



OECD GUIDELINES ON CORPORATE GOVERNANCE OF STATE-OWNED ENTERPRISES: THE INSTRUMENT AND ITS 2015 REVISION

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The OECD Guidelines on Corporate Governance of State-Owned Enterprises

Why is there a need for Guidelines?

- In some OECD countries, and most emerging economies, the State is the largest single enterprise owner. Corporate inefficiencies would have major fiscal, macroeconomic and structural impact.
- Privatisation is often not an option and when only partly carried through. Moreover, the OECD takes the position that state-owned enterprises (SOEs) can be operated as efficiently as private firms.

How were the Guidelines developed?

- The Guidelines were first published in 2005. They were fundamentally revised in 2015.
- All OECD member countries participated in the revision process. So did 29 other countries, as well as representatives of business, trade unions, civil society and academia.



The OECD Guidelines on Corporate Governance of State-Owned Enterprises

What is the status of the Guidelines?

- **An OECD instrument.** All OECD countries must associate themselves with the recommendations laid down in the Guidelines. Newcomers to OECD must demonstrate that they can credibly do so.
- **Addressed to the SOE ownership.** The Guidelines makes recommendations to policy makers and public officials responsible for exercising the ownership of enterprises.
- **Non-binding.** No government or SOE is in any given situation legally obliged to follow the Guidelines.
- **Not limited to OECD members.** Any country can, following a review of its national SOE sector, become an adherent to the Guidelines and participate fully in OECD's work on SOEs.



The OECD Guidelines on Corporate Governance of State-Owned Enterprises

The Guidelines embody a shared vision:

- **The general public is the ultimate owner of SOEs.** The Guidelines are based on, and complementary to, the OECD/G20 Principles of Corporate Governance, which apply to exchange-listed companies. The idea is that SOEs should be as accountable to the general public as listed enterprises should be to their shareholders.
- **Setting a high level of aspiration.** The Guidelines establish a high bar for good practices. They are designed to serve as a lodestar for reform – not establish minimum standards. Not many countries have fully implemented the Guidelines, but ongoing SOE reform is almost always consistent with the Guidelines.



The OECD Guidelines on Corporate Governance of State-Owned Enterprises

Main priorities in the Guidelines:

