified in each individual SOEs’ articles of association. As for the jurisdictions with a dual model of ownership or

decentralised ownership model, public policy objectives are relatively less concretely developed. They are often communicated to SOEs through instructions handed down by line ministries.

Box 1.1. Designing and communicating public policy objectives of SOEs in Norway

The Norwegian government ownership policy is updated approximately every four years. Most recently, the policy was debated in Parliament in April 2020. The ownership policy seeks to answer three questions – why the state is an owner, what the state owns and how the state exercises its ownership. The state ownership rationale and objective per SOE is stated in the ownership policy. The ownership policy also contains the state ownership expectations for SOEs. The government considers that having an ownership policy debated in Parliament and publicly available is useful for creating a stable and predictable foundation for the exercise of state ownership.

In the ownership policy, the state's portfolio is assigned to one of three categories based on the state's goal as an owner and on whether the state has a rationale for its ownership. The purpose of the categories is to communicate clearly to the SOEs and the public what the state's rationale and objective for owning each SOE is. The companies that primarily operate in competition with others are normally placed in Categories 1 and 2, while the companies that do not primarily operate in competition with others are placed in category 3. Categories 1 and 2 comprises the companies with commercial objectives (the only difference between these two categories is whether the state (still) has a rationale for its ownership or not). Category 3 comprises the companies through which the state endeavours the most efficient possible attainment of different public policy goals.

The companies in Categories 1 and 2 are with three exceptions managed by the central ownership units whereas the companies in Category 3 are mainly managed by the line ministries. When the state instructs companies to perform specific assignments, those assignments are publicly reported.

2 SOEs in the market place

Introduction

According to the *SOE Guidelines*, where SOEs engage in economic activities, those activities must be carried out in a way that ensures a fair competition in the marketplace without any undue advantages or disadvantages relative to other SOEs or private enterprises. Achieving a level playing field is often more complicated in practice, particularly when SOEs combine economic activities with important public policy objectives. Recent national rescue packages in response to COVID-19 that involve significant equity investment by governments also give rise to concerns about competitive neutrality.

The *SOE Guidelines* indicate a number of detailed recommendations for how the legal and regulatory framework for SOEs can meet this challenge. This chapter covers national practices in ensuring competitive neutrality with a focus on (i) regulatory and tax exemptions; (ii) transparency and disclosure practices around cost allocation; (iii) practices related to the transparent and adequate compensation of public policy objectives; and (iv) public procurement practices. Other related areas are covered (as indicated) in other sections of this report. Evidence presented in this chapter draws from national practices[3] in 54 OECD member and partner economies against the recommended practices highlighted in Chapter III of the *OECD Guidelines on Corporate Governance of SOEs* covering "State-owned enterprises in the marketplace".

Competitive neutrality commitments

Jurisdictions may pursue aspects or elements of competitive neutrality in diverse ways through ownership, competition, public procurement, tax and regulatory policies or a combination of these policies. Some countries may have selective commitment to competitive neutrality and may not address all elements covered in the Chapter III of the *SOE Guidelines*. The most effective way of obtaining competitive neutrality is to establish an encompassing policy framework, including suitable complaints-handling, enforcement and implementation mechanisms, that align with international commitments. While almost all the reviewed countries subject their SOEs to competition law, the extent of exemptions provided by competition law and the role of competition authorities in the promotion of competitive neutrality vary across countries.

Although few countries have pursued a holistic approach through a combination of the aforementioned mechanisms, the national practices of Australia or the European Union (EU)[4] are notable examples. **Australia** has included a commitment to competitive neutrality in federal and state laws, and implemented a comprehensive complaints mechanism for enforcement. In the **EU**, competition law covers all undertakings, including state-owned enterprises. Public companies in the EU are required to be subject, like any other company, to EU competition rules, which impose a certain degree of competitive neutrality.

[3] The information is drawn from the 2018 OECD Compendium (OECD, 2018[6]) which was based on a survey of national practices conducted in 2012, 2013 and 2019, in addition to updates from individual countries provided in 2021.

[4] The supranational character of the EU's arrangements, their ownership-neutral character and the fact that they comprise competition, state aid, transparency and government procurement rules, make them quite comprehensive.

For example, in **France**, a public operator in charge of providing a network must be independent of any other public company and must be neutral to the companies operating the network, whether public or private. In the **Czech Republic**, the elements of competitive neutrality are determined through the antitrust regulation.

A majority of OECD Member countries[5] apply state aid rules to their SOEs with some exceptions. A growing number of these countries support these rules by establishing a national commitment to competitive neutrality and empowering competition agencies to ensure such commitment. Some of them (**Denmark**, **Finland**, **Sweden** and the **UK**) have further addressed competitive neutrality through overall restructuring of the SOE sector to ensure full incorporation of public businesses, including by municipalities and other sub-national levels of government. Some of the recent progress with respect to national competitive neutrality commitments are presented in Box 2.1. However, there is still a lack of comprehensive mechanisms in place to ensure that SOEs do not operate at low rates-of-return and/or benefit from low-interest rate loans from commercial lenders perceiving an implicit state guarantee for SOEs.

Box 2.1. Recent progress with respect to competitive neutrality commitments

Czech Republic. The elements of competitive neutrality are determined through the antitrust regulation – Act No. 143/2001 Coll., on Protection of Economic Competition, Coll. of Laws of the Czech Republic and Act No. 256/2004 Coll., on Business Activities within Capital Markets, Coll. of Laws of the Czech Republic, which have been regularly updated over the past five years.

France. The French government is required to respect the EU rules in the area of competitive neutrality and adapt its regulations in line with developments in EU law. Thus the law 2018-515 dated 27 June 2018 for a new railway pact strengthens the rules of independence of SNCF Réseau with regard to railway undertakings (and in particular of the public company SNCF Mobility) in accordance with the provisions of the Directive 2012/34 establishing a single European railway area.

Israel. The government has issued decisions on privatisations or corporate debt offerings in order to improve competitiveness and transparency in the market over the past five years. These are based on the Government Companies Law which defines privatisation processes and enables the ownership agency Government Companies Authority (GCA) to carry out the relevant decisions.

Latvia. The new law on SOE governance entitled “Law on Governance of Capital Shares of a Public Person and Capital Companies” was adopted in 2015. It provides updated principles of SOE governance replacing previous regulations. The Law has established “Guidelines on elaboration of mid-term operational strategy of State-Owned Enterprises” which require SOEs to clearly differentiate financial, operational and non-financial goals (public policy goals), estimate and draw costs of non-financial goals (public-policy goals). Regarding requirements on SOEs’ rates of return, operating margins and other financial performance metrics, the Cross Sectoral Centre of Co-ordination (state ownership coordination entity), in co-operation with capital shareholders, works on methodology related defining targets for financial performance, taking into account the SOE’s public policy goals, commercial activities and main service area (healthcare, culture etc.).

Turkey. In 2013, along with the Law No. 6461 on Turkish Railroad Transportation Liberalisation, the operations of the Turkish Railroads Company (TCDD), which is an SOE (public economic institution), were divided into two: TCDD and Transportation Co. and railroad transportation was liberalised. TCDD

[5] 65% of the OECD Member Countries are part of the EU or subject to association agreements with the EU Single Market.

became responsible for railroad infrastructure to meet public policy objectives and Transportation Co. became responsible for commercial train operations. Operations of Transportation Co. began in 2017.

Source: (OECD, 2020[2]).

Regulatory and tax exemptions

Where state-owned enterprises are incorporated according to ordinary company laws, tax and regulatory treatment is usually similar or equal to private enterprises. However, some statutory corporations and most enterprises operating out of general government may be exempt from taxes (consumption and income) and regulations (market regulations and business laws). As highlighted in Table 2.1, departures from competitive neutrality are not widespread. Where differences do exist, governments mostly justify them citing one of two arguments: 1) the concerned SOE operates in an area involving a natural monopoly; and 2) regulatory preference is needed to compensate SOEs for public sector obligations.[6] These can be manifested as exemptions from the application of competition law to certain types of activities[7] or through other forms of preferential regulatory treatment (exemptions from permits, registration or licences, preferential access to land or inputs; quicker approval of projects, etc.). Several countries (**Australia, Estonia, Iceland, Slovenia** and **Switzerland**) report mechanisms to ensure compensatory payments made on the basis of regulatory advantages. However it should be noted that EU and EEA countries fall under EU State Aid and Transparency rules which ring fences activities subject to a regulatory carve out if in the pursuit of a public service. Where derogations apply, the rationale and conditions should be made transparent and narrowly established to ensure competitive neutrality.

Table 2.1. Regulatory treatment of SOEs

Country	Subject to similar or equal regulatory treatment as private businesses	Exemptions for natural monopolies, reserved markets	Exemptions for public service obligations	Other type of exemptions
Argentina	●	●		●
Australia	●	●		
Brazil	●			
Canada		●		
Chile	●			
China	●	●		●
Colombia	●	●		●
Costa Rica		●		
India		●	●	●
Indonesia		●	●	●
Israel	●			
Japan	●			
Korea	●	●		

[6] This might entail lower compliance costs (e.g. exempt or lower costs for permits, registration or licences); exemptions from zoning regulations; or preferential treatment due to their public sector status (e.g. quicker approval of projects). Of note, there is a stronger tendency for these derogations to exist at a sub-national level.

[7] Although it should be noted that 92% of 42 countries surveyed report that they do not exclude or exempt publicly controlled companies (either partially or completely) from the application of general competition law – this is mainly for what concerns activities that occur in competitive markets.

Country	Subject to similar or equal regulatory treatment as private businesses	Exemptions for natural monopolies, reserved markets	Exemptions for public service obligations	Other type of exemptions
Malaysia		●	●	●
Mexico				●
New Zealand	●			
Peru	●			
Philippines		●	●	●
Russia				●
Saudi Arabia		●	●	●
South Africa	●	●	●	●
Switzerland	●	●	●	●
Tunisia		●	●	●
Turkey	●			
Ukraine	●	●	●	●
United Kingdom	●			
United States			●	●
EU and EEA countries	●			

Note: Data available for 27 countries, in addition to 27 EU and EEA countries. The EU and EEA countries which participated in this exercise include Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, France, Finland, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.
Source: OECD analysis, based on information reported in (OECD, 2012[8]; OECD, 2018[6]), and information subsequently provided by the national authorities.

In half of the surveyed countries, public undertakings are subject to the same or similar tax treatment as private enterprises, especially where public undertakings are conducted as legally incorporated businesses operating at arm's length from the government (Table 2.2). Some exceptions apply to specific categories of SOEs which may be carrying out non-commercial objectives, such as public service obligations (e.g. in the postal sector), and which may be exempt from tax on income derived from such obligations in addition to being or exempt from VAT or charging VAT on these transactions.

Several countries consider their SOEs to be at a tax disadvantage due to higher corporate tax rates or inability to benefit from tax write-offs. Where differences in tax treatment exist, compensatory payments in lieu of taxation is not common practice in most countries, as only the UK reports that some form of tax neutrality adjustments are made in order to compensate for differences between public and private business tax treatment. In the EU (and EEA) countries, any form of preferential tax treatment incompatible with EU rules on State Aid is subject to enforcement by the European Commission (EC).

Table 2.2. Tax treatment of SOEs

Country	Subject to the same tax treatment as private enterprises	Subject to largely similar tax treatment as private enterprises	Different treatment or exceptions
Argentina	●		●
Australia	●		
Austria		●	
Belgium	●		
Brazil	●		●
Bulgaria	●		
Canada		●	●
Chile		●	●
China		●	●

Country	Subject to the same tax treatment as private enterprises	Subject to largely similar tax treatment as private enterprises	Different treatment or exceptions
Colombia			●
Costa Rica		●	
Croatia		●	
Czech Republic	●		
Denmark	●		
Estonia	●		
Finland	●		
Germany	●		
Greece	●		
Hungary	●		
Iceland		●	●
India			●
Indonesia			●
Ireland	●		
Israel	●		
Italy	●		
Japan	●		
Kazakhstan		●	●
Korea	●		
Latvia	●		
Lithuania		●	●
Malaysia			●
Mexico	●		●
Morocco			
Netherlands	●		
New Zealand	●		
Norway	●		
Peru	●		
Philippines			●
Poland		●	●
Portugal		●	
Russia			●
Saudi Arabia			●
Slovak Republic	●		
Slovenia	●		
South Africa		●	●
Spain	●		
Sweden	●		
Switzerland		●	●
Tunisia			●
Turkey	●		
Ukraine		●	●
United Kingdom			●
United States			●

Source: OECD analysis, based on information reported in (OECD, 2012[8]; OECD, 2018[6]), and information subsequently provided by national authorities.

Transparency and disclosure around cost allocation

Identifying the costs of any given function of commercial government activity, and separating such costs from non-commercial activity is essential if competitive neutrality is to be credibly enforced. Where compensation is provided through the public purse or where costs are shared with non-commercial activities of general government, disclosure is essential to ensure SOEs are accountable to shareholders, oversight bodies, and to the general public. In the case of an internationally-active SOE, this type of transparency and disclosure is all the more important as regulators and other market actors need to ensure that the SOE does not depart from commonly accepted corporate norms or, if they do, that the nature of their operations is fully disclosed prior to their market entry. This sub-section addresses national approaches related to the separation of accounts. Other aspects of transparency and disclosure, and the financial situation of SOEs are equally important and are covered in other sections of this report.

To enhance transparency and disclosure, the majority of surveyed jurisdictions require SOEs to separate the accounts of commercial and non-commercial activities (27 out of 4 jurisdictions where data is available) (Figure 2.1). The effectiveness of such a practice depends on the consistency in which it is applied, especially where small or unincorporated SOEs are concerned. Overall, it is commonly applied in certain sectors (e.g. utilities and energy sectors) where public service obligations are concerned.

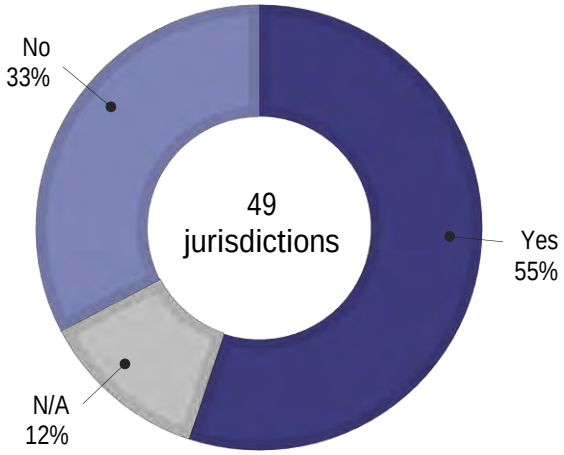
It should be noted that for EU countries, accounting separation applies – in principle – to all undertakings (public or private) receiving public funds or benefiting from special or exclusive rights (the methods used to calculate costs are also subject to specific requirements). In addition, **Korea** has an administrative rule entitled *Operational Guidelines on Separation of Accounts for Public Institutions*, and some large SOEs are practicing the separation of accounts. In **Switzerland**, there are specific rules for some SOEs about the separation of accounts on national basis and cross-subsidisation is not allowed.

On the other hand, the separation of accounts is not practiced in a third of surveyed jurisdictions. In particular, **Chile**, **China**, **Mexico** have reported that there is no practice in the separation of accounts, while **Israel** reported that such practices are not part of the national generally accepted reporting standards.

Enhancing transparency and disclosure in the SOE sector as a whole is key. This can be done, for instance, through a dedicated section of an aggregate report on the SOE sector covering the estimated costs taken on by SOEs for the implementation of “special obligations”, and the amount of compensatory funding provided by the state. As of 2021, only 20% of the countries that produce annual aggregate reports on the entire SOE sector include information in their aggregate reports on the costs related to SOEs’ public policy objectives and the related funding provided from the state budget (See the section on aggregate reporting practices in Chapter III).

Figure 2.1. Separation of accounts

Legal obligations or other rules applicable to SOEs to separate accounts for commercial and non-commercial activities in 49 countries



Source: OECD analysis, based on information reported in (OECD, 2012[8]; OECD, 2018[6]), and information subsequently provided by national authorities.

Compensation of public policy objectives

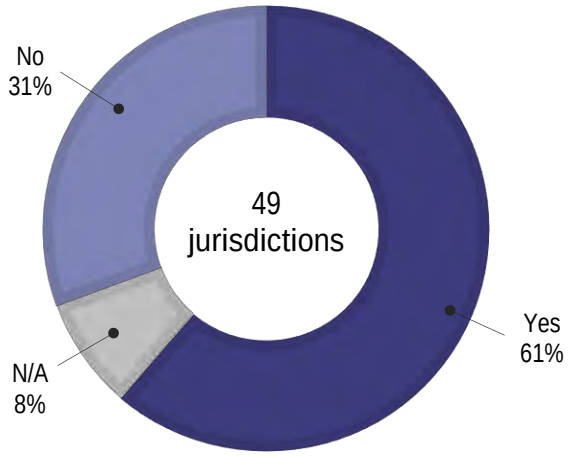
The *SOE Guidelines* also indicate that non-commercial objectives (public policy obligations) should be adequately compensated for the cost of the obligations, in the absence of which they are put at a competitive disadvantage. Compensation may be provided by the public purse (methods range from direct transfers, capital grants, reimbursements and budget appropriations, to state aids/subsidies) or they can be funded entirely through user charges or a combination of both user charges and compensation.

Although almost all countries compensate undertakings (public or private) which deliver public service obligations alongside their commercial activities, these compensation mechanisms are not necessarily grounded in a legal mechanism/provision (Figure 2.2) or other rules on direct state support to SOEs delivering public services. However, it should be noted that this indicator is not fully comparable across countries, as some countries which report “No” do not have such legal provisions because they deliver public service obligations only through SOEs that have a specific corporate form; or this may reflect a reporting bias, as state support may apply to a specific subset of companies. This is the case in **New Zealand** and **Australia**, the latter reporting that SOEs are generally expected to price efficiently and to fully recover costs. In other cases, companies may be compensated through derogations from other obligations (**China**); contracting out service delivery through PPPs or other competitive tendering processes (**Mexico**); direct capital transfers (**Japan**); or through a negotiation of their tariff structures and user fees (**Israel**).

However, the importance of a legal provision, such as in the EU's State Aid Rules and the "Altmark Criteria"[8], is that it sets out clear rules as to the mechanisms that may be allowable to compensate SOEs (such as whether cross-subsidisation is allowable), and the criteria that need to be fulfilled in order for any form of compensation not to qualify as State Aid.

Figure 2.2. Compensation of public policy obligations

Existence of legal provisions or other rules on direct state support to SOEs delivering public services in 49 countries



Source: OECD analysis, based on information reported in (OECD, 2012[8]; OECD, 2018[6]), and information subsequently provided by national authorities.

Public procurement practices

To support competitive neutrality, procurement policies and procedures should be competitive, non-discriminatory and safeguarded by appropriate standards of transparency. This section considers the current public procurement frameworks across jurisdictions, and considers the conditions under which SOEs may participate as bidders or procurers themselves.

A number of OECD countries have undertaken a tightening or clarification of existent public procurement rules affecting, on the one hand, procurement by SOEs and on the other hand SOEs' role as suppliers to other public sector institutions, and other countries are in the process of undertaking a major overhaul of their legal frameworks for public procurement. The public procurement rules in OECD countries should be in line with the World Trade Organisation (WTO) Principles[9], which seek to ensure non-discrimination, transparency and value for money.

Some SOEs may not be subject to the public procurement laws/rules that apply to the general government sector, given their incorporated status and application of company law. In some cases, voluntary adoption of

[8] This refers to the European Court of Justice's jurisprudence which defines four "Altmark" Criteria that need to be fulfilled in order for a compensation not to qualify as State Aid. The EU Services of General Economic Interest Framework provides further clarification as to the applicability of the rules of State Aid to compensate for the discharge of public service obligations.

[9] In the case of EU (including EEA) member countries, public procurement rules should reflect EU directives.

procurement laws is encouraged. In a number of cases, in-house procurement from unincorporated business units within general government is not subject to public procurement rules and competitive tendering may not be required. Some countries have put in place specific rules establishing the situations in which in-house procurement is allowed and when such practices may be exempt from competitive tendering.

Table 2.3. Public procurement practices related to SOEs

Country	Public procurement laws/rules bearing on competitive neutrality apply to SOEs as bidders	Specific rules apply to SOEs as purchasers to avoid the risk of competitive neutrality issues	Exceptions for in-house procurement[1]
Argentina		●	
Australia	●		
Brazil		●	●
Chile	●	●	
China	●		●
Colombia	●		●
Costa Rica		●	
India		●	
Indonesia		●	
Israel	●		●
Japan	●		
Kazakhstan	●		
Korea		●	●
Malaysia		●	
Mexico			●
Morocco		●	
New Zealand	●	●	
Peru		●	
Philippines		●	
Russia	●	●	
Saudi Arabia		●	
South Africa	●		
Switzerland	●		●
Tunisia		●	
Turkey	●		
Ukraine	●	●	●
United Kingdom	●		
United States	●		
EU and EEA countries	●[2]		

Note:
[1] "Exceptions for in-house procurement" refer to cases where the country has an in-house procurement practice which is not subject to public procurement rules, and as such, competitive tendering may not be required.
[2] The bullet only concerns fully commercial SOEs. The surveyed countries include Austria, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Latvia, Lithuania, Netherlands, Norway, Poland, Slovak Republic, Spain and Sweden. As for SOEs with public policy objectives in these countries, specific rules apply to them as purchasers to avoid the risk of competitive neutrality issues.
Source: OECD analysis, based on information reported in (OECD, 2012[8]; OECD, 2018[6]), and information subsequently provided by the national authorities.

Several countries have put in place a specific set of rules for SOEs. For example, in **Denmark**, SOEs are not permitted to participate in state-bidding contracts to avoid the risk of neutrality issues. In other countries, specific guidelines regarding the treatment of SOEs in public tenders is required (**Australia**, **Israel**, **Kazakhstan**, **Korea**

and **Sweden**). For example, in **Australia**, government businesses must declare that their tenders are compliant with competitive neutrality principles, whereas in **Sweden**, abnormally low tenders can be excluded when they are a result of competitive advantages emanating from government ownership or support. In the **United Kingdom**, specific consideration of the role of competition and consumer tools has been made to remedy distortions that may arise in managed competitions. In **France**, public procurement laws were reformed in 2015, and SOEs are now subject to the same public procurement regime as the State and public authorities. In **Peru**, SOEs are subject to both control of the Supervisory Body of State Contracting (OSCE) and the Comptroller General of the Republic regarding public contracting.

Box 2.2. Recent changes in public procurement practices related to SOEs

Costa Rica has recently passed a Public Procurement Law (on 27 May 2021) in order to reduce the use of the exception allowing direct public procurement involving SOEs, and to achieve greater efficiency and competition in all public procurement procedures, including for SOEs. This comprehensive legislative proposal was submitted by government during the course of the OECD Accession process. The law was precededed on the operational level by the introduction of an electronic platform for public procurement designed to rationalise procedures, reduce the potential for discretionary decision-making and corruption, and take advantage of purchasing economies of scale.

France. Public procurement law was amended by Order 2015-899 of 23 July 2015 aimed at transposing the 2014 Directives on the award of public contracts. State-owned enterprises, which were previously covered by Order No. 2005-649 of 6 June 2005 on contracts awarded by certain public or private persons not subject to the Public Procurement Code, are henceforth subject to the same regime as the State and public authorities.

Germany. In 2016, the Act against Restraints of Competition (Competition Act– GWB) was amended based on European Procurement Law Directives (Directive 2014/23/EU, Directive 2014/24/EU and Directive 2014/25/EU). The amendment incorporates specific case law established by the European Court of Justice that allowed exceptions for SOEs from public procurement law obligations. The former case law is now codified in Sec. 108 of the Competition Act. Sec. 108 defines circumstances under which a cooperation of government authorities as contractors and enterprises controlled by a government authority may be exempt from the restraints of the Competition Act ("in house" exception).

Hungary. The new Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement was implemented in the new Hungarian Act CXLIII of 2015 on Public Procurement. The purpose of the Act is to require contracting authorities to ensure fair competition throughout the public procurement procedures. The Act was amended on 1 April 2019, where the obligation to publish certain documents of public procurement procedures through the Electronic Public Procurement System (EKR) was established.

Latvia. SOEs are in principle subject to the same competition-related laws and requirements as any other private company. There should be no differences in taxation of SOEs, access to financing and their operations in the marketplace, relative to other enterprises. SOEs are required to participate in public procurement procedures on the same terms as any other private company. However, the Public Procurement Law is not applicable in the following cases: if the customer (usually public body) has control over the supplier's (usually SOE) strategic goals and decisions; if the supplier's turnover is made of no less than 80% of specific customer's service deliveries; and if there is no direct private capital shares or investments in the supplier's equity. When an SOE receives any financial aid from the state, the procedure must meet the criteria set in the Law on Control of Commercial Transactions Support.

Source: (OECD, 2021[9]).

Measures to ensure market consistency of debt and equity financing

Whether SOE financing comes from the state budget or the commercial marketplace, ensuring that it is offered on market consistent terms is crucial for maintaining a level playing field with private competitors. When combined with adequately calibrated compensation for SOEs' public policy activities, market consistent financing for SOEs' economic activities helps minimise competitive advantages or disadvantages that could distort the level playing field with private competitors. Table 2.4 provides a summary overview of national practices across 36 countries in relevant areas including: approach to capital structure efficiency; debt financing; equity financing from the state budget; direct state support (capital transfers); rate-of-return requirements; and dividend pay-out expectations.

Table 2.4. Overview of national practices towards SOE financing in 36 countries

Country	State guarantees on commercial debt possible	Preferential terms on commercial debt considered likely	Mechanisms in place to avoid preferential credits	Rate-of-return targets in place	Dividend guidelines or targets in place
Argentina	●				
Australia			●	●	●
Brazil	●				
Canada	●	●		●	
Chile	●	●		●	
Costa Rica	●				
Estonia		●	●	●	
Finland					●
Germany	●				
Greece	●				
India	●	●			
Indonesia	●	●			
Ireland		●			●
Israel	●	●			●
Italy		●			
Japan	●				
Kazakhstan	●	●			
Korea	●			●	
Latvia	●				●
Lithuania				●	●
Malaysia	●	●			
Mexico	●	●			
Netherlands	●	●		●	●
New Zealand				●	●
Norway				●	●
Peru	●		●	●	●
Philippines					
Poland	●				●
Slovenia	●				●
South Africa	●	●			●
Spain					
Sweden		●		●	●
Switzerland				●	●
Tunisia	●	●			
Ukraine	●	●			●
United Kingdom			●	●	●

Source: OECD analysis, based on information reported in (OECD, 2012[8]; OECD, 2014[10]; OECD, 2018[6]), and information subsequently provided by national authorities.

General approach to capital structure

Most countries either base SOE financing decisions on broad guidelines concerning capital structure efficiency, or establish financial performance targets for at least some aspects of SOEs' operations. As elaborated in further detail in the following sections, the authorities in most countries surveyed have either established broad capital structure efficiency guidelines to inform SOE financing decisions, or have established more specific financial targets such as rate-of-return expectations or dividend guidelines. In **Australia**, **Ireland** (for large SOEs), the **Netherlands**, **Sweden** and **Switzerland**, the authorities communicate explicit guidelines for developing an optimal capital structure for SOEs – often in the form of an investment grade credit rating – which then provides the basis for all subsequent decisions affecting SOEs' capital structure. Seventy percent of the countries either benchmark SOEs' capital structure with private sector peers, or report that in practice SOEs' capital structure is comparable with that of private sector peers.

Debt financing

In the large majority of countries, SOEs can access debt financing from the commercial marketplace. In about half of those countries, SOEs can also access debt financing from the state treasury, but this is usually only applicable to individual SOEs or to a subset of SOEs, and subject to certain conditions. The **United Kingdom** is the only country where commercial debt financing is rare, and most SOEs obtain loans directly from the state treasury, either via the National Loan Fund or from the relevant shareholding ministries (with loan terms being agreed with the state treasury). In **Chile**, the Constitution does not allow SOEs to obtain credits or loans from the State or its agencies/companies.

Overall, very few countries have established mechanisms to ensure market consistency of financing terms, or to "neutralise" any actual or potential preferential terms on SOE debt financing. However, **Estonia**, **Hungary**, the **United Kingdom** and **Switzerland** take measures to approximate market conditions for interest on loans from the state treasury.

Equity financing from the state budget

While recapitalisations from the state budget are a common form of SOE financing, very few countries have established mechanisms to ensure that related costs are market consistent. In most countries, recapitalisations from the state budget – i.e., equity capital injections in exchange for increased shares – are a commonly occurring means of SOE financing. All EU and some other countries with cases of SOE recapitalisations subject state capital injections to a minimum expected rate-of-return on investment (suh as **Australia**, **Estonia**, **Hungary**, **New Zealand** and **Sweden**), as provided by the EU Market Economic Investor Principe state aid regulations.

Direct state support

The large majority of countries surveyed allow for direct state support to be provided to SOEs, generally in the form of capital transfers.[10] Direct state support is provided primarily to compensate SOEs for public service obligations. They are also provided in exceptional cases. EU rules allow state support in compensation for the discharge of public service obligations under certain conditions, notably provided that the procedures for calculating compensation are determined in advance and that the level of compensation does not exceed the cost of delivering the public service.

[10] Direct state support differs from the state equity injections discussed above in that it is not offered in exchange for increased share capital.

In several countries, SOEs are compensated for the achievement of public policy objectives via lower overall rate-of-return requirements. In these countries, SOEs' economic and public policy activities are not structurally separated and accounted for, making it difficult to apply market consistent rates-of-return purely to SOEs' economic activities.

Rate-of-return requirements

Most countries have established rate-of-return requirements for SOEs. Four countries have established comprehensive mechanisms to align return targets with those achieved by competing private enterprises. In the majority of countries surveyed, SOEs are subject to target rates-of-return on equity, either established by the state as shareholder or elaborated by individual SOE boards. In several countries, the state ownership body and SOE boards communicate specific details on how to identify the cost of capital used as the basis for calculating rate-of-return targets, using sector-specific benchmarks (**Estonia**, **Kazakhstan**, **Lithuania**, **Netherlands**, **New Zealand** and **Sweden**).

Dividend pay-out expectations

The majority of countries surveyed have established guidelines or targets to align dividend pay-out levels with private sector practices. This is expressed as either: (i) broad guidelines identifying the factors that should be taken into account when establishing dividend levels; (ii) an explicit percentage of net income; or (iii) the level of dividends required to maintain an optimal capital structure, as measured by the achievement of a target credit rating. This latter practice – implemented by **Australia**, **New Zealand** and **Sweden** – would presumably result in dividend levels most consistent with private sector practices. However, less than half of surveyed countries have no dividend guidelines or targets in place, and dividends are negotiated annually between SOE boards and the state shareholder, and are not subject to guidelines. This could potentially hinder capital structure optimisation.

3 Transparency and Integrity in the SOE sector

Improving transparency and accountability of the state as an owner

Transparency regarding the financial and non-financial performance of SOEs is key for strengthening the accountability of SOE boards and management, and for enabling the state to act as an informed owner. The *SOE Guidelines* are founded on the principle that SOEs should be as transparent towards the general public as listed companies are expected to be towards their shareholders in order to ensure that the state exercises its powers in accordance with the public's best interest (see Chapter VI.A).

The *SOE Guidelines* call for SOEs to keep accounts in accordance with internationally-agreed accounting standards and subject their financial statements to an independent external audit, based on relevant international auditing standards. In particular, where SOEs are large or where state ownership is motivated primarily by public policy objectives, the enterprises concerned should implement particularly high standards of transparency of disclosure. It is also recommended that SOEs put in place comprehensive internal audit procedures, overseen by an audit committee within the board of directors or its functional equivalent (see Chapter VI.B).

The newly launched *OECD Guidelines on SOE Anti-Corruption and Integrity* ("ACI Guidelines") also include specific recommendations on transparency and disclosure measures at both state level and enterprise level. The ACI Guidelines are the first international instrument to offer the state, in its role as an enterprise owner, support in fighting corruption and promoting integrity in SOEs. Select ACI Guidelines' provisions on SOE transparency and disclosure measures are provided in Box 3.1.

This section provides information on national practices on enhancing transparency and accountability of the state as an owner, drawing upon new national submissions from 22 countries[11] in 2021 and evidence reported in three 2020 studies (OECD, 2020[3]; OECD, 2020[5]; OECD, 2020[11]) and one 2018 study (OECD, 2018[6]). Overall, around two-thirds of the surveyed 54 countries have introduced or strengthened requirements for disclosure and transparency in the SOE sector in the last five years, thus bringing national practices more in line with the standards posited in Chapter VI of the SOE Guidelines (OECD, 2020[2]). Positive developments have included, for example, new requirements concerning the role of audit committees in SOEs, clarifications regarding the role of the state in selecting audit firms and, in a few countries, the introduction of aggregate reporting on the entire SOE portfolio. In a sub-set of countries, disclosure requirements are more stringent for SOEs based on additional guidance or requirements set out in applicable laws.

[11] Argentina, Australia, Brazil, Bulgaria, Chile, Colombia, Costa Rica, Croatia, Finland, France, Germany, Greece, Korea, Latvia, Mexico, Netherlands, Norway, Peru, Sweden, Switzerland, Ukraine and the United States.

Box 3.1. Select ACI Guidelines' provisions on SOE transparency and disclosure measures

A. Integrity of the State

Art. 5. vii. Maintaining high standards of transparency and disclosure when SOEs combine economic activities and public policy objectives regarding their cost and revenue structures, allowing for an attribution to main activity areas.

Art. 5. viii. Ensuring that the ownership entity is equipped to regularly monitor, review and assess SOE performance, and oversee and monitor SOE compliance with applicable corporate governance standards – including those related to anti-corruption and integrity.

B. Exercise of state ownership for integrity

Art. 5. iii. Developing a disclosure policy that identifies what information SOEs should publicly disclose, the appropriate channels for SOE disclosure and SOE mechanisms for ensuring quality of information. With due regard for SOE capacity and size, the types of disclosed information should follow as closely as possible those suggested in the SOE Guidelines, and could additionally include integrity-related disclosures. The state should consider developing mechanisms to measure and assess implementation of disclosure requirements by SOEs.

Art. 5. iv. Disclosing all financial support by the state to SOEs in a transparent and consistent fashion.

C. Promotion of Integrity and Prevention of Corruption at the Enterprise Level

Art. 6. The state should expect that SOEs apply high standards of transparency and disclosure akin to good practice listed companies, or to firms in like circumstances, and in line with the state's disclosure policy. In addition, the state could encourage disclosure of the organisational structure of the SOE, including its joint ventures and subsidiaries.

Source : (OECD, 2019[12])

Requirements for periodic disclosure of financial and non-financial information by SOEs

Almost all surveyed jurisdictions indicate that their disclosure and reporting requirements for SOEs are mainly driven and defined by company law and/or listing requirements. In addition, reporting jurisdictions often supplement reporting requirements with standards or requirements that are specific to SOEs. These additional reporting requirements can cover a various areas, including particularly, reporting on public service obligations, and reporting on funding and financing of non-commercial objectives. In some countries, the state ownership or co-ordinating entity has put in place specific reporting and disclosure requirements applicable to all SOEs. The frequency of reporting often depends on the size and operations of a given company.

Almost all OECD member countries and an increasing number of partner countries have also established some form of performance evaluation system for SOEs, by developing performance contracts or performance indicators. National practices on SOE performance evaluation system from several OECD members and partner countries are provided in Box 3.2.

Box 3.2. National practices on performance evaluation and management of SOEs

Kazakhstan. Samruk-Kazyna has developed a new Corporate Governance (CG) Methodology which is aimed to ensure that corporate governance systems support long-term growth and sustainable development of the company. Corporate governance is one of the sub-components of key performance indicators (KPI) for assessing its portfolio companies. Independent assessment of portfolio companies is performed every three years. The assessment is followed by CG rating and recommendations based on which the company develops CG development plans to be approved by boards. The assessment process also includes a quarterly reporting to boards on CG development plans and implementation progress. The first independent assessment of CG in 12 key portfolio companies was conducted in 2018. Besides an annual internal reporting on Strategy and Business Plan and KPI achievement to the board, Samruk-Kazyna and all of its portfolio companies are mandated to publish Annual Reports and Sustainability Reports approved by the board. Annual Report content requirements are identified in the Corporate Governance Code, and Sustainability Reports are prepared in accordance with Global Reporting Initiative (GRI) Standards. The minimum content requirements for the Annual Report include strategic report on implementation, including target achievements and significant events, portfolio overview and financial results relevant to production and operating activities, report on governance structure, compliance with CG Code and risk management, and sustainability initiatives on procurement, human resources and the environment.

Korea. The performance evaluation system for public corporations and quasi-governmental institutions is overseen by the Ministry of Economy and Finance (MOEF) while non-classified public institutions are overseen by their own line ministries. The SOE evaluation system aims at holding accountable SOEs, CEOs and executive auditors. Each performance evaluation cycle usually lasts three years. In the first year of the cycle, an evaluation team consisting of accountants, professors and experts determines a set of business goals and performance indicators for SOEs based on a performance evaluation manual developed by the MOEF. In the second year of the cycle, SOEs run their businesses trying to achieve their given goals. If necessary, the evaluation team revises performance indicators in the same year. In the final year of the cycle, the evaluation team carries out the performance evaluation and final evaluation results are reported to the MOEF and Parliament. The public can participate in the evaluation process as observers and may attend evaluation sight. The performance indicators consist of values including business strategy & leadership, social values, business efficiency, organisational management, human resources and finance, management of remuneration scheme and employee welfare benefits. Each SOE can be graded according to their evaluation results, and the grade is in turn used to determine the amount of performance-based compensation of eligible employees. Employees of an institution with the highest grade can be entitled to up to 250 % of his/her monthly salary as a reward. A CEO and executive auditors of an SOE with the lowest grade can be subject to dismissal. The MOEF has a strong control over evaluation results. As the current administration emphasises balancing financial efficiency with social responsibilities of SOEs, the government has increased the weight of the “social values” component in the performance indicator from 20 to 30 points out of 100. The “social values” component consists of values including job creation, equal opportunity, social integration, safety and environment, local development and ethical management. A new indicator on Innovation (3 Points) & Innovative Growth (2 add-points) has also been created to promote new technology and R&D.

Lithuania. The Governance Coordination Centre (GCC) monitors the achievement of targets, reviews SOE strategies and Letters of Expectations and reports on SOEs’ compliance with the requirements of governance, transparency and execution of indicators. According to the Ownership Guidelines, the state ownership entity shall at least every 4 years prepare and submit to the SOE a letter regarding the objectives pursued by the state in the SOE and the expectations of the SOE (referred to as Letter of

Expectations). The purpose of the Letter of Expectations is to state and identify key state interests and expectations with regard to the SOE. In particular, the letters identify the state's expectations for the SOE, the SOE's main and other activities, operational priorities, key performance evaluation indicators (ex. ROE, dividend payout and capital structure), accountability needs (transparency measures) and economic projects of national importance. The GCC also coordinates target setting and SOE strategic planning practices by providing recommendations and inputs to all SOEs and their respective ownership entities with respect to board member selection, SOE target setting, strategies and other governance practices. It facilitates information disclosure through its annual aggregate report and online inventory of information on SOEs (see https://governance.lt).

Philippines. A performance evaluation system for SOEs is mandated by Law No. 10149. The Governance Commission for Government-Owned or Controlled Corporations (GCG) is responsible for coordinating and monitoring the operations of Government-Owned or Controlled Corporations (GOCCs), ensuring alignment and consistency with national development policies and programs. It conducts periodic evaluation and assessment of the performance of the GOCCs, through Performance Scorecards which shall apply to all GOCCs. A GOCC must achieve a weighted score of at least 90% in its Performance Scorecard and comply with Good Governance Conditions to be eligible for Performance Based Bonus. An Appointive Director may be nominated by the GCG for reappointment by the President only if he/she obtains a performance score of above average or higher in the immediately preceding year of tenure as Appointive Director based on the performance criteria for Appointive Directors for the SOE. The GCG recently introduced Internet Based Performance Evaluation for Directors (iPED) to facilitate a reliable data collection system needed for the computation of the Performance Evaluation for Directors (PED) Score. The iPED System is composed of Director Attendance System (DAS) and Director Performance Review. The DAS Score (10%) and the DPR Rating (30%), together with the SOE Performance Evaluation System Rating (60%), comprise the overall performance score of Directors. A Director must receive an overall score of at least 85% to be eligible for Performance Based Incentives.

Half of the reviewed countries do not have public disclosure requirements in place for financial assistance, including guarantees, granted by the state to the SOE. In these countries, disclosure is made as part of reporting requirements towards their state-owners but is not made available to the general public. In other surveyed jurisdictions, SOEs are required to disclose financial assistance or state aid in their annual report, annual financial statements or annual aggregate reports (**Belgium**, **Costa Rica**, **Estonia**, **Finland**, **Germany**, **Israel**, **Italy**, **Korea**, **Latvia**, **Lithuania**, **Norway**, **Philippines**, **Slovak Republic**, **Sweden**, **Switzerland** and **United Kingdom**), but the extent of the disclosure is largely determined by applicable accounting standards.

Control environment

The robustness and comprehensiveness of SOE auditing and accounting standards, including internal and external audit functions, directly impact the quality of financial (and non-financial) reporting in a SOE. In most of the surveyed countries, SOEs are accountable to some or all of the following: (i) parliament or the Minister in charge of the portfolio or the board and management of the holding company, (ii) the Supreme Audit Institution, (iii) the general public. When there is a co-ordination agency, SOEs are often held accountable to the head of that agency or department.

The majority of surveyed countries also require their SOEs to have an internal audit function in place. **Kazakhstan** encourages its SOEs to do so through the state holding company's corporate governance code. In **Korea** and **Turkey**, there are regular audits by the state Board of Audit and Inspection and Court of Accounts, respectively. The countries with internal audit functions often have a direct reporting line to the (relevant committee of the) supervisory board. It is notable that SOEs in **Argentina**, **Costa Rica** and

Peru have the internal audit function report to the state comptroller. In **Brazil**, internal auditors are required to coordinate their auditing plans with the state comptroller and report to the board. In **Hungary**, **Malaysia** and **Poland**, there are no specific requirements for SOEs to put in place internal audit functions unless otherwise specified by listing or other requirements. In the case of **Malaysia**, a variety of different forms of SOEs is an obstacle in developing a comprehensive reporting or assessment system.

The mandate to subject SOEs' financial statements to independent external audit is prevalent. In some cases, state audit procedures supplement the external audit. In at least one-fourth of the reviewed countries, state audit is mandatory on an annual basis in addition to existing internal and independent external controls. While **Argentina**, **Bulgaria**, **India**, **Philippines** and **Ukraine** do not have systematic external controls in place, they primarily reply upon state auditing bodies and other ad-hoc intra-government control to supervise SOEs. In several OECD partner countries, information collection across SOEs and implementation of auditing requirements often remain challenging due to a lack of IT infrastructure in some SOEs, low quality of financial statements and weak corporatisation of SOEs.

Accounting and Auditing Standards

It is now a common practice across OECD Member countries to have SOE auditing and accounting standards that are comparable to those of stock-market listed companies. The International Financial Reporting Standards (IFRS) or the national equivalent often prevail among the reviewed countries, although some jurisdictions may still use national accounting standards depending on the size and nature of a SOE's operations (OECD, 2020[5]).

It is notable that for **EU countries**[12], national accounting standards should be aligned with the EU acquis and the IFRS to ensure the quality of SOE disclosure in the country. In **Brazil**, **Indonesia**, **Kazakhstan** and **Pakistan**, the majority of SOEs are required to keep their accounts in accordance with IFRS, while in **Lithuania**, only the largest SOEs are required to do so in practice. In **Korea**, according to the Act on External Audit of Stock Companies (Article 5(1)1) and the Regulation on Accounting Affairs of Public Corporations and Quasi-governmental Institutions (Article 2(5)), all public corporations and quasi-governmental institutions are required to apply K-IFRS (Korea International Financial Reporting Standards), which are designed to be in accordance with the international accounting standards established by the International Accounting Standard Board (IASB).

In **India**, **Malaysia**, the **Philippines** and **Viet Nam**, SOEs are required to respect national accounting standards. In the case of **Malaysia**, the variety of different forms of SOEs is an obstacle in pursuing a unified accounting standard.

Aggregate reporting practices

The *SOE Guidelines* state that the state as an owner of commercial enterprises should develop and publish annually an aggregate report covering all SOEs and make it a key disclosure tool for the general public, legislators and the media. The reporting should be done in a way that enables all readers to have a clear vision of the performance of SOEs. They further call for the use of web-based communications to facilitate access by the general public (See Chapter VI.C). This section focuses on aggregate reports made available to the public – which the SOE Guidelines consider as the ultimate owners/shareholders of SOEs.

[12] For European jurisdictions, accounting rules should be in line with relevant European directives including ensuring accounting is consistent with international accounting principles, based on reliable information resulting in a true and fair view with respect to a company's profitability, financial position and performance, assets and holdings, and future plans. For companies listed on EU stock exchanges, IFRS is mandatory. Moreover, rotation of the auditor is a requirement in EU jurisdictions (OECD, 2020[5]).

Aggregate reporting should not duplicate but should complement existing reporting requirements, such as annual reports to the legislature. Some ownership entities could aim at publishing only "partial" aggregate reports, i.e. covering SOEs active in comparable sectors. In summary, the SOE Guidelines recommend that the following information be included in the annual aggregate report (Box 3.3).

Box 3.3. Information that can be included in the annual aggregate report according to the SOE Guidelines

- A general statement on the state's ownership policy and information on how the state has implemented this policy (i.e. Information on the organisation of the ownership function as well as an overview of the evolution of SOEs)
- The total value of the state's portfolio (i.e. information about the size, performance and value of the state sector)
- Aggregate financial information and reporting on changes in SOEs' boards
- Key financial indicators including turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratio and dividends
- The methods used to aggregate data
- Information on individual reporting on the most significant SOEs
- Voting structures and stakeholder relations where there are non-Government shareholders
- Risks and related party transactions

Source: (OECD, 2015[1]).

Overall, a majority of OECD countries and many partner countries have considered the development and implementation of SOE aggregate reporting practices as a starting point for undertaking SOE governance reform. Fifty-nine percent of the 54 reviewed governments produce annual aggregate reports on the entire SOE sector or have an online inventory that are considered to be functionally equivalent to an aggregate report

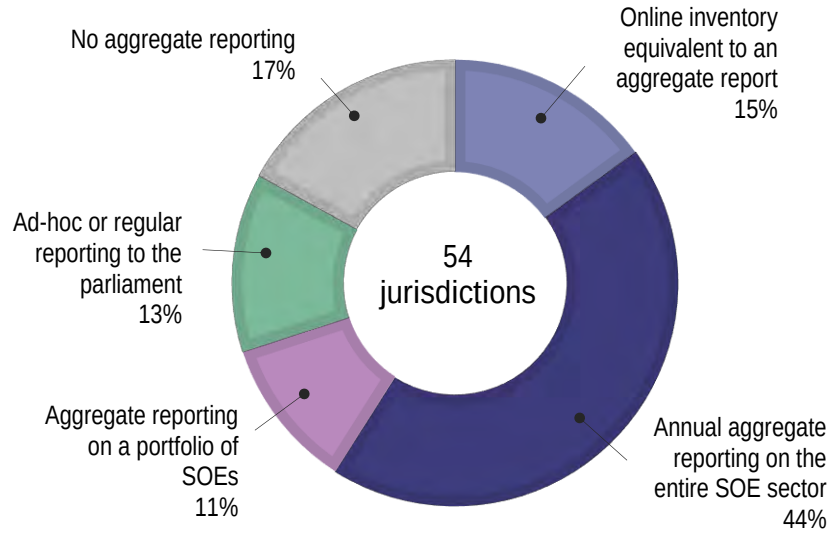
The percentage is slightly higher when the sample is restricted to the 38 surveyed OECD Member countries (62%). Most of them include all, or the majority of, SOEs in the reports. For instance in **Austria**, as per Sec. 42 Federal Organic Budget Act 2013, the Federal Minister of Finance is required to submit to the National Council committee an annual aggregate report with respect to corporate entities in which the Federal Government has a direct and majority equity interest.

Eight countries have reported that while they do not produce aggregate reports per se, they have an online inventory that they consider as functionally equivalent to an aggregate report (**Australia**, **Brazil, Canada**, **Ireland**, **Korea**, **New Zealand**, **Slovenia** and **Ukraine**). In **Australia**, while there is no annual aggregate report on SOEs as such, the website of the Department of Finance provides links to the websites of the nine GBEs under its oversight, including two corporate Commonwealth entities and seven Commonwealth companies, where individual annual reports are accessible. It also has a Transparency Portal which is the central repository of publicly available corporate information for all Commonwealth bodies. In **Brazil**, the coordination entity (SEST) has an interactive tool ("Panorama") that presents general data on federal state enterprises, including the size of the sector and sectorial distribution, employment data, board composition, and economic and financial indicators. Of note, the recently published *OECD Review of the Corporate Governance of State-Owned Enterprises in Brazil* recommends that the national government elaborate a more comprehensive aggregate report (OECD, 2020[13]). As for **Canada**, the website of the Treasury Board of Canada Secretariat provides a comprehensive inventory of all federal government bodies, including links to the quarterly financial and employment data for all SOEs ("Crown Corporations"). **Korea** has a

dedicated website called ALIO that regularly provides aggregate financial and employment figures of individual SOEs including each SOE's asset value, debt-to-equity ratio, net income, total number of executives and employees, etc.

Chile, **China**, **Colombia**, **Costa Rica**, **Croatia**, **Finland** and **Kazakhstan** produce aggregate reporting on a limited portfolio of SOEs, and several other countries produce ad-hoc reports or regular reports on SOEs to the parliament on the performance of SOEs (**Argentina**, **Greece**, **Italy**, **Mexico**, **Poland**, **Slovak Republic** and **South Africa**).

Figure 3.1. National approaches to aggregate reporting



Note: The trends of aggregate reporting practices identified in this figure are in line with those indicated in (OECD, 2020[5]).
Source: OECD analysis, based on information reported in (OECD, 2020[2]; OECD, 2018[6]; OECD, 2020[5]), and subsequent submissions from national authorities.

No aggregate reporting

Around one-sixth of the 54 reviewed countries do not have any form of regular aggregate reporting in place at state level (**Belgium**, **Czech Republic**, **Iceland**, **Malaysia**, **Pakistan**, **Saudi Arabia**, **Tunisia, United Kingdom** and **United States**). In **Czech Republic**, while there is no annual aggregate report published by the state, line ministries and the Ministry of Finance publish a report on the activities and performance of individual SOEs in a disaggregated form. In **Iceland**, the Ministry of Finance and Economic Affairs is in the process of building a database including the annual accounts of all SOEs and once completed, it plans to produce a more comprehensive, online-based annual report on their performance. In **Malaysia**, the treasury publishes financial information of major SOEs on its website.

Information included in aggregate reports

The information that is most commonly included in aggregate reports produced by governments comprises financial performance and value; implementation of state ownership policy; total employment in SOEs; and board composition in SOEs. However, only 20% of the countries that produce annual aggregate reports on the entire SOE sector indicated that they include information in their reports on the costs related to SOEs' public policy objectives and the related funding provided from the state budget (Latvia, Lithuania, Norway, Sweden and Turkey). Latvia makes relevant information available in its aggregate report, with further information separately issued by individual ownership entities on the amounts of the state funding

planned and received by individual SOEs. Sweden also discloses any non-commercial assistance or other exemptions/immunities applicable to the SOE sector in its annual aggregate report. The ownership policy of the government is annexed to the annual report that includes an overview of the legal framework for state aid.

Aggregate reporting practices are in general less prevalent in countries that have a relatively more decentralised state ownership structure under which a multitude of line ministries exercise ownership of SOEs within their particular sector, with an absence or weak degree of co-ordination for state ownership. In some of the reporting OECD partner countries, SOE disclosure of both financial and non-financial information is limited, scattered and sometimes outdated, except for a few large equitised SOEs. In these countries, the amount and quality of information (both financial and non-financial) vary depending on the responsible line ministry or controlling stakeholder. Figure 3.1 and Table 3.1 provide a summary overview of national practices in the countries examined. The forthcoming *OECD Good Practice Guide for Annual Aggregate Reporting on SOEs* is expected to help the countries with making more progress in this area.

Table 3.1. Aggregate reporting practices on state-owned enterprises in 45 countries

Country	Nature of reporting				Coverage					
	Aggregate reporting on the entire SOE sector	Aggregate reporting on a portfolio of SOEs	Ad hoc reports on SOEs or regular reporting to the parliament on SOE activities	Available in non-national language(s)	Implementa-tion of state ownership policy	Financial performance and value	Total employment in SOEs	Public policy objectives	Board composition and/or remuneration	Reporting on individual SOEs
Argentina			●		●	●	●			
Australia	Online inventory equivalent to an aggregate report									
Austria	●			●	●	●	●			
Brazil	Online inventory equivalent to an aggregate report					○	●		●	●
Bulgaria	●			●		●			●	●
Canada	Online inventory equivalent to an aggregate report									
Chile		●				●	●			●
China		●								
Colombia		●				●	●		○	●
Costa Rica		●			●	●	●		○	●
Croatia		●		●		●			○	●

Country	Nature of reporting				Coverage					
	Aggregate reporting on the entire SOE sector	Aggregate reporting on a portfolio of SOEs	Ad hoc reports on SOEs or regular reporting to the parliament on SOE activities	Available in non-national language(s)	Implementa-tion of state ownership policy	Financial performance and value	Total employment in SOEs	Public policy objectives	Board composition and/or remuneration	Reporting on individual SOEs
Denmark	●				●	●	●	●	●	●
Estonia	●				●	○				
Finland	●			●		●	●		●	●
France	●				●	●			●	●
Germany	●				○	●	●	●	●	●
Greece			●			●				
Hungary	●					●				
India	●				●	●	●	●	●	●
Indonesia	●				●	●	●	●		
Ireland	Online inventory equivalent to an aggregate report									
Israel	●			●		●		●		
Italy			●			●				
Japan	●				●	●				

Country	Nature of reporting				Coverage					
	Aggregate reporting on the entire SOE sector	Aggregate reporting on a portfolio of SOEs	Ad hoc reports on SOEs or regular reporting to the parliament on SOE activities	Available in non-national language(s)	Implementa-tion of state ownership policy	Financial performance and value	Total employment in SOEs	Public policy objectives	Board composition and/or remuneration	Reporting on individual SOEs
Kazakhstan		Online inventory equivalent to an aggregate report on a limited portfolio of SOEs				●	●		●	
Korea	Online inventory equivalent to an aggregate report					●	●	●	●	●
Latvia	●				●	●	●	●	●	
Lithuania	●			●	●	●	●	●	●	
Mexico			●							
Morocco	●					●				
Netherlands	●				●	●	●	●	●	
New Zealand	Online inventory equivalent to an aggregate report									
Norway	●			●	●	●	●	●	●	●
Peru	●					●	●	●	●	●
Philippines	●				●	●	●	●	●	●
Poland			●		●	○				

Country	Nature of reporting				Coverage					
	Aggregate reporting on the entire SOE sector	Aggregate reporting on a portfolio of SOEs	Ad hoc reports on SOEs or regular reporting to the parliament on SOE activities	Available in non-national language(s)	Implementa-tion of state ownership policy	Financial performance and value	Total employment in SOEs	Public policy objectives	Board composition and/or remuneration	Reporting on individual SOEs
Portugal	●					●				
Slovak Republic			●		○	●				
Slovenia	Online inventory equivalent to an aggregate report									
South Africa			●							
Spain	●					●	●			●
Sweden	●			●	●	●	●	●	●	●
Switzerland	●				●	●	●	●	●	●
Turkey	●			●	●	●	●	●	●	●
Ukraine	Online inventory equivalent to an aggregate report					●	●			

Notes: 9 of the 54 surveyed countries have no aggregate reporting in place, including Belgium, Czech Republic, Iceland, Malaysia, Pakistan, Saudi Arabia, Tunisia, United Kingdom and United States.
● = full disclosure
○ = partial disclosure
Source: OECD analysis, based on information provided by national authorities, and information reported in (OECD, 2018[14]; OECD, 2020[2]; OECD, 2020[3]; OECD, 2020[5]).

Promoting integrity and preventing corruption in SOEs

Preventing corruption and promoting integrity in SOEs is central to achieving efficiency in SOE operations and in the expenditure of public funds. Evidence shows that SOE representatives are simultaneously more likely to be offered foreign bribes than any other public officials, yet less likely to take mitigating action in face of known corruption risks compared to private firms. In a survey of over 360 SOE leaders from around the world, 42% reported to have witnessed corruption or related irregularities in their company in recent years. While risks of corruption may not be qualitatively different for SOEs than for private firms, SOEs can be exposed in different ways. Attention must be paid to their proximity to the state and notably to politicians, to any advantageous or disadvantageous position in the market and to the complexity and transparency of the governance and accountability chain. The *OECD Guidelines on Anti-Corruption and Integrity in SOEs* ("ACI Guidelines") provide the state with a roadmap for mitigating corruption risks in the SOE sector, and their Implementation Guide provides examples of how it can be realised in practice.

OECD Implementation Guide on Anti-Corruption and Integrity in SOEs

The "ACI Guidelines" stand as the first international instrument to offer the state, in its role as an enterprise owner, support in fighting corruption and promoting integrity in SOEs. The Guidelines tailor existing OECD and international standards on SOE governance, public integrity and anti-corruption to SOE-specific circumstances. Like the *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, the *ACI Guidelines* target state owners but can also be useful for SOEs.

The *ACI Guidelines*' Implementation Guide (2021[9]) provides the state with practical examples on how to implement the Guidelines in practice. The Implementation Guide is based on the four pillars of the ACI Guidelines: integrity in the public sector (II), exercising state ownership for integrity (III), anti-corruption and integrity at the company level (IV) and accountability and enforcement (V).

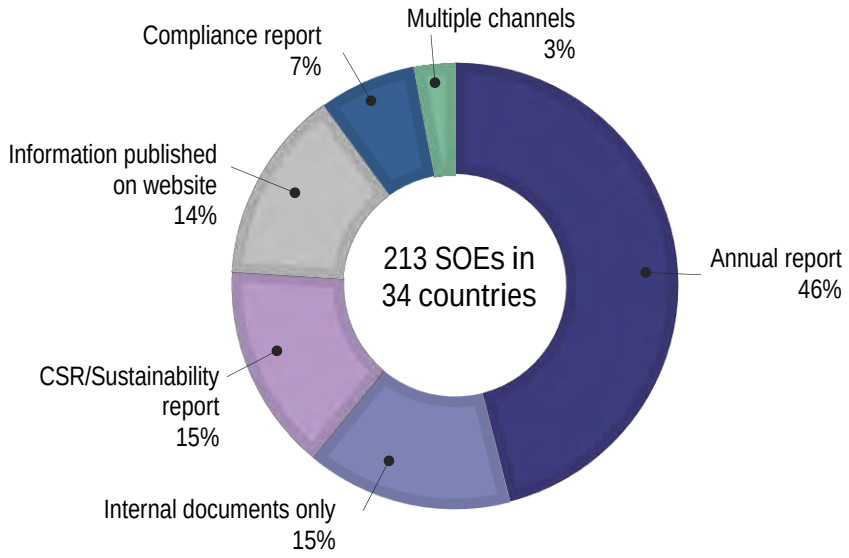
For each of the four recommendations of the *ACI Guidelines*, the Implementation Guide explains the recommendation itself in more textual terms, as well as the essence of what the recommendation is trying to achieve. It further includes a series of questions and answers and many country examples for almost all the provisions of the ACI Guidelines, thus providing policy-makers with concrete illustrations of implementation of particular provisions in peer countries.

For instance, regarding Recommendation II on anti-corruption and integrity in the public sector, the Guide provides country practices from **Chile**, **France**, **Latvia**, **Switzerland** and the **United Kingdom** on how representatives of the ownership entity and other stakeholders responsible for exercising ownership on behalf of the state manage conflicts of interest. With regard to Recommendation III on exercising state ownership for integrity, the Guide provides country examples of integrity-related disclosures from **Brazil**, **Colombia**, **Korea** and **Sweden**. This outcomes-based Guide for state owners was developed jointly by OECD's Working Groups in the fields of SOE governance, anti-corruption and integrity.

National practices on mitigating corruption risks

According to the responses from 213 SOEs in 34 countries that participated in a 2018 survey (OECD[15]), a majority of SOEs have rules and mechanisms in place to mitigate corruption risks. Ninety percent of SOEs treat corruption and integrity risks in their risk assessments, most often categorised as compliance risks. In 2017, SOEs allocated an estimated 1.5% of their operational budgets to detecting and preventing corruption. However, the research also found that only half of the surveyed SOEs mandate anti-corruption or integrity-related training to all employees, board members and management. At the same time, only around half of the participating SOEs report on their anti-corruption and integrity efforts and policies in the annual report.

Figure 3.2. SOE-level channels for reporting on company integrity policies or anti-corruption efforts



Note: Based on 347 individual responses from 213 SOEs in 34 countries.
Source: (OECD, 2018[15]).

There are a various ways in which countries have sought to enhance business integrity in SOEs. They include adjusting legal and regulatory frameworks for preventing corruption in SOEs; promoting independence of boards of directors; strengthening internal controls, ethics and compliance measures within SOEs; setting integrity-related disclosure and transparency requirements; and embedding integrity within organisational culture. With regard to enhancing the legal and regulatory framework for integrity in SOEs (pursuant to Recommendation II), some concrete measures are provided in Box 3.4. Select company efforts to improve the expectations and rules within their companies (pursuant to Recommendation III) are provided in Box 3.5.

Box 3.4. Enhancing legal and regulatory frameworks for anti-corruption and integrity in the SOE sector: selected examples

Canada. Crown corporations (SOEs, in Canada) are accountable to Parliament through a Minister. Moreover, the Governor in Council, supported by the Privy Council Office, and the Treasury Board Secretariat approves corporate plans. This allows Ministers to review practices set out in Crown corporations planning documents, clarify expectations, or impose conditions. Treasury Board Ministers can require corporate-plan reporting on specific issues where there may be concerns of misuse (e.g. travel and hospitality expenses). Details of transactions, for instance of restricted property transactions, must be disclosed for approval to avoid abuse and conflict of interest. Submission templates include a risk analysis.

France. Article 11 of the Law 2013-907 of 11 October 2013 covering the transparency of public life provides that presidents and directors-general of the companies, in which more than half of the share capital is held directly by the State or public institutions of an industrial and commercial nature, send a declaration of their patrimonial situation and a declaration of interests to the High Authority for the Transparency of the Public Life.

Israel. The Government Companies Agency (GCA) – a state ownership co-ordinating entity – has declared its efforts to eliminate SOE fraud, corruption and nepotism while encouraging transparency and professionalism of SOEs. Since 2014, the GCA co-operates with a dedicated police investigation unit, aimed to detect and treat fraud and corruption in SOEs. The unit operates, among other things, based on anonymous whistle blower reports and independent investigative initiatives. According to the GCA, the initiative has had a decisive deterrent effect.

Korea. Following several cases of employment fraud in the SOE sector in recent years, there was an amendment to the "Act on the Management of Public Institutions" in March 2018. The amendment introduced Articles on transparent personnel management. The Minister of Economy and Finance or the head of the competent agency shall take a measure to dismiss or punish the head of a SOE/public institution if an executive of the organisation is found guilty of employment irregularities, according to review and decision by the steering committee.

Malaysia. The government set up the National Centre for Governance, Integrity and Anti-Corruption in 2018. It formulated and launched the National Anti-Corruption Plan (NACP) which outlines the government's strategies and measures for combatting corruption, strengthening governance, and enhancing integrity and transparency in government operations. The five-year plan (2019-2023) has 6 strategic thrusts and the 6th thrust is inculcating good governance in corporate entities. According to the NACP, more than 80% of the corruption complaints received mainly concern administrative failures, conflicts of interest, weak internal control, non-compliance, and lack of transparency. These factors were taken into account when developing the NACP's strategies and initiatives, according to the government. The Malaysian Anti-Corruption Commission Act (MACC Act) has been amended to include Section 17A on corporate liability for corruption, which came into force on 1st June 2020, thus enabling legal proceedings against commercial organisations and associated persons that have committed corruption offences.

Peru. In 2021, FONAFE approved the Corporate Anti-Corruption Guidelines applicable to SOEs, which established an Ethics and Compliance Committee that oversees the implementation of the anti-corruption system within SOEs.

Source: Submissions from national authorities

Box 3.5. Measures for mitigating corruption risks at company level: selected examples

Italy. A global energy infrastructure company, SNAM, has put in place a comprehensive internal control and risk management system, as well as a compliance programme for the prevention of corruption offences. The company's framework for enhancing business integrity consists of a Code of Ethics, Anti-Corruption Guidelines and relevant regulations. The company's flagship Anti-corruption Compliance Programme encompasses principles and procedures and operating instruments and preventive safeguards, as well as a dedicated anti-corruption function (Ethics and Anti-Bribery), reporting system (Whistleblowing guidelines), accounting procedures and checks, training and penalty system (regulatory and contractual), periodic risk assessment and monitoring. General transparency standards of the company note that there should be a segregation of duties and activities between the executing party, the controlling party and the authorising party. The standards require formalisation of rules for the exercise of powers for signing and authorisation, as well as corporate provisions that at least provide general reference standards to govern corporate processes and activities. The standards also hold that the individuals, departments involved and/or information systems used must ensure the identification

and reconstruction of sources, information and controls carried out that support the formation and implementation of company decisions and the methods by which financial resources are managed. Anti-corruption safeguards are primarily derived from anti-corruption due diligence, and the use of "Ethics & Integrity Agreement" and contractual clauses in business contracts. Prior to establishing any relationship with a business partner, every Department must consult the Ethics & Anti-bribery Unit and if applicable, request the necessary due diligence. SNAM uses the aforementioned Ethics & Integrity Agreement to communicate and ask business associates (suppliers or subcontractors) to comply with the company's essential principles in terms of legality, responsibility and business ethics, in going about their activities.

Malaysia. Regarding Government-linked companies (GLCs) (i.e. SOEs in Malaysia), the state-owned oil and gas company Petronas has adopted a zero tolerance policy against all forms of bribery and corruption. The Petronas Anti Bribery and Corruption Policy Manual provides guidance to employees on how to deal with improper solicitation, bribery and other corrupt activities and issues. Telekom Malaysia is also committed to anti-corruption, and has published an anti-corruption guide and become a signatory of the Corporate Integrity Pledge under the Malaysian Anti-Corruption Commission (MACC). Overall however, the effectiveness of GLC's anti-corruption measures are partly dependent on the degree of integrity in companies' broader operating environment. Despite efforts made to limit the role of politicians in statutory bodies and GLCs, political appointments continue to be made for board and chairman positions and threaten the autonomy of GLC decision-making bodies. The latest change in government has led to the resignation of the Attorney General and the Chief Commissioner of the MACC, and while the new government has signalled that it is committed to carrying forward the National Anti-Corruption Plan, the detailed plans are not yet clear.

Source: Submissions from national authorities

4 SOE Boards of Directors

Boards of directors of state-owned enterprises: an overview of national practices

The *OECD Guidelines on Corporate Governance of State-Owned Enterprises* ("SOE Guidelines") recommend that the board be charged with a duty to act in the interests of both of the state and the company. In an increasing number of countries, SOE boards have evolved from oversight bodies entrusted with compliance, toward driving performance and establishing corporate strategy. Ensuring a strong legal and regulatory framework to support independence and autonomy of SOE board members is an issue that many countries grapple with, and more remains to be done to improve board performance and efficiency.

This section provides a brief overview of areas where "good practice" is developing vis-à-vis SOE boards of directors, using the *SOE Guidelines* as a benchmark. The analysis is limited to practices related to non-executive directors in commercially oriented, non-listed SOEs. For jurisdictions with a two-tier board structure, the focus is on supervisory board members. The information included in this summary draws upon self reporting from national authorities from 41 jurisdictions that participated in two 2020 studies and one 2018 study on SOE boards practices (OECD, 2020[2]; OECD, 2020[3]; OECD, 2018[6]).

Overall, two-thirds of the reviewed countries have made notable efforts and progress over the past five years in the areas covered by Chapter VII of the SOE Guidelines, which addresses the responsibilities of the boards of SOEs (OECD, 2020[2]). In particular, a couple of Scandinavian countries have established a comprehensive board nomination framework to empower SOE boards to appoint the chief executive officer, while other reviewed countries have aimed to do so to a certain extent. Eight OECD Member countries have re-arranged or improved their board nomination practices, by centralising the powers of nomination or increasing the number of independent directors. It is also notable that some of the countries that have undertaken SOE reviews or undergone OECD accession negotiations have made significant progress with regard to professionalising board of directors of SOEs.

The diversity in SOE board practices reflects specific institutional arrangements within individual countries, including different legislative, regulatory or policy requirements, and varying levels of professionalisation of SOE ownership practices across countries. To some extent, the systems underpinning the professionalisation SOE boards also reflect the prevailing practices in the general corporate sector at the domestic level. While good practice calls for an SOE board to oversee and incentivise management, corporate boards in the reviewed countries are still often closely linked to state ministries, or are bypassed by the government through informal channels of communication and instructions on main board responsibilities such as appointment of CEOs.

Defining roles and responsibilities of boards of directors in support of board autonomy

Good practice calls for the role of the board to be clearly defined and founded in legislation, in line with general company law. SOE boards should be assigned a clear mandate and have ultimate responsibility and autonomy for the company's performance. It is also equally important that the government or its ownership unit sets objectives and communicates them to SOE boards in order to raise board awareness around these objectives. Most frequently, many of the roles and responsibilities of boards are defined by

– and communicated through – company law requirements. While specific responsibilities vary across countries, they usually include strategic monitoring of the company and executive management performance, development and monitoring of the organisational strategy of the company, consultation with shareholder ministries on the business objective and plan, and sometimes compliance-checking.

However, one-fourth of the reporting governments do not have a clear distinction between the respective roles of the board and the ownership function, which potentially hampers independence and autonomy of boards. In particular, in jurisdictions with a rather decentralised state enterprise function, the ownership entities or line ministries play a more direct role in strategic management, as well as in the appointment of the CEO and succession planning and executive remuneration and incentive schemes. According to good practice, most of these responsibilities should be exercised by the board.

Board nominations

In virtually all countries, the nomination of SOE directors is a government responsibility. It is most commonly exercised by the relevant ministers, or through some form of inter-ministerial process. The processes applied by governments to nominate SOE board members may depend on the degree to which the state has centralised its enterprise ownership function, as well as on the size of the state's ownership stake in an SOE and the balance between its commercial and non-commercial priorities. Frameworks for nominating and appointing board members and senior executives should arguably be made more transparent and consistent, since several countries reported some cases of close ties between SOE senior executives and political decision-makers affecting the decision process for appointment.

Centralisation of the ownership function often allows for reinforcing and bringing together relevant competencies by organising "pools" of experts on board nomination. In countries where the state enterprise ownership function is centralised, for example through a dedicated state enterprise ownership unit (such as in **China, Chile**, **Finland**, **Hungary**, **Korea**, **Norway** and **Sweden**), this ownership unit or one minister has the direct responsibility for nominating members to SOE boards, whereby the decision often benefits from advisory functions. In **Norway** and **Finland**, the responsibility rests with the ministry that manages the state's ownership interest in the company. However, the ownership unit coordinates all ministries' board election work. In the case of **New Zealand**, board appointments are shareholding Ministers' primary tool for exercising their ownership rights. The Treasury is responsible for assisting Ministers to manage their board member appointment process. In **Hungary**, the basis of the nomination process and the requirements are the same for all companies, as regulated by Act V of 2013 on the Civil Code. In addition, the exerciser of the ownership rights is required to take into consideration the practical experience and relevant technical knowledge of the candidate during the nomination process.

In other countries, the agency exercising a central state function and sectorial ministries often share the responsibility for board nominations. To varying degrees, this is the practice pursued in **Brazil**, **Colombia**, **Czech Republic**, **Estonia**, **Greece**, **Italy**, **Israel**, **Latvia**, **Morocco** and **Turkey**. In the **Czech Republic**, the relevant line minister sends nominations to the Government Committee for Personal Nomination, which was established in 2014 and is tasked with assessing the nominees eligible for filling positions on SOEs' supervisory boards.

Where ownership is more decentralised, line ministries have more direct responsibility for nominations, but finance ministries sometimes oversee the process through some degree of coordination and may retain the right to appoint one or more representatives to the board. In these cases, good practice would entail subjecting ministerial decisions concerning board nominations to some form of consensus by a wider group of ministers, the Cabinet or Head of State.

Table 4.1. SOE board nomination practices in 39 jurisdictions

	Country	Institutions responsible for the appointment and election of SOE board members	SOE board and CEO nomination practices (1, 2, 3)
Centralised ownership model	Austria	Austrian Holdings AG (OBAG), Federal Chancellery, Various federal ministries.	◻ ⊙
	Chile	SEP. In certain SOEs, specific procedures are established in their bylaws. In some cases, directors may be proposed by the management board.	◻ ⊙
	China	Directors of wholly state-owned enterprises (WSOCs) are appointed by SASAC.	◻
	Colombia	Nomination, Election and Performance Evaluation Committee of State-Owned Enterprises (comprising civil servants from the Ministry of Finance and Public Credit)	◻
	Finland	Either the OSD or the line-ministry that manages the state's ownership interest in the company. OSD coordinates the use of advisory services during the selection process.	◻ ⊙
	France	The general meeting. The Minister of the Economy may appoint a representative of the state on the board.	◻
	Greece	Joint Ministerial Decisions for SOEs supervised by the ministry of finance and a line ministry; the AGM for SOEs that are subsidiaries of the HCAP (except HFSF). For a number of SOEs, the SOEs Committee of the Hellenic Parliament gives opinion to the Minister on the suitability of nominations for the chairmen and managing directors.	◻ ⊙
	Hungary	The ownership entity (MNV) has no role in appointing board members, as that role has been delegated to the Minister of National Development.	◻
	Iceland	Ministry of Finance and Economic Affairs or other ownership ministries and institutions, with exceptions.	◻
	Israel	Board candidates can proposed both by the line Minister and the Minister of Finance. Appointments are made jointly by the Minister of Finance and the line Minister. The board elects the Chairperson of the board subject to the approval of the Ministers.	◆ ◻
	Italy	MEF appoints the Board of Directors for the totality or a part of it, on the base of political decisions.	◻
	Korea	The board of SOEs consists of two groups: executive and non-executive directors. Executive directors are appointed by the head of each SOE, and non-executive directors are appointed by the Minister of Economy and Finance after the deliberation and resolution by the Steering Committee and based on recommendations by the Committee for Recommendation of Executive Officers.	◻
	Netherlands	The shareholder appoints the supervisory board members, and in most cases also the management board members. When there is more than one shareholder per SOE, the supervisory board appoints the board members.	◻
	New Zealand	Board appointments are shareholding Ministers' primary tool for exercising their ownership rights. The Treasury is responsible for assisting Ministers to manage their board member appointment process.	◆ ◻ ⊙
	Norway	The general meeting elects the board members. The ministry that manages the state's ownership interest in the company is responsible for the appointment and election of the board members. For listed SOEs, the state is represented on external nomination committees who are responsible for nominating candidates. The ministry carries out its own review process as well in these cases. The ownership unit coordinates all ministries' board election work.	◻ ⊙
	Peru	The board of directors of FONAFE. Certain SOEs through special rules.	◻ ⊙
	Sweden	The responsible minister and PM's office based on proposals by the ownership entity.	◆ ◻ ⊙
Coordinating agency model	Bulgaria	A competitive procedure was recently established for the selection and appointment of SOE board members, in accordance with the 2018 Law on Public Enterprises and its Rules of Implementation. The law establishes a Nomination Committee for the appointment of independent board members in large SOEs. The process is monitored by the coordination agency – the Public Enterprises and Control Agency (PECA).	◻
	Costa Rica	The President and the Council of Government.	◻
	Latvia	Procedures for nominating members of the supervisory and executive boards are implemented by the nomination committees established by the respective shareholding ministry.[4]	◻ ⊙
	Lithuania	SOE board members are elected by the shareholders' general meeting where State representatives vote based on the decision of the nomination committee or the head of the ownership entity.[5]	◆ ◻
	Morocco	Ministry of Economy and Finance and line ministries	◻

	Country	Institutions responsible for the appointment and election of SOE board members	SOE board and CEO nomination practices [1, 2, 3]
	Philippines	Under Sec. 15 of R.A. No. 10149, all Board Members of the SOE Governing Boards are to be appointed by the President of the Philippines from a shortlist prepared by the state ownership entity. On the other hand, Sec. 18 of R.A. No. 10149 provides that the CEO (highest-ranking chief executive of a SOE) shall be elected by the Board from among themselves.	◻
	United Kingdom	In most cases, SOEs in the UKGI portfolio appoint board directors based on an SOE-led process using external third-party headhunters. A UKGI employee, usually the UKGI shareholder NED for the relevant asset, will also form part of the interview panel. UKGI is also involved in determining the selection criteria for individual board roles at the outset. Shareholder/Ministerial consent will be required before the SOE's preferred candidate can be appointed.	◻
Twi Track model	Belgium	According to the Belgian Act of 16 December 2015 (the "December 2015 Law") that entered into force on 12 January 2016, all (new) directors are now (re)appointed by decision of the Shareholders at a Shareholders' Meeting. The Belgian State has the right to nominate directors for appointment pro rata its shareholding (in accordance with a so-called "nomination right") - Article 21, §2 of the Bpost Articles of Association).	◆ ◻
	Turkey	For SOEs in portfolio of the Ministry of Treasury and Finance (MoTF), the President appoints board members based on proposals of the line ministers and the MoTF. For SOEs in the portfolio of the Privatisation Administration (PA), the Minister of MoTF appoints board members.	◆ ◻
Dual ownership model	Australia	The Chair is expected to head a board committee which provides Shareholder Ministers, through the board, with recommendations on board composition and membership.	◆ ◻
	Brazil	The Minister of Economy normally appoints all board and fiscal council members of financial SOEs. In the case of non-financial SOEs, the sectoral ministry nominates the majority of government's nominees and the Ministry of Economy nominates one fiscal council member. In all cases, the Chief of Staff Office (Casa Civil) is involved.	◆ ◻
	Czech Republic	Government Committee for Personal Nomination assesses the nominees made by the relevant line minister in cases of filling positions in SOE´s supervisory boards.	◻ ⊙
	Estonia	Half appointed by the line-ministry, ministry of finance appoints other half. If state ownership less than 100%, the state appoints proportionally to its share, maintaining a proportional split.	◻
	Romania	The appointment of board members is voted by the shareholders' general meeting obased on a short list made by the Ministry of Public Finance and other ministries.	◻ ⊙
	Switzerland	The shareholders' general assembly. As the Swiss Confederation holds the majority or all shares of the SOE, the Federal Council has the final say with preparation and coordination by line ministries and FFA.	◻ ⊙
Dispersed ownership model	Argentina	Board nomination procedures are not formalised.	◻ ⊙
	Canada	In general, directors are appointed by the line minister with the approval of the Governor in Council, and officer-directors are appointed by the Governor in Council.	◆ ◻
	Germany	In general, the ministry holding the participation is responsible for the appointment of SOE board members if SOEs are wholly owned by the federal government or if it is an otherwise important SOE. Its decision is presented to the cabinet under the responsibility of the Federal Chancellery.	◻ ⊙[6]
	Japan	In accordance with the provisions of the Companies Act, etc.	⊙
	Mexico	The government appoints SOE board members, either directly or through the line ministries. Board members are usually civil servants from the Line Ministry, the ministry of Finance and other government institutions. The SOE bylaws and the provisions of the creation decrees must be taken into account when selecting the board members.	⊙
	Poland	Shareholding minister.	⊙
	Ukraine	In most SOEs where boards are appointed, the ownership entity organises the process and eventually approves the candidates. In economically important SOEs, the government has a permanent committee consisting of the minister of economy, finance, and the ownership entity, and four independent observers with right to an advisory vote. Ultimately, the CMU approves the selected candidate.	◆ ◻

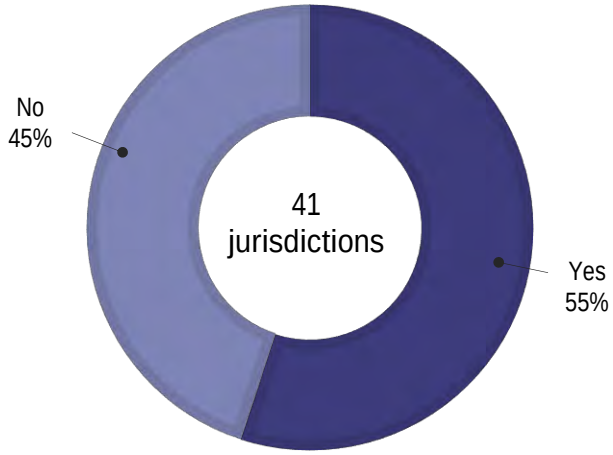
Note:
[1] ◆ = Accreditation or vetting across government
[2] ◻ = Ownership entity involvement in board nomination
[3] ⊙ = Board appoints CEO

[4] In Latvia, regarding the nomination of supervisory board members, the nomination committee is to be led by the CSCC and it includes delegated representatives of the shareholder as well as independent experts and, if necessary, observers with advisory rights to ensure the transparency of the assessment process. The independent experts in practice are representatives from chambers of commerce, non-governmental industry sectors, education and science sectors, and from institutions developing good corporate governance. Observers with advisory rights in practice are representatives from the private sector, ministries, and non-governmental organisations.
[5] In Lithuania, the nomination committee is comprised of the Government Office, Ministry of Economy and Innovation, Ministry of Finance, Governance Coordination Centre and ownership entity representatives (1 representative from each institution, 5 in total).
[6] In Germany, CEO nomination is also possible via AGM.
Source: OECD analysis based on information provided by national authorities, and information reported in (OECD, 2018[6]; OECD, 2019[16]; OECD, 2019[17]).

Setting clear minimum criteria for board nominations

Around half of the governments surveyed reported having established minimum qualification criteria for board members. These criteria commonly relate to candidates' education and professional backgrounds, and are developed in order to promote more balanced board composition and streamline the assessment process. In **France**, the ownership function manages a "directors' pool" of candidates pre-selected according to a formal evaluation.

Figure 4.1. Are minimum board member qualification criteria established?



Source: OECD, based on questionnaire responses from 41 jurisdictions.

Vetting or advising on ministerial board nominations

In jurisdictions with a centralised ownership function (such as **China**, **Korea** and **Sweden**), the centralised ownership unit can serve as a kind of clearing house for applications to SOE boards. To varying degrees, this is the practice, for example, in the **United Kingdom**, where coordinating agencies advise ministers and/or make recommendations on possible board candidates. In **New Zealand**, the coordinating agency develops long and short lists of potential candidates for nominating ministers' consideration, conducts due diligence and background checks, and even provides board induction training. In **China**, non-executive (external) directors in central SOEs are directly nominated and appointed by the ownership agency (SASAC) in consultation with relevant departments, including the line ministries, central SOEs and industrial associations at home and abroad. External directors are required to be recruited either through

direct appointment or through an open selection process. The board can recommend candidates for external directorships, and interested outsiders can recommend themselves as candidates.

Establishing nomination committees or taking a more ad-hoc approach

It is considered good practice for boards to take a tailored approach to identifying the right mix of skills, experience and personal characteristics, when looking to fill a vacancy on the board. Expertise could also be mobilised from independent recruitment agencies or head-hunters in this regard. In some jurisdictions, at least some large listed SOEs follow such practice and establish external nomination committees attached to their annual general meeting of shareholders (AGM), which ultimately has the right to appoint the board. In most cases, non-state shareholders should take part in the committee and relevant decision-making, and advisory bodies should have a prior consultation with non-government shareholders concerning all board appointments. In **Belgium**, the Act of December 2015 stipulates that all directors are appointed by shareholders at a shareholders' meeting and the State has a right to propose candidates to the nomination committee pro rata its shareholdership. In **Norway** and **Finland**, nominations to the boards of listed SOEs are made via nomination committees elected by the AGM made up of state representatives, as well as non-state shareholders. In **Latvia**, nomination committees should be established to decide on a detailed criteria and evaluation procedure, conduct evaluation of candidates and nominate candidates for election. In addition, specific requirements for potential participants in nomination committees are set out by government regulation. In **China, Korea**, **Malaysia** and **Sweden,** the boards can seek expertise from management recruitment agencies (or head-hunters) and/or create a "directors' pool" based on rigorous qualification criteria. In **Sweden**, the boards typically use headhunters when recruiting CEOs. The shareholder is responsible for board nomination and has two internal headhunters recruiting board members.

Box 4.1. Board nomination practices in selected countries

Austria. Generally, the Federal ministry which exercises the ownership function is responsible for the appointment of board members if the SOE is under the legal form of a limited liability company (GmbH). The members of the management board of a stock corporation (Aktiengesellschaft) are appointed by the supervisory board. In some cases, nomination rights for boards of all federal ministries are provided either by law or by agreement. Exception can be found in specific cases (eg. Oesterreichische Nationalbank (OeNB) – central bank of the Republic of Austria) where the founding law of the SOE states that the Federal Cabinet is responsible for the appointment of SOE board members.

Estonia. The nomination committee evaluates the necessary competencies that are needed on the Supervisory Board in order to reach the financial and strategic objectives set by the governing ministry. Based on the needed competencies, the nomination committee searches for suitable candidates (who do not have potentially conflicting interests) and makes a recommendation to the governing ministry. The responsible minister within the governing ministry takes the formal decision based on the committee's recommendation. In justified cases, the minister has a right to disagree with the proposal, in which case the committee makes a new proposal within 15 days from learning of the disagreement.

Finland. Board nomination is prepared by OSD or by respective line ministries. The process starts well in advance and includes the board work and composition evaluation. Board tenure is recommended to be 5-7 years maximum. The rotation on the boards is reviewed annually by OSD or respective ministries. In listed companies, there is a nomination committee making the board selection and if the state is one of the three biggest shareholders, it participates in the board member selection process with other institutional shareholders. Finally, the board selection proposal is jointly reviewed by the line minister and OSD. Listed companies make the decisions and proposals based on the unanimous decisions in the nomination committees. Annual competence and tenure analysis, and applicant profile

drafting and search are done by external consultants. OSD reviews shortlisted candidates, and interviews of 2-3 main candidates. Based on a consultation with the line minister, OSD submits its proposal to the AGM for selection.

Greece. In SOEs that are subsidiaries of the HCAP (except HFSF), board members are appointed by their General Assembly, where the HCAP's Board of Directors exercises the shareholder's rights for HCAP (including the nomination of the members of their boards). In SOEs supervised by the Ministry of Finance and the respective supervised Ministry, board members are appointed by Joint Ministerial Decisions of both ministries. Moreover, for a number of SOEs, the SOEs Committee of the Hellenic Parliament gives opinion to the Minister on the suitability of nominations for the chairmen and managing directors. In addition, in certain SOEs, board members are appointed by the shareholders' general assembly.

New Zealand. The Treasury runs a transparent process to identify and recommend candidates for appointment to SOE boards and Shareholding Ministers can also identify suitable candidates to be shortlisted. This process includes public advertisements, targeted searches for candidates that may meet the identified criteria of particular board vacancies, and interviews by a panel (comprising the company chair, a director and representatives from the Treasury). Recommendations of preferred candidates are then passed to shareholding Ministers and they make final decisions on appointments. The Treasury also plays an advisory role on board, remuneration, evaluation, and skills development activities.

Iceland. The Ministry of Finance nominates and elects all board members of SOEs that fall within its purview at the relevant annual meetings, which includes the large majority of group C companies. The same applies to boards in companies owned by other ministries and institutions. The board of Icelandic State Financial Investments nominates a special committee whose responsibility is to nominate members to the board of financial undertakings, but the institution elects the board members at an annual meeting. In very select few cases, in group B, and two cases in group C, parliament and/or more than one ministry is involved in the nominating or appointment process. In the case of parliament, they will appoint a board member directly, in case of different ministries, the ministries nominate candidates, but the ministry with the ownership role, elects the board members at an annual meeting.

Israel. Candidates could be proposed both by the line Minister and the Minister of Finance. Appointments are made jointly by the Minister of Finance and the line Minister. The board elects the Chairperson of the board subject to the approval of the Ministers. An "Appointments' Examination Committee" examines all appointments to ensure that mandatory qualification requirements (as detailed in the Government Companies Law) are met, as well as the prohibition of personal and other conflicts of interest with the company and its affairs. For the public representative, the GCA initiated a process of "Directors Pool", which began in 2014. The process enables the Israeli public to apply for a board member position in a public, competitive, equalitarian and professional process. After assessing and ranking the skills of the applicants, the top ranked candidates are proposed to the line minister and the minister of finance by the GCA to serve as directors on the boards. If the ministers approve the proposed candidate, then the candidate is suggested to the appointments examination committee.

Latvia. The nomination process of supervisory board members is initiated by shareholders, who indicate to the CSCC a need to elect new supervisory board members if there are plans to replace some or all of the incumbent members, or if some members have stepped down or were dismissed by shareholders. CSCC delegates its power to the nomination committee, and shareholders invite independent experts and observers to become members of the nomination committee. Shareholders approve the composition of the nomination committee by separate decision. The nomination committee is to be led by the shareholders' delegated representative (or by the supervisory board's delegated representative, if a supervisory board is established) in case of nomination of the executive board or by the CSCC's representative in case of nomination of the supervisory board. After approval of the

nomination committee, it meets to discuss and to approve detailed rules regarding the nomination procedure, and a text of job advertisement to be published on the webpage of the shareholder, webpage of the SOE and CSCC, as well as on other relevant public sources of information to ensure a sufficient number of applicants. Recruitment companies should be used, for example, to help with the search of potential candidates to be invited to submit their applications but also other tasks could be assigned to the recruitment company such as competence assessment, feedback on candidates, etc. The nomination committee also has to receive relevant information on the enterprise, including the overview of the strategy of an enterprise, excluding only commercially confidential information (i.e. information whose publication might prejudice the commercial interests of the SOE).

Lithuania. State ownership entities are responsible for the appointment of SOE board members. The board members of SOE are elected by the general meeting of shareholders, where the shareholders vote according to the number of votes they hold. State representatives during the shareholders meeting vote based on the decision of the nomination committee regarding independent board members, and based on the decision by the head of the ownership entity in other cases (with regard to non-independent members).

Philippines. Section 15 of R.A. No. 10149 provides that an Appointive Director shall be appointed by the President of the Philippines from a shortlist prepared by the the state ownership entity (GCG). Under GCG Memorandum Circular (M.C.) No. 2012-04,7 the state ownership entity receives nominees for appointment to SOE Governing Boards from the following: the Office of the President (OP) through the Office of the Executive Secretary (OES) or the Presidential Management Staff (PMS); The Department or Government Agency to which the SOE is attached; Board of Directors/Trustees of the Parent SOE, when applicable; Sectoral organisations for Appointive Members who are designated to represent such sector, when applicable; and Stakeholder groups affected by the SOE. Once the state ownership entity receives the nominees, it evaluates whether they are qualified based on the qualifications and disqualifications provided under GCG M.C. No. 2012-05 or “The Fit and Proper Rule.” If found to be qualified, a nominee will be included in the shortlist of nominees to be submitted to the OP for the President’s consideration. Once the members of the GOCC Governing Board have been appointed by the President of the Philippines, they may elect the CEO from among themselves based on Section 18 of R.A. No. 10149.

United Kingdom. In most cases, SOEs in the UKGI portfolio will appoint board directors based on an SOE-led process using external third-party head-hunters. A UKGI employee, usually the UKGI shareholder non-executive director (NED) for the relevant asset, will also form part of the interview panel. UKGI is also involved in determining the selection criteria for individual board roles at the outset in order to ensure that candidates have the requisite skills and experience to balance the board properly. Shareholder/Ministerial consent will be required before the SOE’s preferred candidate can be appointed. In certain instances, the appointment of board directors, such as the Chairs of certain SOEs, will be a role where the Minister has to make the appointment and one which is regulated by the Office for the Commissioner of Public Appointments. All appointments should follow the principles articulated in the Governance Code for Public Appointments which include that appointments are based on merit and run in an open and transparent way.

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2020[3]), and submissions from national authorities

Board composition and size

The *SOE Guidelines* recommend that SOE board composition should allow the exercise of objective and independent judgement in order to enable the board to effectively guide the SOE toward serving the interests of both the company and its shareholder. As such, the *Guidelines* recommend ensuring

transparency regarding the rules and principles guiding SOE board composition. This could include rules for the inclusion of ex-officio directors, public officials, civil servants, employee representatives and independent directors. This entails, for example, deciding on the number of state representatives to include on the board, as well as the types of skills and characteristics that are required from directors (Table 4.2).

With widespread commercialisation of SOEs, it is recommended to solicit greater involvement of independent directors and persons with relevant professional and commercial experience. A majority of the surveyed jurisdictions, SOEs have a mix of directors sitting on their boards, including state representatives, other individuals charged with pursuing the public interest, and independent directors. State representation on the board is often practiced in cases where SOEs have important public policy objectives.

Large and/or commercially-oriented SOEs may also be required to appoint a certain number of independent directors to the board, in line with the same or similar rules for private companies. For example, in the **United Kingdom**, the Combined Code on Corporate Governance – which applies to both private and state-owned enterprises – mandates a majority of independent directors on the board. In **Sweden**, the Code on Corporate Governance – which applies to both private and state-owned companies – requires a majority of independent directors on boards. Similar rules also apply in **Austria**, **Germany**, **Kazakhstan**, **Korea**, **Latvia**, the **Netherlands**, **New Zealand** and **Norway**. In **Latvia**, government regulation requires that at least half of directors are independent ones. In **Korea**, independent directors in listed SOEs with more than USD 1.8 billion (2 trillion won) should represent the majority of the (non-executive) directors. In other listed SOEs whose asset size does not exceed USD 1.8 billion, at least one-fourth of all directors should be independent ones. In all cases, relevant commercial or financial expertise is essential.

To avoid undue state influence on the board, some jurisdictions employ measures to limit the number of public servants serving on SOE boards, such as quotas for public servants (like in **Finland**), or explicit exceptions for when representatives from the state enterprise ownership function can be appointed to the board such as in **Sweden**. There is growing consensus that, under no circumstances, should ministers, state secretaries, or other direct representatives of – or parties closely related to – the executive power be represented on SOE boards.

It is also considered good practice to strive toward gender diversity on boards. Continued or stronger emphasis on gender equality on SOE boards is noted in some of the surveyed countries that have adopted rules or recommendations fostering gender diversity – including disclosure requirements, binding quotas and voluntary targets. Overall, 29 % of the 49 surveyed jurisdictions have adopted mandatory quotas for SOEs setting a minimum number or percentage of women on SOE boards, while a smaller share (16 %) of jurisdictions have taken more flexible approach such as voluntary goals or targets. Several jurisdictions have put in place mandatory quotas specifically for SOEs (**Colombia**, **Costa Rica**, **Finland**, **Iceland**, **Ireland**, **Slovenia** and **South Africa**). Out of the 49 surveyed jurisdictions, 26 report no provisions in place (Table 4.2). Overall, provisions specific to SOEs are more ambitious than those set for listed companies, with quotas in four jurisdictions set at 40% or higher (**Costa Rica**, **Finland**, **Germany**, **Iceland** and **Slovenia**) (OECD, 2021[18]).

Some jurisdictions have put in place rules driving board diversity with respect to ethnicity and languages. For instance, **Israel** and **New Zealand** rely on indicative rules encouraging ethnic minority representation on SOE boards, while **Switzerland** has set out indicative values for the representation of its national languages (German 62.2%, French 22.9%, Italian 8%, Rhaeto-Romanic 0.5%).

Moreover, to ensure transparency regarding principles guiding SOE board composition, a majority of the surveyed countries have adopted formal legal arrangements (including through legal provisions or corporate bylaws) that ensure employee representation (Table 4.2). For example, in **Sweden**, employees (usually through their unions) have the right to appoint two members of the board if the company has at least 25 employees, and three members if the company has more than 1000 employees. Overall, the

number of employee members should not be more than 50% of the total. Employees can appoint alternates as well. Likewise, **Brazil** has a provision requiring at least one employee representative on the board, applicable only to federal SOEs with at least 200 employees including listed SOEs.

Determining the ideal board size is also important to ensuring a well functioning, effective and professional board. In this respect, many countries limit the number of board positions while promoting board diversity. The size of SOE boards depends on a number of factors, including an SOE's size, degree of commercialisation, risk profile, and areas of operation, which means there is no one-size-fits-all approach for determining board size in the public sector. As a general rule, board size ranges from 3 members in small and/or non-commercial SOEs, to around 20 members in the largest and most complex SOEs – which would typically include financial institutions and airlines (Table 4.3). An earlier OECD publication arrived at the tentative conclusion that in most SOEs a board size of 5-8 members is normally considered appropriate (OECD, 2013[19]).

Table 4.2. SOE board composition

Country	Independent directors	State appointees on boards	Employee representatives on boards	Rules / recommendations underpinning gender diversity on SOE boards
Argentina	Not common	Yes	Yes	
Australia	Yes (Full board)	No	No	
Austria	Yes (almost all)	Yes (proportional to ownership)	Yes (one-third)	30% quota for SOEs and listed companies
Belgium	Yes	Yes	No	33% quota for SOEs and listed companies
Brazil	Yes. According to art. 22 in Law 13.303, at least 25% of the board should be formed of independent members.	Yes (majority of appointees)	Yes	
Bulgaria	Yes (min. 1/3)	Yes	No	
Canada	Yes	Yes	No	
Chile	Not required, but common practice		In some SOEs	Target of not less than 40% and no more than 60% for SOEs
China	Yes but no formal requirement for the percentage	No	N.A.	
Colombia	Yes (min. 25 per cent)			30% quota for SOEs
Costa Rica	Not required, but common practice			50% quota or SOEs
Croatia	Yes but no formal definition of independence nor requirement of min. percentage	Yes (majority of appointees)	Yes (1 member)	
Czech Republic	Yes (majority)	Yes (proportional to ownership)	Yes (one- third)	
Denmark	Yes (almost all)	No	Yes (one-third)	Target of 40%/60% of either gender for listed companies and SOEs
Estonia		No		
Finland	Yes (majority)	Yes	Yes (sometimes)	Quota of 40% for SOEs
France	Yes (one-third)	Yes (depending on the degree of ownership)	Yes (one-third)	Quota of 40% for listed companies and SOEs

Country	Independent directors	State appointees on boards	Employee representatives on boards	Rules / recommendations underpinning gender diversity on SOE boards
Germany	Yes (almost all)	Yes (up to 2 per involved ministry)	Voluntarily/one third/half (depending on the type of corporation, number of employees and applicable regime)	50% quota for supervisory board members designated by the Federal government. In addition, from April 2022 on, 30 % female quota for the supervisory board of thoses SOEs that are majority holdings of the Federation.
Greece	Yes (min. 2)	Yes	Yes (1 member)	
Hungary	Yes	Yes	Yes	
Iceland			No	Quota of 40%/60% of either gender for SOEs
India	Yes (one-third)	Yes	No	
Ireland			Yes (one-third)	Target of 40% for SOEs
Israel		Yes	Yes	Target of 50% for SOEs
Italy		No (observer, no voting rights)	No	Quota of 40% for listed companies and SOEs
Japan		No	No	
Korea	Yes (more than a half of the directors should be independent directors in public corporations and quasi- governmental institutions of which asset size exceeds USD 1.8 billion)	No	No	
Latvia	Yes (at least half)	Not forbidden	No	
Lithuania			No	
Malaysia	No formal requirement	Yes	No	Target of 30% for SOEs and listed companies
Mexico	No	Yes (majority)	Yes (for a few selected SOEs)	2019 constitutional reform created the principle of gender parity, but rules for SOEs still need to be revised for the parity to be compulsory on boards
Morocco	Yes (one quarter)	Yes	No	
Netherlands	Yes	No	Yes (one- third)	Target of 30%
New Zealand	Yes (almost all)*	No	No	
Norway	Yes (majority)	No	Yes (up to one-third)	Quota of 40% of each gender
Peru	Yes	Yes	No	Quota of 20%
Philippines				
Poland	Yes	Yes	Yes (2-4 members & up to 2/5)	
Portugal			Yes (law not implemented)	Quota of 30% for SOEs
Slovak Republic	Yes (majority)	Yes (proportional to ownership)	Yes (half)	
Slovenia			Yes (1/4 up to ½)	Quota of 40% for SOEs
South Africa	Yes (economically important and listed)	Yes		Quota of 30% for SOEs
Spain	50% target	Yes	Yes (2-3 members)	

Country	Independent directors	State appointees on boards	Employee representatives on boards	Rules / recommendations underpinning gender diversity on SOE boards
Sweden	Yes (90 per cent)	No. Only Investment directors and no other government officials are on boards.	Yes (2 members, up to half)	Target of 40% of either gender for the porfolio of SOEs
Switzerland	Yes	Yes		Target of 30% for SOEs
Turkey	No	Yes	No	
Ukraine				
United Kingdom	Yes (majority)	Yes (one non- Exec.)	No	
United States			No	

Source: OECD analysis, based on information reported in (OECD, 2018[6]; OECD, 2018[20]; OECD, 2020[2]; OECD, 2020[3]; OECD, 2020[4]).

Table 4.3. Practices on SOE board size

	Maximum size	Minimum
Argentina	12	3
Austria	20	3
Brazil	11	7
Bulgaria	5 (larger boards possible but subject to the approval of the Council of Ministers)	3
Canada	12	9
Chile	7	3
China	19	5
Costa Rica	9	5
Croatia	(No max. but always odd number of members)	3
Denmark	-	3
Estonia	4	
Finland	10	3
France	18	9
Greece	-	3
Hungary	7	3
Israel	12	5
Italy	5	3
Kazakhstan	-	3
Korea	15	-
Latvia	7	3
Lithuania	15	3
Mexico	15	5
Netherlands	-	-
New Zealand	9	2
Norway	-	Depends on the form of corporation
Peru	7	3
Poland	-	3-5
Portugal	-	-
Romania	9	3
Slovenia	-	3
Spain	15	-

	Maximum size	Minimum
Sweden	9 (excluding employee representatives)	3 (excluding employee representatives)
Switzerland	9	5
Turkey	-	6
United Kingdom	-	-

Note: "-" means "no minimum/maximum threshold".
Source: OECD analysis, based on information reported in (OECD, 2018[6]; OECD, 2020[2]; OECD, 2020[3]; OECD, 2020[4]).

Board training

The *SOE Guidelines* recommend that governments encourage on-going professional development, particularly where technical or specific training may be necessary. A majority of the reporting countries complement their induction sessions by encouraging on-going professional development for directors. These trainings focus on thematic areas (e.g. accounting standards, tax codes, or laws, regulations and other areas of relevance) where complementary training is needed, or where specific areas are relevant to the operation of the board.

For instance, **New Zealand**'s Commercial Operations Group organises inductions for both new and recurrent directors. Conversely, in **Sweden**, there is no specific program organised by the ownership entity to train newly appointed SOE directors, as members are reportedly recruited based on their professional background. However, individual SOE board members can voluntarily sign up for training programmes offered by institutes of directors. In addition, trade unions can often provide training for employee representatives appointed to SOE boards, especially where such representatives have no prior board experience. In **Korea**, individual SOEs provide mandatory education, induction and training programmes for directors (executive and non-executive) and auditors (executive and non-executive) on integrity and anti-corruption, prevention of violence, and leadership, among other topics. The MOEF also provides educational programs and training manuals for non-executive directors and auditors, and professional associations and directors' institutes provide tailored education courses for managers in public institutions.

In **Malaysia**, new directors are required to attend board training within six months of their appointment. Training programs focus on SOEs' oversight role, financial language in the boardroom and performance management. While some are organised and paid for by the Ministries, main costs are covered by the relevant companies. Specific trainings organised by institutes of directors are also tailored to board committees (such as audit, nomination, remuneration or risk).

Board and key executive remuneration

Remuneration schemes for SOE boards and key executives should also reflect market conditions to the extent that this is necessary to attract and retain qualified candidates. Remuneration levels potentially impact candidate quality, for better and for worse. Out of the 41 surveyed jurisdictions, around two-thirds have adopted statutory or policy limits on remuneration of SOE boards and key executives (e.g. **Czech Republic**, **Finland**, **Hungary**, **Italy**, **Latvia**, **Lithuania**, **Norway**, **Spain** and **Switzerland**) (Box 4.2). In **Sweden**, the owner proposes and decides on remuneration for directors at the AGM and keeps the director pay below market levels. In **Finland**, the ownership entity sets the limits for the maximum acceptable variable executive remuneration, which varies across categories of companies, as defined by the ownership entity.

Several countries have made attempts to better align SOE board and executive remuneration with market levels. In the case of **Estonia**, the Nomination Committee makes proposals on supervisory board members' remuneration based on market conditions in peer groups. In **Latvia**, according the Cabinet Regulation adopted in 2015, the average monthly national remuneration in the previous year is used as a reference for setting caps on remuneration of SOE boards and executive managers. Previously, the

average monthly remuneration of public sector employees in the previous year was used as a reference point for calculating maximum board and executive remuneration levels.

Box 4.2. Examples of national practices on remuneration of SOE boards and/or key executives

Italy. Art 11. Para 6 of Legislative Decree 175/2016 provides that the maximum annual compensation of any manager/employee of SOEs cannot exceed 240,000 euros, apart from listed companies and those with listed financial instruments issued. The above-mentioned law also states that the Minister of the Economy and Finance will formulate a ministerial decree, to further define thresholds for lower compensation levels, which will eventually be applied to the SOEs (establishing specific economic parameters from the classification of a "five group ranking"). In order to determine compensation of executive directors, the Ministerial Decree 166/2013 still applies until the above mentioned decree is issued: that is, a classification of SOEs into three groups, determined on the basis of relevant indicators, aimed at evaluating the organisational and managerial complexity and the economic importance of the companies involved. Such indicators to be derived from the official financial statements – are mainly quantitative, reflecting value of production; investments; and number of employees.

Norway. The remuneration of board members is decided at the AGM. According to the Norwegian state ownership policy, the Norwegian state emphasises the following factors in its assessment of the board's remuneration: (i) That the remuneration reflects the board's responsibility, expertise, time commitment and the complexity of the company's activities, in accordance with the Norwegian Code of Practice for Corporate Governance. (ii) That the remuneration is at a moderate level. This means that the remuneration shall not be higher than what is necessary to ensure relevant expertise on the board, and that it should reflect the board's responsibilities and workload. Comparable Norwegian companies will normally be used as a frame of reference when stipulating the remuneration.

Switzerland. The Federal Council adopted measures in late 2016 in order to efficiently steer the remuneration of board members and senior executives. In June 2017, the Federal Council adopted model provisions for the Articles of association and explanatory notes (terms of incorporation, statutes) in order to adopt the above-mentioned measures. The provisions apply to unlisted private limited companies controlled by the Confederation in terms of capital and voting rights and domiciled in Switzerland. Annually in advance, the General Assembly (GA) has the possibility to fix an upper limit for the reumuneration of the board, its president as well as for the executive committee. Additionally, the General Assembly can fix bonuses/variable salary components and other forms of compensation. The variable salary components of members of the executive committee may not exceed 50% of the fixed remuneration and other forms of compensation may not exceed 10% of the fixed remuneration. Nevertheless, discussions in Parliament are still ongoing in order to further tighten the respective regulations. Furthermore in 2016 and 2018, Art. 8k of the Government and Administration Organisation Decree has been revised. Starting in Spring 2019, vested interests (interest ties) are published in a public database by the Federal Chancellery. (see https://www.admin.ch/ch/d/cf/ko/index_kommart.html).

Source: submissions from national authorities

Board evaluations

Regular board evaluations are considered a good practice. Board evaluations help establish a comprehensive view of the board's overall functioning and identify any needs that could be addressed through future nominations. Evaluations can be used to assess and improve board performance, in particular by providing the Chair and the ownership function with valuable information concerning possible

changes to board composition. Evaluations may concern individual directors and/or the board as a whole. It is recommended that evaluation results feed back into the board nomination process. Evaluation practices range from informal evaluations conducted by the Chair, to formal self-evaluations, to formal evaluations conducted by external experts and facilitators (Table 4.4).

Administrations that run SOEs relatively close to general government tend to adopt top-down approaches through which the ownership function evaluates the board as a whole in light of corporate objectives. More commercial SOEs are more likely to rely on self-evaluations. Overall, board evaluation assessment criteria are generally both mechanistic (i.e. attendance, participation in board committees) and qualitative (i.e. contribution to the board's collective performance).

In **Sweden**, boards are mandated to carry out annual board evaluations according to the state ownership policy. The chair communicates the findings to the extent that they are relevant to the board nomination process. Internal evaluations are more common but external facilitators are often used to evaluate the board as a whole. Occasionally, evaluations focus on individual directors but there is no particular evaluation on the role of the chair. In **Israel**, board members are evaluated by the chairman of the board, other members of the board, and by the board members themselves. In **Estonia**, under the Nomination Committee's initiative, self-assessment of supervisory boards is required to take place in conjunction with the evaluation by the Nomination Committee.

Some countries undertake a top-down evaluation of individual SOE boards in an ad-hoc fashion. **Chile**'s ownership agency coordinates the performance reviews for all SOE boards of directors, but outsources much of the evaluation work to corporate governance centres. In **Poland**, the ministry of treasury periodically evaluates supervisory boards of enterprises within the ministry's portfolio, based on documentation prepared by the boards of directors and submitted to the ministry. At the same time, in many cases, audit bodies in many surveyed countries have no role in board evaluations.

Regarding the SOEs with public policy objectives which are under the supervision of sectoral ministries, an evaluation is usually made by the appropriate ministry. In **Switzerland**, the individual members of the board declare their willingness to undergo further training and periodically review the functioning of the board (self-assessment), and the assessment feedback is provided to the Chair.

Table 4.4. SOE board evaluation frameworks

Country	Top-down evaluation by ownership function	Have formal requirements regarding evaluation processes and procedures been established?	Self-evaluation of performance by the board	Are external facilitators involved?	Do the results of the evaluation process play a role in board nominations?
Argentina	No	No	Formal	No	Yes
Australia	No	Yes	Formal (annually)	Yes (every 2 years)	
Austria	No	No		No	
Belgium	No	No	Formal	No	
Brazil	No	Yes (survey)	Formal	No	No
Canada	Ad hoc	Yes (non-binding guidelines)	Informal	No	Yes (informally)
Chile	Yes (annual)	Yes (survey)	Formal	Yes	Yes
China	Yes	Yes	Informal	No	Yes
Colombia			Formal (Listed only)		No (with exceptions)
Costa Rica	No	Yes (binding guidelines)	Formal (annually)	No	Yes (informally)
Czech Republic	Ad hoc	Yes	Formal	Yes	Yes
Denmark	No	Ad hoc (survey)	Formal or Informal	No	Yes

Country	Top-down evaluation by ownership function	Have formal requirements regarding evaluation processes and procedures been established?	Self-evaluation of performance by the board	Are external facilitators involved?	Do the results of the evaluation process play a role in board nominations?
Estonia	No		Formal (Listed only)		Yes
Finland	Yes (annual)	Yes	Formal or informal	Yes	Yes (informally)
Greece	Yes	Yes (Audit Committee, Executive board members)	Formal (Listed only)		No
Hungary	Yes (annual)	No	No	No	Yes
India	No	Yes	Informal	No	Yes (informally)
Israel		Yes	Yes		No
Kazakhstan	Yes	Yes		No	
Korea	Yes	No	Informal	No	Yes (informally)
Latvia	Yes	No	Formal	No	
Lithuania			Formal		Yes (informally)
Malaysia	No	No	Informal	Recommended. Not yet in practice	No
Mexico	No (with exceptions)	Yes (a few companies)	No	Yes	No
Morocco	No	Yes	Formal	Recommended. Not yet in practice	No
Netherlands	Yes	Yes	Yes	Yes	Yes
New Zealand	No	No	Formal		Yes
Norway	Yes	Yes	Informal	No (not regularly)	Yes
Peru	Yes	Yes	Formal	No	No
Poland	Periodic		No		Yes (informally)
Portugal	No	No	Formal	No	Yes
Romania	-	-	-	-	Yes
Russia			Formal (Listed only)		
Slovenia	No	Yes (Manual)	Formal	No	Yes
Sweden	Yes (annual)	Yes	Formal	Yes (regularly in most companies)	Yes (informally, chair talks to owner)
Switzerland	Yes	No	Informal	No	Yes (informally)
Tunisia					
Turkey	No	No	No	No	No
Ukraine	Ad hoc	No	No	No	No
United Kingdom	Ad hoc	No	Informal	Yes (as necessary)	Yes (informally)
Viet Nam	Yes	Yes	Informal	No	Yes (informally)

Source: OECD, based on information provided by national authorities, and information reported in (OECD, 2018[6]; OECD, 2018[20]).

Responsibilities of SOE boards regarding risk oversight

While SOEs' internal risk management systems may reflect their legal and regulatory environment and the expectations of the state ownership function, they are ultimately implemented at the company level. Responsibilities of SOE boards regarding risk oversight include the requirement in around 40% of the 32 surveyed countries for at least large SOEs to establish a specialised board committee to oversee implementation of the SOE's risk management measures. In contrast, more than half of listed companies in OECD member and partner countries are required either by law, recommendation or listing rules to establish such committees (OECD, 2021[18]). In most of the reviewed countries that have this requirement for SOEs, companies meeting a certain size threshold or taking a certain legal form are most often required

to assign risk oversight to an audit and/or risk committee.[13] The source for this requirement varies across countries, but can include provisions in commercial laws and codes that also apply to SOEs; SOE-specific laws or binding government resolutions or decrees; ownership guidelines or policies; or SOE codes of corporate governance.

Boards of directors of SOEs in half of the reviewed countries in this section also required to establish and oversee the implementation of internal risk management systems. In several countries, this requirement is set forth in commercial laws and is applicable to all commercial enterprises, including SOEs, or in corporate governance codes for listed companies, where these rules apply to SOEs (such as in the **Netherlands** and **Sweden**). However, in a number of other jurisdictions, SOE-specific rules vest SOE boards with this particular responsibility. This kind of SOE-specific requirement appears most often in SOE-specific government resolution/decree or policy document, and/or in SOE codes of corporate governance.[14] In several reporting countries, these systems are subject to internal audit and to external audit (in eight countries).[15]

National practices for identifying and reporting risks to the board are fairly standard and generally reflect private sector practices. Risks are most often identified by the audit or accounting function, by a specialised risk committee, or by management. These risks are usually reported to the board by management or a specialised committee. Risks are most commonly reviewed by the board on an annual, quarterly, and/or on an as-needed basis. At the level of SOE management, five countries require at least large SOEs to employ specialised risk staff (i.e. a risk officer) (**Germany**, **Ireland**, **Israel**, **Kazakhstan** and **Philippines**), while at least large SOEs in 11 reporting countries voluntarily establish a risk function within the enterprise (**Brazil**, **Chile**, **China**, **Czech Republic**, **Denmark**, **Finland**, **Latvia**, **New Zealand**, **Norway**, **Sweden** and **Switzerland**). This function can be voluntarily assigned to specialised risk staff; to senior management (such as the CEO or CFO); and/or to specific business units (Table 4.5).

Table 4.5. Practices for identifying and reporting risks to the SOE board

Country	*Body responsible for identifying risks*	*Body responsible for reporting risks to the board*	*Time period for submitting reports to the board*
Argentina	Risk committee	Risk committee Senior management	Annually As needed
Australia	Management/Audit committees	Audit and risk committee	Quarterly (progress reports), Annually (annual reports)
Brazil	Audit/accounting	Audit committee Internal audit Risk / compliance function	
Canada	Management (internal control regime)	Management (internal control regime)	Annually, semi-annual or quarterly
Chile	Audit/accounting	Internal audit Risk/compliance function Audit committee	Quarterly Annually
China	Management Risk committee	Management	Annually Ad hoc/as needed

13 These requirements refer to those applicable to SOEs regardless of whether they are listed or whether they operate in the financial sector. In nearly all responding jurisdictions, all listed entities and all financial sector entities—private sector or government-owned—were required to establish some kind of body at the level of the board for risk oversight.

14 Additional risk-management requirements often apply to listed SOEs and SOEs operating in highly regulated or higher-risk sectors like the finance industry.

15 As noted above, the degree of stringency of these requirements (i.e. obligations versus recommendations) varies across countries and sectors, and according to whether SOEs are listed. Countries referenced here are those that apply these requirements to SOEs regardless of – or in addition to – requirements on SOEs that are listed or operating in sectors like the financial sector.

Country	*Body responsible for identifying risks*	*Body responsible for reporting risks to the board*	*Time period for submitting reports to the board*
Czech Republic			Quarterly Annually As needed
Denmark	Management Audit/accounting Whistle-blowers	Audit Management	Monthly Quarterly
Finland	Audit Management Risk committee	Audit Management Risk committee	Annually As needed
France	Risk committee Audit/accounting	Risk committee	Quarterly
Germany	Audit/accounting	Management Audit	Annually
Greece	Audit/accounting Internal auditors	Audit Committee Internal auditors	Quarterly/ As needed
Hungary	Audit/Accounting /Management/Internal auditors	Management	Annually/ad hoc-as needed
Israel	Risk function Risk committee Audit/accounting	Risk function Risk committee Audit/accounting	Annually
Kazakhstan	Management	Sr. management	Quarterly
Korea	Management Audit / accounting	Audit	Annually
Latvia	Management, Audit	Audit Management	Annually
Lithuania	Audit/accounting	Management	Annually
Mexico	Management/Risk committee (for finance institutions and energy enterprises)	Sr. management	Annually
Netherlands	Audit/accounting	Management	Annually
Norway	Management Audit/accounting Whistle-blowers	Audit Management	Annually As needed
Peru	Risk Committee	CEO/Risk Manager	Quarterly/Semi-annually/Annually
Philippines	Risk function	Risk function	Annually As needed
Poland	Management Audit	Management Audit	Annually As needed
Slovenia	Management	Management Audit committee	Semi-annually Annually As needed
Spain	Management Audit/accounting	Management Audit/accounting	
Sweden	Audit/accounting Finance and Risk management	Management Audit committee	At least annually
Switzerland		Compliance / risk function	Semi-annually
Turkey	Management Risk committee	Management Risk committee	Every two months/ As needed
Ukraine	Risk committee Audit	Audit committee	Twice annually at least
United Kingdom	Audit/accounting Risk committee	Risk committee	Quarterly

Source: OECD analysis, based on information reported in *(OECD, 2016[21]; OECD, 2018[6])*.

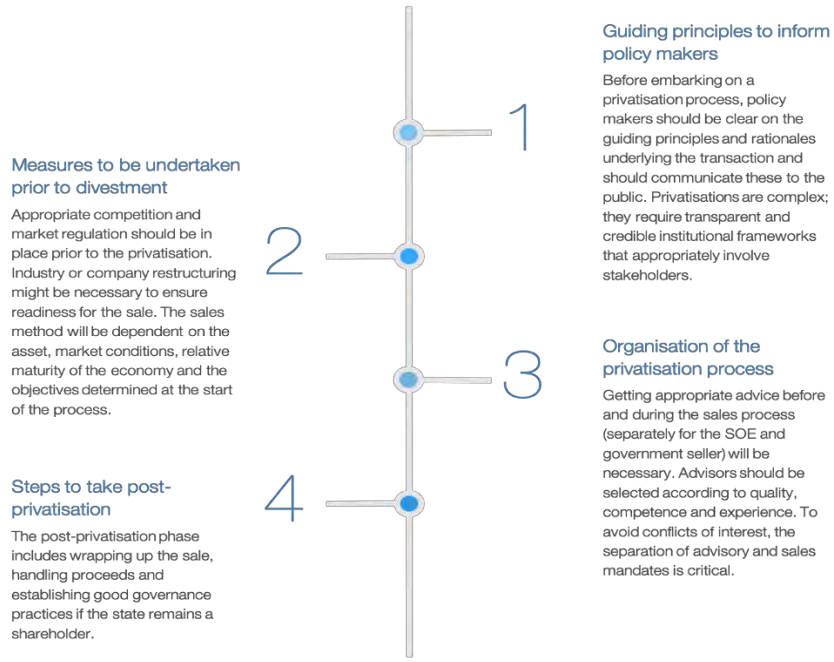
5 Privatisation and the broadening of ownership of SOEs

The framework for the privatisation process

SOE ownership should focus on maximising value for society through an efficient allocation of resources and listing of SOEs on the stock market is a mechanism to raise funding efficiently. It requires raising the level of accountability and transparency, and subjecting the company and its management to higher degree of shareholder scrutiny and/or market discipline over the medium-term.

This section takes stock of evolving national practices in 24 countries on privatisation and the broadening of ownership of SOEs that have recent privatisation experiences. It documents the main findings of the *OECD Working Party on State Ownership and Privatisation Practices*' project on privatisation and broadening of ownership of SOEs. Drawing on the internationally agreed *SOE Guidelines* and decades' worth of national experience across both OECD members and partner economies, the ***Policy Maker's Guide to Privatisation*** provides practical advice to newcomers on key stages of the process, from inception to post-privatisation (Figure 5.1). With global privatisation activity trending upwards, the Guide aims at supporting policy-makers in their decision-making process in the years to come.

Figure 5.1. **Key findings from "A Policy Maker's Guide to Privatisation"**



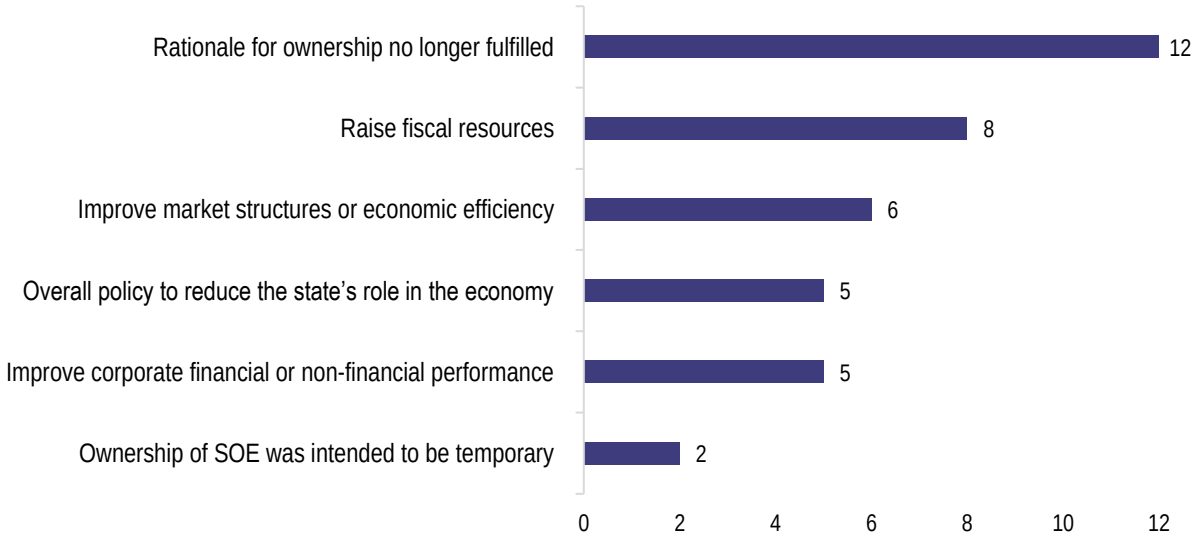
Source: (OECD, 2019[22]).

Motives for privatisation

Motives for privatisation are similar across countries, but certain tendencies can nevertheless be ascertained. Two of the main dividing factors are: 1) whether the privatising country has a large and sophisticated economy, and 2) whether or not the government has issued a state ownership policy. Where an ownership policy exists, the privatisation of an SOE will typically be justified by the fact that the company no longer falls within the rationale for state ownership established by the policy. In mature economies, the rationales for ownership are mostly limited to the need to remedy market failure and to provide goods and services for which there is no likely private supplier. Privatisation has typically been motivated by changing market conditions where SOEs operate, typically including the entrance of private competitors.

In emerging economies, the rationales for ownership are sometimes defined more broadly, and may, for instance, include the role of SOEs in national development strategies, the provision of a broader palette of public services, safeguarding national ownership of enterprises and, especially in post-transition economies, an ongoing effort to rebalance the public and private shares of the productive economy. Countries also differ with respect to the "rigour" they apply when assessing what to do with an SOE no longer fully complying with the stated rationale for ownership. Many governments would tend to see such companies as merely "candidates" for privatisation.

Figure 5.2. National motives for privatisation since 2008



Note: Based on questionnaire responses from 18 jurisdictions. All but two jurisdictions have reported multiple motives.
Source: (OECD, 2018[23]).

Overall laws, rules and policies

Laws and other formal rules on privatisation vary considerably across jurisdictions. Some countries, especially those that still have ongoing privatisation programmes, have one unifying privatisation law while others have a mosaic of laws. More infrequent privatisers mostly have no overarching law but, in many cases, pass a privatisation bill for each transaction. A variation of the last point is **Japan** which needs legal authorisation for privatisation, but may combine this with other legislative acts. Finally, some countries apply a more "public finance approach" according to which the conversion of corporate assets into financial assets is mostly a question of value-for-money which does not require legal measures. In these cases, however, parliamentary approval is usually required. Relatively few countries have a formalised, recurrent

review procedure to establish whether individual SOEs should be privatised. In **Gemany**, according to the Federal Budget Code, a review of ownership takes place every two years. Large privatisation processes also involve separate privatisation laws. Other countries which have issued a state ownership policy may review this policy regularly and, in the process, reassess the relevance of their SOE portfolio. One example is **Norway** which, since 2002, has revised its ownership policy every parliamentary session, approximately every four years.

In addition to the examples mentioned above, countries mostly have few additional or specific rules applying to privatisation. Public procurement rules, securities laws (in the case of public offerings) and general company law may naturally have ramifications for privatisation. Moreover, a few countries have rules for the disbursal of the revenues from privatisation.

Employment conditions post privatisation

The treatment of SOE employees during and after the privatisation process varies significantly across countries, inter alia reflecting national labour laws and civil service codes. For example, in some Nordic and other countries, civil service status cannot be rescinded, so if employees of an SOE, prior to privatisation, have civil servant contracts then these contracts must either be grandfathered post privatisation, or the individuals must be offered alternative employment. In other countries, the SOE employees' contractual situation and salaries are adapted to conditions in the private sector, but they are offered mitigation measures such as direct financial compensation or employee shares.

In some countries retaining actual privatisation programmes, an element of job security is offered to SOE employees. This can either take the form of employment retention guarantees as part of the state's agreement with the buyer, or post privatisation controls. Such measures may be either generally offered or, more commonly, the state may have the option of applying them.

One of the main differences, in terms of administrative frameworks, is whether or not the state has a specialised body in charge of undertaking privatisation. This is the case in several of the post-transition economies, whereas others have converted their privatisation agencies into ownership units for the remaining SOEs. In some countries (such as **Israel**), it is the ownership unit that carries out the privatisations. Most other countries have either centralised the exercise of privatisation processes in the ministry of finance (most common in countries with a relatively centralised ownership) or vested the powers in the line ministries that used to exercise the state's ownership rights. Overall, it can be concluded that privatisation has, in most countries, become less frequent and governments rely increasingly on ad-hoc approaches.

Organising the process of privatisation

The decision to privatise

The decision to privatise companies in most countries has been taken consistently with the "motivations" outlined above (Figure 5.2). The most frequently cited reason (in ten respondent countries) is changing market competition and/or a wish to reduce the state's role in the productive economy. In three of these cases, decisions were based on a rigorous analysis of the state's SOE portfolio and/or the development of a formal privatisation list. Six of the 20 reviewed countries (some of which also cited market conditions) mentioned generation of fiscal revenues as one of the driving forces. Some countries have further privatised because they estimated that a transfer of ownership would enhance corporate efficiency and/or improve its access to finance and capital markets.

Retaining a stake in the SOE

There are in principle two rationales for selling only part of a company: (1) an ex-ante decision to exercise a sequential privatisation that will eventually lead to full divestment; (2) political or strategic imperatives dictating a continued majority or significant minority stake by the state. In practice, a number of transactions have, of course, begun (or been communicated to the public) as belonging to the second category, but subsequently were transformed into the first step of a full divestment.

A relatively limited number of countries have specifically opted for partial privatisation. Those that have (e.g. **Argentina**, **Denmark**, **Kazakhstan**, **Lithuania** and **Poland**) cite a variety of reasons, many of which relate to the SOEs size and systemic or strategic significance. Politics has also played a role, with some parts of the political spectrum being willing to contemplate divestment only if the state remained a dominant owner. Sequencing has been slightly more common, especially where the privatisation of particularly large SOEs occurred. These privatisations took the form of IPOs and a number of subsequent share offerings. The pace of privatisation was determined mostly by an assessment of how many shares the stock markets could absorb, as well as opportunistically taking advantage of periods of favourable share prices.

Privatisation methods

Privatisation methods have varied according to the size of the SOEs privatised and the relative maturity of the economy in which the privatisation took place. The post-transition economies, as well as **Mexico**, have mostly sold off rather small SOEs through trade-sale auctions to strategic private investors. Most other countries have relied on share offerings to privatise large companies and trade sales to privatise smaller firms. Privatisation through management buy-outs has become rare, but still occurs. A more unusual case is found in the **Czech Republic** where companies have been thrown off the state's balance sheet by transferring them to municipalities.

Pre-Privatisation restructuring

In general, pre-privatisation restructuring of SOEs is more commonplace prior to IPOs than in the case of trade sales where acquirers presumably will want to make their own arrangements. However, some respondents also noted that a modest amount of restructuring may help attract more bidders to a trade sale auction and hence boost the proceeds.

Where restructuring occurs, it frequently concerns either the balance sheet or the payroll of the privatised company. Regarding the latter, some of the responding countries have either strict employment protection laws or special employment regimes for public employees. In these cases, it may be more efficient to let the state undertake restructurings while it is still in charge. Restructuring the corporate balance sheet to align the debt-equity ratio with the prevailing levels in the private sector may also facilitate privatisation. Moreover, during the recent bout of privatisations in the public utilities sector, it has sometimes been necessary to separate monopoly elements or "strategic" activities from SOEs prior to privatisation.

Valuation

For almost all jurisdictions, a valuation of SOEs prior to privatisation is customary, and in some cases mandatory. In a large majority of cases, this involves one or several external advisors with expertise in corporate finance and the sector in which the SOE in question operates. In some cases, this is supplemented by valuations undertaken by the company itself, the national comptrollers and/or the ministry of finance.

The role of external advisors

At least one type of external advisor is almost always employed, namely the one involved in the pre-privatisation valuation. Beyond that, the extent, and types, of external advice depends on the privatisation method. In the case of IPOs, it normally involves investment banking and legal counsel. In the case of trade sales, expertise may be sought regarding the sector in which the SOE operates, including due diligence, corporate social responsibility, etc. but also more sales-specific services such as identification of potential buyers. The degree to which different countries involve external advisors seems to depend on the level of corporate expertise retained within the public institutions involved in privatisation. Some respondents report that they also contract external services in areas such as accounting, communication and developing the necessary documents, whereas others perform such tasks in-house.

The process for appointing external advisors is established, in almost all cases, by national procurement rules. In European countries, these are consistent with, or complementary to, EU legislation regarding the European Single Market. In at least one country (**Kazakhstan**), privatisation-related legislation provides specific rules for the retention of external advisors.

Incentivising managers and board members

Relatively few of the surveyed countries have incentive schemes in place for managers and board members of SOEs slated for privatisation. In some North European countries, stay-on bonuses, in the form of cash or stocks, are sometimes offered to keep management engaged. General schemes, such as employee stocks or post-privatisation employment guarantees, are in place in some countries, which can also provide incentives for managers. In **Israel**, managers and board members are legally required to stay engaged during the privatisation process.

Post-privatisation experiences

Control and verification

In almost all countries, the national state auditors or comptrollers are empowered to audit any given privatisation transaction or parts thereof. Additional controls are in place in some countries, for instance through internal audits in the responsible ministries and, in a few countries, governmental committees overseeing the privatisation process. Countries differ with respect to whether the state auditors may only carry out ex-post auditing or are empowered to intervene during the privatisation process.

Assessments of privatisation policies and practices

Few countries have engaged in regular or even topical post-privatisation assessment of outcomes. In **France**, the Shareholdings and Transfers Commission is responsible for supervising and assessing the privatisation operations and publishes opinions in the Official Gazette of the French Republic at the end of each transaction. In the **Netherlands**, the Senate has regularly performed a parliamentary enquiry of the Dutch privatisation practices.

Table 5.1. Frameworks for privatisation and the broadening of ownership of SOEs in 24 jurisdictions

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
Argentina	Derived from the motives for state ownership: controlling resources, remedying market failure and industrial promotion. In addition privatisation was sometimes motivated by fiscal deficits.	There is no overarching regulatory framework for privatisation. Privatisation during the 1990s was guided by a specific privatisation law (the "State Reform Law"). Corporate and public administration laws also apply. Sector regulations, generally entrusted with the same ministries that exercise SOE ownership, may moreover impact the privatisation process.	Employment post-privatisation according to private labour law. Collective agreements must be respected. The state may impose mitigation measures such as employee shares. During privatisations in the 1990s, labour responsibilities would be absorbed by the concessionaire as mandated by the State Reform Law.	Privatisation is conducted by individual ministries, under the oversight of the presidency as well as a parliamentary commission.	The state has sometimes retained a stake for "strategic" reasons.	N.A.
Brazil	Mostly decided on a case-by-case basis in pursuit of several objectives. For example, privatisation may aim to raise fiscal revenues or to foster more private sector engagement in an industry.	A law issued in 1997 applies for privatisation of directly owned SOEs, and a 2017 presidential decree applies to the privatisation of indirectly owned SOEs.	Employment contracts before and after privatisation follow the same set of private labour law's rules. Employees have the right to acquire 10% of the equity sold by the Federal Government in any privatisation.	A council of ministers may approve the privatisation of most directly owned national SOEs (the largest ones need Congress' approval to be privatised), and the national development bank (BNDES) acts as the main advisor.	There is no rule for sequencing. It occurs on an ad-hoc basis, depending mostly on political and strategic motivations.	Public offers (for listed SOEs) or public auctions. Direct sales to "strategic investors" are not allowed.
Czech Republic	Privatisation is mostly motivated by fiscal concerns and the purpose of changing market conditions in the sectors where SOEs operate.	A law issued in 2005 abrogated the privatisation agency and established competencies for the Ministry of Finance to conduct privatisation.	The new owners are usually required to assume responsibility for all employees.	Nothing beyond what was established in the 2005 law.	Sequencing occurs on an ad-hoc basis.	Public auctions, tenders, direct sale to a pre-determined owner, conversion to public company and transfer to municipality

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
Denmark	The state issues an official ownership policy. SOEs whose purpose does not coincide with the policy are candidates for privatisation.	EU regulations. Each privatisation moreover requires parliamentary approval.	No privatisation- specific rules. General laws about staff rights in case of takeovers, as well as the rights of civil servants.	No formal administrative framework. Each process is tailored.	Depends mostly on: (i) politics; (ii) market structure; (iii) whether the SOE is considered "strategic".	Two methods have been employed: (i) two-step privatisation, first tranche to strategic investors followed by IPO; (ii) trade sale auctions.
Estonia	Most of the privatisations during the period under review were motivated by considerations that the state's participation in an SOE is no longer needed for public purposes and the country's fiscal resources should be raised in the short term.	A legal and regulatory framework for the state's participation in companies and the sale of shares of SOEs is provided by the State Assets Act (SAA). The Act establishes a codified list of rules for management and operating principles of SOEs, including a yearly evaluation of the state-owned enterprise ownership portfolio and the procedures for the sale process.	There are no specific rules or conditions concerning the rights of the incumbent staff of a privatised company.	The general framework for managing and implementing the privatisation process is provided by the SAA. Under the Act, a government ministry with an ownership function is charged with a responsibility for implementation of privatisation.	The maintenance of the state's stake is based on a political agreement which upholds the view that these companies are of significant public importance as well as strategic importance.	Two methods have been commonly employed: (i) trade sale auctions; (ii) IPOs.
Finland	A case-by-case analysis for the SOEs where there is only a financial interest	A parliamentary mandate is required for each individual reduction in state ownership.	No specific rules.	The ownership of most SOEs is exercised by OSD or line-ministry which is also responsible for privatisation.	Partial or sequenced transactions have been used mostly to ensure a share in the upside when SOEs' value was expected to increase after IPO.	Two methods have been employed: (i) IPO as the preferred option or trade sale auctions.if specific needs

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
France	Mostly decided on a case-by-case basis in pursuit of several objectives. For example, privatisation may aim to raise fiscal revenues and at the same time strengthen the corporate capital base.	Transactions are governed by the Ordinance of the Decree No. 2014-949 dated 20 August 2014. These very recent texts have clarified and simplified the law applicable to capital transactions. The Government Shareholding Agency, which is in charge of the management of the portfolio of public holdings, is responsible for making any relevant proposals to the government within its scope. Furthermore, in certain cases, an intervention by an independent commission named the Shareholdings and Transfers Commission is guaranteed by law.	No special provisions for the treatment of privatised workers. This is subject to ordinary company and labour law. In practice consultations with public employee representatives take place, and in some cases the state may ask, before the transfer, that the purchaser define a social plan, including information on changes in employment in the company.	According to Article 2 of Decree 2004-963 of 9 September 2004, the Government Shareholding Agency (APE : Agence des Participations de l'Etat) implements capital operations for public enterprises under the control of the Shareholdings and Transfers Commission.	There is no rule for sequencing. It occurs on an ad-hoc basis, depending mostly on social, political and strategic motivations.	The APE uses all the available methods, recently including sale by mutual agreement after tender, IPOs and secondary offerings in companies already listed in stock markets.
Germany	The state issues an official ownership policy. SOEs whose purpose does not coincide with the policy are candidates for privatisation.	The Federal Budget Code sets rules for state participation in private-law enterprises. A review of ownership takes place every 2 years. The result of the review is publicly disclosed. Large privatisation processes involve separate privatisation laws.	No general provisions. However, civil service status cannot be rescinded. Grandfathering, where applicable, must be separately legislated.	Privatisation procedures are the responsibility of the Ministry of Finance.	Mostly a decision is made to privatise entirely. Sequencing occurs in the case of large SOEs.	Two methods have been employed: (i) one-off or sequential share offerings in the stock markets; (ii) trade sale auctions.

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
Greece	Hellenic Corporation of Assets and Participations (HCAP) as an administrator of an important portfolio, exploits the national wealth and increases its public value, contributing to the prosperity and economic development of the country. Hellenic Republic Asset Development Fund (HRADF) leverages the State private property assigned to it by Hellenic Republic, according to the country's international obligations and the Medium-Term Fiscal Strategy.	Law 4389/2016, Law 3986/2011	-	-	-	The scope is mentioned in art. 185 law 4389/2016. HCAP collects under a single institutional structure significant government assets aiming to their more efficient operation and exploitation. Methods of leverage are mentioned in Art. 5 Law 3986/2011.
Hungary	Privatisation can be considered when the government wants to set up a more efficient and cost-effective way to manage and utilise state property and national assets.	Act CVI of 2007 on State Property governs an accomplishment of a broad-scale privatisation. For its enforcement, the Government decree No. 254/2007 (X. 4.) was enacted with detailed regulations on managing state property. Only organisation(s) exercising ownership rights have the right to transfer shares of SOEs, unless specific legislation provides otherwise.	No specific rules.	HNAM exercises state ownership rights over a large portfolio of SOEs and other assets. HNAM combines the roles of ownership function, portfolio manager and, when necessary, privatisation agency.		

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
India	The government faces the challenges in reforming SOEs including balancing profitability and social obligations, raising capital expenditure, maintaining liquidity & financial leveraging, removing inefficiencies, rationalisation of number of SOEs and aligning SOE reform priorities with national priorities.	Under the "Self-Reliant India" Mission, a new Public Sector Enterprises Policy is to be formulated to push reforms in CPSEs in a holistic manner.	-	Department of Public Enterprises (DPE) provides operational guidelines for SOEs including Guidelines on Corporate Governance. Securities Exchange Board of India (SEBI) is a regulator of the securities and commodity market in the country. SEBI oversees all listing compliances for listed entities including SOEs through various legislations.	-	IPOs
Israel	The government's decision to change state ownership can be motivated by a consideration that a state-owned company is no longer needed for public or strategic purposes. Also, privatisation can be sometimes motivated by the government's plan for transferring state assets, and any associated public policy objectives, to the local government entity.	Government Companies Law in conjunction with a more recent policy for privatisation practices established by government.	Employment conditions are covered by collective bargaining. No special treatment of civil service contracts post privatisation.	The GCA is in charge of both ownership and privatisation practices.	In practice, most companies have been partially privatised.	Two methods have been employed: trade sales and initial public offerings.
Italy	Mostly motivated by a need to reduce public debt. In some cases also capital market development and increasing corporate efficiency.	Privatisation processes were established by the Inter-ministerial Economic Planning Committee (CIPE) and by Decree Law 332 of 1994. The Law establishes methods of sale, tariffs of public utilities services and post-privatisation government powers in the divested companies.	No specific rules.	The Decree Law assigns responsibility for the process to the Department of Treasury of the Ministry of Finance, subject to regular reporting to parliament.	Sequenced privatisation preferred when likely to increase total privatisation revenues.	The rules provide for listing (IPO; SPO; ABB); trade sales through auction or other means; and mixed sales.

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
Japan	Recent privatisations have been motivated either by the generation of fiscal revenues or the promotion of market diversification and competition. Information disclosure on a case-by-case basis.	Privatisation pursuant to specific laws. Can be either a privatisation bill or a fiscal bill referencing the budgetary impact of impending privatisation.	No specific rules.	Privatisation is placed mostly in a fiscal context overseen by the Ministry of Finance.	Sequencing has been common, partly due to the large size of the SOEs.	IPO and subsequent offerings of shares via the stock markets.
Kazakhstan	Main priorities are: (i) strengthening national entrepreneurship; (ii) reducing the state's share of the economy; (iii) raising corporate efficiency.	A national Privatisation Plan provides most of the directions. A state property law, corporate and administrative codes and a specific law establishing Samruk-Kazyna also apply.	A case-by-case approach. Concerns for employees may affect privatisation methods or lead to post-privatisation controls.	The Ministry of Finance is charged with privatising centrally held state property. It is assisted by a specialised committee.	Partial state ownership is decided on a case-by-case basis.	Mostly trade sale auctions, using online bidding. Some IPOs of large SOEs have also occurred.
Latvia	As of 2016, SOEs that are not either correcting market imperfections or serving strategic and national security purposes should normally be divested.	Specific privatisation laws, plus laws on SOE governance and public administration. State ownership is assessed every 5 years. Implementation is vested in a privatisation agency. The Privatisation Law prescribes six privatisation methods that can be applied separately or in combination. Various laws establish a sequencing of procedures.	Contractual relationships are not grandfathered after privatisation. The state has the right, but not duty, to impose employment retention guarantees.	The privatisation agency operates independently from the state ownership (coordinating) function.	The state has rarely maintained majority or minority stakes post divestment.	Several methods employed. Most common is trade sales, sometimes combined with share issuance to employees or management.
Lithuania	The generation of fiscal revenues. Other objectives are the improvement of the efficiency of privatised enterprises and opening them to foreign participation.	Laws on privatisation and state ownership as well as government resolutions on selection and procedures. Several other applicable laws, including company law and laws pertaining to insolvency, public procurement, asset valuation and securities trading.	No specific rules.	Oversight by an inter-ministerial Privatisation Commission. The Ministry of Economy is charge of privatisation policy. The SOE Turto bankas operates the privatisation procedures.	Partial privatisation of some energy companies. Sequenced privatisation of large utilities companies.	Mostly public auctions. Some secondary offerings of listed shares.

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
Mexico	According to applicable law, divestiture shall take place when an entity is no longer suitable for its purpose or for the purpose of the national economy and public interest.	Based on laws bearing on parastatal entities and public administration. No specific privatisation law. However, parliament can legislate about divestiture of specific SOEs.	No specific rules, but applicable labour market law establishes a number of protections. Additional economic compensation to affected employees may occur.	No specific rules for the role of the state and an enterprise owner. Hence decisions are mostly on a case-by-case basis.	Does not occur.	Trade sale auctions consistent with public procurement rules.
The Netherlands	The decision on maintaining ownership and privatisation depends on whether or not a public interest needs to be safeguarded through shareholdership.	Based on a parliamentary enquiry, a framework for privatisation of SOEs is developed. Any privatisation proposal is analysed by means of this framework. Parliament is closely involved in the decision making process. Also, all state participations are subject to evaluation at least once every seven years. Rules for target investor profiles exist, depending on the selling method.	The government gives special attention to consequences for enterprises and its stakeholders in the privatisation framework. However, the legal framework for employees does not differ from private sector sales processes.	All privatisations are generally done by the same department which carries out the ownership function. An exception applies to statutory corporations of which the ownership function lies with a separate unit (NLFI). The decision to privatise these lies with the Minister of Finance.	The government maintains part-ownership in a company if it has identified a public interest that needs to be safeguarded through shareholdership.	Share offerings and trade sales are normally employed as methods for privatisation.
Norway	Derived from the categorisation of SOEs by the state ownership policy. Purely commercial SOEs where the state no longer has any rationale for its ownership are normally candidates for privatisation.	A parliamentary mandate is required for each individual privatisation transaction. Mandates are considered and approved each year as part of the state budget process. The state ownership policy serves as a framework.	No specific rules.	No additional frameworks or procedures. The state ownership policy is quite comprehensive in this regard.	Partial state ownership is decided on a case-by-case basis. The decision is based largely on the expected financial benefits, hereunder what best serves the company's development.	Two methods have been employed: (i) stock market flotation; (ii) trade sale auctions.

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
Poland	Privatisation is motivated by a consideration that a state-owned company is no longer needed for public or strategic purposes.	The current legal and regulatory framework for state ownership and disposal of state-owned shares is provided by the 2016 Act on the principles of state property management and its provisions. At end-2016, the Ministry of Treasury was liquidated and SOEs were moved to appropriate sectoral ministries. In line with the new system of state property minister coordinates the ownership policy.	The government's proposal on the sale of state- owned shares to the Council of Ministers requires submission of documents specifying economic and social consequences of the sale, including a description of its potential impact on incumbent staff of a concerned company and the importance of the company for the local labour market.	Shares owned by the State Treasury may be sold by an entity entitled to exercise the ownership rights with an approval from the Council of Ministers. The latter also determines the procedure for the disposal.	N.A.	The shares owned by the State Treasury may be sold by a state-ownership entity based on an approval from the Council of Ministers. The latter also determines the procedure for their disposal.
Sweden	Developed on a case- by-case basis to establish whether a cause for state ownership no longer exists.	A parliamentary mandate is required for each individual reduction in state ownership. The state ownership policy serves as a framework. Specific rules apply to the treatment of proceeds and the pre-qualification of bidders.	No specific rules.	The ownership of most SOEs is exercised by one ministry which is also responsible for privatisation.	Partial or sequential sales have been rare.	Mostly trade sales to strategic investors, plus two secondary public offerings involving book-building processes selling shares to institutional investors.
Turkey	Established by law. Aimed mostly at minimising the role of the state in the competitive economy, secondarily at reducing fiscal losses and improving capital markets.	he Privatisation Law of 1994 provides criteria for selecting assets to be divested, establishes an administrative and political framework for privatisation and establishes social safeguards.	Rules are in place for compensatory payments for job losses, reassignment to other government institutions, social assistance supplements and early retirement.	The Privatisation Administration undertakes privatisation under the oversight of the inter-ministerial Privatisation High Council.	N.A.	Mostly trade (block) sales to strategic investors. IPOs or secondary offerings of a few large firms.

Country	Objectives	Laws, regulations, policies and other rules	Employment conditions post privatisation	Administrative frameworks and procedures	Partial privatisation or sequencing	Privatisation methods
United Kingdom	Developed on a case-by-case basis. Based primarily on hoped-for efficiency gains through privatisation, secondarily on fiscal revenues to reduce public debt.	Regular reviews of the portfolio of state-owned enterprises. The reviews include an assessment of potential privatisation options. The privatisation processes involve reporting to parliament and are subject to parliamentary scrutiny based on reports prepared by the state audit office.	Government regulations apply to SOE employees when the organisation they work for transfers to a new employer. This can effectively lead to a grandfathering of existing rights and employment conditions.	Most privatisations are undertaken by UK Government Investments, a "centre of excellence" located within the public sector.	Partial or sequenced transactions have been used mostly to ensure (1) a share in the upside when SOEs' value was expected to appreciate after IPO; (2) secure a continued government influence in strategic or politically important firms.	Methods are selected based on value-for-money considerations. In practice a wide selection of methods have been applied in the recent past.

Note: "-" means "no information available", and "N/A" means "not applicable".
Source: (OECD, 2019[22]; OECD, 2018[23]).

Annex A. National approaches to exercising the ownership function

Table A A.1. Centralised model: approaches to exercising the ownership function (21 countries)

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Austria	Austrian Holdings AG (OBAG) Federal Chancellery, Various federal ministries	● / ◆ ❖	Objectives for individual SOEs are developed by individual ministries.
Chile	Sistema de Empresas (SEP)	● / ◆	Only in the case of port companies, the individual objectives for each port are set considering the whole portfolio.
China	The State-owned Assets Supervision and Administration Commission of the State Council (SASAC). Other state managing authorities exist at various levels of government. The Ministry of Finance oversees financial institutions.	-	Formulated by the State Counsel and communicated to SASAC. SASAC prepares annual investment plans for SOEs.
Colombia	The ownership and representation of more than 90% of the SOE portfolio´s equity value is centralised in the Ministry of Finance´s SOEs General Directorate. The rest of the SOE portfolio's equity shares is administered by different Ministries or Administrative Departments.	● / ◆	The SOEs General Directorate determines the individual goals for its portfolio companies every year based on the priorities consolidated in the country´s National Development Plan set every four years. At the same time, the Intersectorial Commission for the Use of Public Assets coordinates the exercise of the state ownership.
Finland	Ownership Steering department at the Prime Minister's office (OSD) has 30 companies under direct ownership steering, and line ministries oversee 27 companies. Companies have been categorised under commercial interest, strategic interest and special purpose companies, which are predominantly under line ministries and have public service obligations to a large extent even if they are corporatised.	● / ◆	Based on the Cabinet's decision, the owner determines the strategic interest or special purpose of the SOEs, which is stated in the articles of association that are adopted by the annual general meeting. Proposal for financial and non-financial objectives of SOEs is developed in co-operation between the SOE and the ownership entity and then reviewed at the Annual General Meeting (AGM).

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
France	L' Agence des Participations de l'Etat (APE) carries out the mission of the state as shareholder in companies and organisations controlled or held, majority or not, directly or indirectly. With exceptions: Certain SOEs are monitored by other administrations or ministries which have jurisdiction over the sectors of activity of these companies. (e.g. Pass Culture, INA, and ONF)	● / ◆	On a case-by-case basis. Several institutions and ministries may be involved.
Greece	The Hellenic Corporation of Assets and Participations (HCAP) exercises the central ownership function, with some exceptions. Other SOEs are under Ministries' control. In the Ministry of Finance, the relevant Direction is "Privatisation, Equity, Management and Business Planning Unit".	● O / ❖	Concerning HACP's subsidiaries, the objectives are set on an individual basis in accordance between HCAP and each subsidiary. As for the SOEs that are under the purview of the Ministry of Finance, the operational objectives are set by the Board of Directors of each SOE, according to each Statutory Law and the statutes of the SOE and the supervising Ministry's sectoral strategy. The objectives must meet the financial targets set by the Ministry of Finance in collaboration with the line ministries.
Hungary	Hungarian National Asset Management Company (MNV Zrt.) exercises the ownership functions for SOEs. MNV is a single member limited liability company founded by the State. Its shares are non-marketable. The State Assets Act regulates the ownership rights and the ways state assets are to be utilised and managed. The Act also provides the structure of MNV. With exceptions: The commercial SOEs that are not under MNV's responsibilities include: the Hungarian Development Bank Private Limited Company (MFB Zrt.) and the Hungarian Postal Service Private Limited Company (Magyar Posta Zrt.), which, operate under the powers of the Prime Minister's Office. The Minister of National Development, jointly with the Agriculture Minister, exercises ownership rights of all state owned real estate.	● / ◆ ❖	They are developed by the exerciser of the ownership rights, in accordance with the governmental aims. According to Section 30 (1) of State Assets Act, the bodies exercising ownership rights in the name and on behalf of the State are required to enforce corporate governance and to ensure the prudential management of the assets with a view to the enforcement of public interest in SOEs and other companies.
Iceland	Ministry of Finance and Economic Affairs With exceptions: the financial undertakings (the Ownership Policy for Financial Undertakings), Student Loan Fund, State Housing Fund, State Alcohol & Tobacco company (under different ministries).	● / ◆	Aside from the general objectives set forth in the General Ownership Policy and the Ownership Policy for financial undertakings (both set by the Finance ministry), the Finance ministry sets all objectives for the SOEs that fall under its purview. Currently the ministry is working towards formalising the process for setting financial and non-financial objectives. In certain cases, relevant ministries, or institutions, set specific objectives for their respective SOEs.
Israel	Government Companies Authority (GCA) of the Ministry of Finance	● / ◆	Objectives for individual SOEs are mostly set by individual ministries or regulators. Some objectives are set for all SOEs by GCA communications (e.g. dividend distribution, diversity in employment, etc.).
Italy	Ministry of Economy and Finance (MEF)	● / ◆	The objectives of the SOEs are set independently by the management which is exclusively responsible for them.

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Korea	Ministry of Economy and Finance takes responsibilities for the ownership of SOEs under the Act on the Management of Public Institutions. Public Institutions Policy Bureau of the MOEF is in charge of SOE-related policies.	● / ◆	The business goals of SOEs are set up with the consideration of the government policies. By the law, SOEs shall build medium and long-term management goals and submit it to the MOEF and the competent ministries. Business goals of individual SOE are publicly disclosed both on its own website and ALIO system (www.alio.go.kr).
Netherlands	The State Owned Enterprises Division of the Ministry of Finance.	● / ◆	Set by the policy ministries.
New Zealand	The New Zealand Treasury is a government department which is responsible for the ownership function of the country's 12 SOEs on behalf of the two shareholding Ministers. The two shareholders are the Minister of Finance and another Minister (usually, but not always the Minister of State-Owned Enterprises) who hold equal shareholdings in each SOE (50% each). The mandate of the New Zealand Treasury is provided by State Owned Enterprises Act 1986.	● / ◆	Broad objectives for SOEs are formally set through a Letter of Expectations from shareholdings Ministers to the SOE. The boards of SOEs then set financial and non-financial objectives of their respective companies. Shareholding Ministers are consulted on these annually and approve these through the Statement of Corporate Intent document, prepared annually by each SOE.
Norway	The Ownership Department of the Norwegian Ministry of Trade, Industry and Fisheries manages most of the commercial SOEs and is responsible for developing and implementing the ownership policy. With exceptions: the Ministry of Transport and the Ministry of Local Government and Modernisation exercise the ownership rights of three companies in total with commercial objectives. Several other relevant line-ministries exercise the ownership rights of SOEs with public policy goals.	● / ◆	The state's goal as an owner in each company is set on a whole-of-government basis. The boards of SOEs set more detailed financial and non-financial objectives of their respective companies.
Peru	National Fund for Financing the State Business Activity (FONAFE) With exceptions: Petroperú S.A., municipal or sub-national companies, the Companies and Centers of Production and Provision of Services of Public Universities.	O / ❖	The Strategic Plan takes as a reference the Multiannual Macroeconomic Framework approved by the Ministry of Economy and Finance and other instruments. For the elaboration of the objectives of each company, the Corporate Strategic Plan of FONAFE is taken as the basis which has taken as a source of information and alignment national plans or objectives. However, for coordination purposes, these plans are made known to the ministry to which the company is attached, raising awareness and generating greater coordination.
Russia	Rosimushchestvo, the Federal Agency for Government Property Administration, has an important role, but various SOE forms and multiple ownership structures ensure a number of other ministries and authorities are involved. There is a category of strategically important SOEs for which "multi-sector model" adopted, and they are therefore outside the regular ownership policy.	-	Rosimushchestvo prepares the State's position, but where SOE is of primary sector importance, line-ministry sets agenda, strategic priorities, developing instructions for board etc.
Slovenia	Slovenian Sovereign Holding (SSH) is an independent joint-stock holding company owned by the state. Ministry of infrastructure retains responsibilities over electricity companies.	-	The objectives caliberated to certain sector policy but coordinated on whole-of-government level. Objectives "partly published" on SSH website.

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
South Africa	There are more than 715 SOEs (inc. subsidiaries) in South Africa, which straddle different departments and tiers of Government. Only nine (excluding subsidiaries) fall within ambit of the Department of Public Enterprises.	● / ◆	There is no overarching 'ownership policy. The provisions of the PFMA, as well as the establishing legislation of various entities, provide a legal framework regarding ownership of the entities and their responsibilities. SOE mandates and/or founding acts do not contain a measurable statement of objectives but state the role of the SOE. The measurability of the mandates is usually clarified by the objectives stated by SOEs in their strategic documents. Annually, once objectives, goals and KPIs are determined, the executive authority or ownership entity signs a shareholder compact with the respective SOE.
Spain	Some non-commercial entities placed under the authority of the line-ministry in charge of the "public policy". The Ministry of Finance and Public Administrations exercises ownership functions for the majority of SOEs, but several line-ministries also exercise ownership.	-	Strategic and annual objectives are set by the line-ministry in consultation with the SOEs and the Ministry of Finance and Public Administrations.
Sweden	Division for State-Owned Enterprises of the Ministry of Enterprise With exceptions: Six SOEs under other ministries. All have public service obligations to a large extent even if they are corporatised.	● / ◆	Based on the Riksdag's decision, the owner determines the buisiness objectives of the SOEs in the articles of association that are adopted by the annual general meeting. Proposal for financial and non-financial objectives of SOEs is developed in co-operation between the SOE and the ownership entity and then finalised at the Annual General Meeting (AGM). It should be cleared by the Ministry of Finance and Prime Minister's office.

Note: "-" means information not available.

[1] Regarding staff composition, "●" means "public servants" and "O" means "private sector secondees". Regarding funding mechanisms, "◆" means "government budget" and "❖" means "dividends".

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2018[6]).

Table A A.2. Coordinating agency model: approaches to exercising the ownership function (10 countries)

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Bulgaria	Public Enterprises and Control Agency (PECA)	-	
Costa Rica	The State exercises the various attributions and responsibilities related to ownership through different institutions, and is supported by a specialised ownership coordination unit, the Advisory Unit for the Direction and Co-ordination of State Ownership and the Management of Autonomous Institutions (the Advisory Unit on State Ownership, in short).	● / ◆	On a whole-of-government basis. The process of establishing policy objectives for individual SOEs through the NDPIP is directed by MIDEPLAN, but takes on a whole-of-government approach. For financial objectives, these will be established by the Council of Government, following a more restricted development and consultation process coordinated by the Advisory Unit, and involving the Ministry of Presidency, Finance and MIDEPLAN, relevant sectoral ministers, and the SOEs.
India	Department of Public Enterprises (DPE) acts as the "nodal" agency for all SOEs. DPE formulates all policies pertaining to performance improvement and evaluation, financial accounting, personnel management and related areas.	● / ◆	SOEs' vision, mission and long/short term objectives developed by line-ministry and SOE in a "consultative manner", keeping in view the overall Federal policy direction of the government.
Ireland	Coordination agency exercises direct ownership over a small portfolio of SOEs.	-	-
Latvia	Cross-sectoral coordination centre is a coordinating entity for SOE governance but all SOEs are held by eleven line ministries, one state institution and one SOE which are responsible for performance of duties of shareholder of their respective SOEs and minority shares owned by the Latvian state.	● / ◆	Financial and non-financial objectives are set in the SOE mid-term operational strategy which is to be approved by the Supervisory board or Shareholder's meeting if there is no Supervisory board. Only dividend pay-out ratios are defined in legal acts which are binding to all SOEs. Also Cabinet of Ministers has legal authority to decide different amount of annual dividend pay-out taking into account financial conditions of particular SOE.
Lithuania	Various ministries and Bank of Lithuania. The Governance Coordination Centre performs monitoring and forecasting functions, reports on SOEs' compliance with the requirements of governance, transparency and execution of indicators and provides recommendations and consultations to institutions implementing rights and duties of the state (shareholder ministries) with an aim to improve governance of the SOEs and municipally owned enterprises (MOEs).	● / ◆	According to the Ownership Guidelines, the state ownership entities submit to the SOE a letter regarding the objectives pursued by the state in SOE and the expectations of the SOE at least every 4 years. The ownership entities have to consult the Governance Coordination Centre (GCC) to receive comments and recommendations. On the whole-of-government level, only the target return on equity (ROE) for commercial activities is set. GCC performs the estimation of the financial targets, as an average for a three-year-period.
Morocco	State ownership responsibilities in Morocco are at least partly co-ordinated by one central state body, the Ministry of Economy and Finance, in many cases through its Department of Public Enterprises and Privatisation. In practice, line ministries in Morocco also undertake many state ownership functions, including the nomination of board members in individual SOEs.	● / ◆	By individual ministries

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Philippines	Governance Commission on GOCCs (GCG) is tasked with safeguarding the State's ownership rights and monitoring the performance of 104 GOCCs.	● / ◆	Objectives are in accordance with the mandates of the individual SOEs and are aligned to the national priorities/agenda.
Poland	In 2017, Poland liquidated the Ministry of Treasury, which previously had exercised most ownership. The previous tasks of the Ministry of Treasury have now been divided among several ministries with a co-ordinating role for the Prime Minister. The coordinating role of the Prime Minister is specified in several corporate governance policy documents applicable to SOEs. The main legal act regulating the principles of the ownership supervision over SOEs is the 2016 Act on the Management of State Property.	-	-
United Kingdom	UK Government Investments (UKGI), a government company owned by HM Treasury, is the body responsible for oversight of the state ownership function for a portfolio of 18 assets and leads on major asset sales and privatisations. The UKGI performs a centralised shareholder role for a portfolio of complex, large-scale or commercially active SOEs. With exceptions: There are other state owned bodies for which the sponsorship or shareholder role is performed by specific departments.	● O / ◆	They are developed by individual ministries / institutions.
Viet Nam	A special co-ordination agency exercising the state ownership function called the Committee for Management of State Capital (CMSC) was established in late 2018 in accordance with the Law on Investment and Business for State Capital. Its aim was to integrate state ownership functions of the government, line ministries and provincial committees. As of now, CMSC is managing 19 biggest SOEs operating in sectors such as oil, gas, coal and mineral with total state capital of nearly 45 billion USD. However, state ownership is still exercised by the line ministries, provincial committees and State Capital Investment Corporation (SCIC) responsible for sectoral policy and regulation in the relevant markets. In addition, all potential applicants should be suggested by SOE board and appointed by state authorities. In shareholder meeting, applicants who are nominated by ministers should be voted to SOE board.	● / ◆	-

Note: "-" means information not available.

[1] Regarding staff composition, "●" means "public servants" and "O" means "private sector secondees". Regarding funding mechanisms, "◆" means "government budget" and "❖" means "dividends".

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2018[6]).

Table A A.3. Twin track model: approaches to exercising the ownership function (2 countries)

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Belgium	FPIM (Federale Participatie- en Investeringsmaatschappij / Federal Holding and Investment Company) and Ministry of Finance. FPIM is a 100% State-Owned Company with a double function: it is an investment company and a Federal Holding, acquiring equity in companies that are of strategic importance.	● / ❖	Some of the objectives are set on a whole-of-government basis, others by individual ministries.
Turkey	Ministry of Treasury and Finance (MoTF), Privatisation Administration (PA) With exceptions: There are also some other public enterprises out of the two portfolios; the ones owned by the municipalities, and others with different legal statuses	● / ◆	On a whole-of-government basis.

Note: "-" means information not available.
[1] Regarding staff composition, "●" means "public servants" and "O" means "private sector secondees". Regarding funding mechanisms, "◆" means "government budget" and "❖" means "dividends".
Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2018[6]).

Table A A.4. Separate track model: approaches to exercising the ownership function (2 countries)

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Institutions responsible for the appointment of SOE board members	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Kazakhstan	There are three separate holding companies that account for almost all of the SOE sector. One of them is a sovereign wealth fund "Samruk-Kazyna" which was founded in accordance with the Decree of President of the Republic of Kazakhstan dated 13 October 2008 (No. 669). There are 317 companies in the Fund's portfolio (group) according to the 2018 annual report which is publicly available at www.sk.kz. The companies of the Fund group are established in the form of joint stock companies and private limited liabilities, as well as other forms. The government holds 100% of shares of the Fund. The government governs the Fund through exercising its powers as the sole shareholder of the Fund, as provided by the Law "On the Sovereign Wealth Fund" and the Fund's Charter, and through its representation on the Fund's board of directors. With exceptions: Some SOEs remain under the purview of their respective line ministries or two other central holding companies.	The candidates are searched and selected by the fund with the chairman of the board of directors and the Chairman of the nomination and remuneration committee of the company.	O / ❖	The objectives for State's enterprise ownership are presented in Article 192 of the Entrepreneurial Code of the Republic of Kazakhstan. They are set on a whole-of-government basis.
Malaysia	Seven government-linked investment companies (GLICs): Khazanah Nasional, Permodalan Nasional, Employees Provident Fund, the Pensions Trust Fund, Armed Forces Savings Fund, the Pilgrims Savings Fund, and the Minister of Finance Inc.	"State leadership" is responsible, non-listed SOEs directors are appointed according to SOEs' articles of association. Vetting of independent director appointment rests with nomination committees of boards.	● or O / ❖	-

Note: "-" means information not available.
[1] Regarding staff composition, "●" means "public servants" and "O" means "private sector secondees". Regarding funding mechanisms, "◆" means "government budget" and "❖" means "dividends".
Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2018[6]).

Table A A.5. Dual model: approaches to exercising the ownership function (8 countries)

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Australia	The Commonwealth's ownership interest is generally represented by two `Shareholder Ministers´. The Shareholder Ministers are the Responsible Minister (that is, the Minister responsible for the government business enterprise (GBE)) and the Finance Minister. The Finance Minister is generally the sole Shareholder Minister for those GBEs within the Finance portfolio.	● / ◆	-
Brazil	The ownership rights are exercised both by the Ministry of the Economy and line ministries responsible for overseeing individual SOEs. As of 1 January 2019, multiple ministries have been integrated into the Ministry of Economy, which is in charge of central co-ordination. The Ministry of economy currently hosts 7 special secretariats and each consists of sub-secretariats. In some cases, the Ministry of the Economy exercises sole ownership rights on behalf of the state. In addition, eight other line ministries exercise ownership on behalf of the state.	● / ◆	The law allowing the incorporation of an individual SOE defines in some cases its non-financial long-term objectives (in other words, the Parliament sets SOE's objectives). The board of each SOE is then responsible to spell out annualy in a letter which will concretely be the short-term public policy goals of the company.
Croatia	Not-for privatisation SOEs dispersed but with some residual powers vested in the Ministry of Physical Planning, Construction and State Assets. A more centralised model applicable to the rest of (mostly minority-owned) enterprises whose ownership rights have been vested in the Centre for Restructuring and Sale (CERP) with a view to their privatisation and restructuring. In addition, line ministries are responsible for appointing board members.	● / ◆	By individual ministries in accordance with Government priorities
Czech Republic	Ministry of Finance, Ministry of Industry and Trade	● / ◆	The ownership policy is determined through legislation, especially by Act No. 77/1997 Coll. of Laws of the Czech Republic, on State-Owned Enterprise, which has been continuously updated.
Estonia	Basic ownership functions and governance of Estonian SOEs are divided between six ministries. The Ministry of Finance is the central body responsible for performing the coordination of ownership function in the country (through its state asset department).	● / ◆	All objectives for individual SOEs are developed by line ministries. However, these are usually set on the basis of strategic long-term development plans approved by the government.
Indonesia	The Ministry of SOEs acts as a state shareholder in all limited liability SOEs ("Persero") which operate primarily 'for profit' businesses as per the Law No. 19/2003. The Ministry of Finance also exercises state ownership rights in several public utility enterprises ("Persero"). In addition, for policy-oriented SOEs, board members are appointed by the President.	● / ◆	-

Romania	The Minister of Public Finance and the Public Control Authority (APT)	-	
Switzerland	Federal Finance Administration (FFA) Office of the Federal Department of Finance. The ownership functions are carried out by the Federal Finance Administration (FFA) and the line-ministries, but the ownership "rights" are ultimately vested in the authority of the Federal Council.	● / ◆	On a whole-of-government basis. Before the Federal Council determines the strategic objectives, a consultation of all relevant ministries and offices takes place.

Note: "-" means information not available.
[1] Regarding staff composition, "●" means "public servants" and "O" means "private sector secondees". Regarding funding mechanisms, "◆" means "government budget" and "❖" means "dividends".
Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2018[6]).

Table A A.6. Dispersed model: approaches to exercising the ownership function (9 countries)

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Argentina	The ownership of SOE is exercised by the Ministry or decentralised Administrative Agency, whose jurisdiction has been assigned by the Law on Ministries No. 22,520 (current text approved by Decrees Nos. 7/2019 and 706 and 777/2020), generally based on connection between their jurisdictional competences and the respective corporate purposes of the SOEs.	● / ◆	There are no articulated mandates for Ministries or decentralised Administrative Agency that represent the National State and, thereby, exert the political and economic rights of National State shareholder in SOEs.
Canada	This formal executive authority is conferred on the "Governor in Council (GiC)". This Council generally functions through an informal, non-statutory committee, composed of members of "the Cabinet". The Prime Minister's Office (PMO) and the Privy Council Office (PCO) each have a role in GiC appointments. The responsible minister has the delegated responsibility to act for the Crown. The Treasury Board reviews the strategic direction of each Crown corporation and approves capital budget (in some cases, operating budget as well) and certain transactions. The Minister of Finance may direct any payment of surplus money to the Accounts of Canada. The Crown Corporations Directorate (CCD), a joint organisation of the Treasury Board Secretariat and the Department of Finance, is responsible for the control and accountability framework prescribed for Crown corporations.	● / ◆	-
Denmark	The Ministry of Finance oversees a portfolio of SOEs, but other ministries including the Ministry of Transport and the Ministry of Business and Growth also exercise direct ownership rights in a number of companies. In addition, while board members are appointed collectively at the AGM, the ministry is responsible for identifying suitable candidates if a change in board composition is required.	-	Objectives set by the Ministry of Finance in most cases, but by line ministries in others.

Country	Institution(s) (government agency, ministry, state holding company, specialised unit, etc.) responsible for the ownership function	Staff composition and funding mechanisms of the ownership entity(ies)[1]	Objectives set by whole-of-government, or by individual ministry
Germany	The Federal Ministry of Finance has a co-ordinating role on the government's policy on state holdings but has no general supervisory function or power. In general, the ministries holding the participations are responsible for the SOEs. The Ministry of Finance plays a central role in the German Government's policy on state holdings and privatisation. The Ministry defines the general framework for managing state holdings to line ministries.	● / ◆	Developed by individual ministries.
Japan	Financial Bureau of the Ministry of Finance (MOF), Civil aviation Bureau of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), and Japan Railway Construction, Transport and Technology Agency (JRTT) are main agencies of the ownership function.	● O / ◆	There is no ownership policy for all SOEs.
Mexico	Each Ministry heads a government sector to which SOEs are assigned. Every Ministry in Mexico performs ownership functions, through their participation in governing bodies of SOEs. In 2020, Mexico had 19 Ministries and nine of them have ownership functions related to SOEs that engage exclusively or largely in economic activities and/or compete in economic markets.	● / ◆	Depending on the legal nature or type of the SOE, individual objectives for each SOE shall be determined either by Presidential decree, Congress Decree or, in some cases, it can be determined by the Ministry in which the SOE is sectored. Nevertheless, all the SOEs' objectives must be aligned to the National Development Plan of the Federal Public Administration.
Saudi Arabia	Public Investment Fund exercises ownership for certain SOE portfolio. SOEs are also held by various line ministries, e.g. the Ministry of Communications and Information Technology.	-	-
Tunisia	Line ministries, Presidency of the Republic and Presidency of the Government	-	-
Ukraine	Ownership is decentralised among multiple actors, including the Cabinet of Ministers, line ministries and agencies. CMU can delegate ownership functions to entities, as needed.	● / ◆	Cabinet of Ministers approved 'Basic principles - introduction of ownership policy for state-owned enterprises' that define general objectives of state ownership. And a resolution that contains rule on approval of clear goals to state-owned enterprises.

Note: "-" means information not available.

[1] Regarding staff composition, "●" means "public servants" and "O" means "private sector secondees". Regarding funding mechanisms, "◆" means "government budget" and "❖" means "dividends".

Source: OECD, based on information reported in (OECD, 2020[2]; OECD, 2018[6]).

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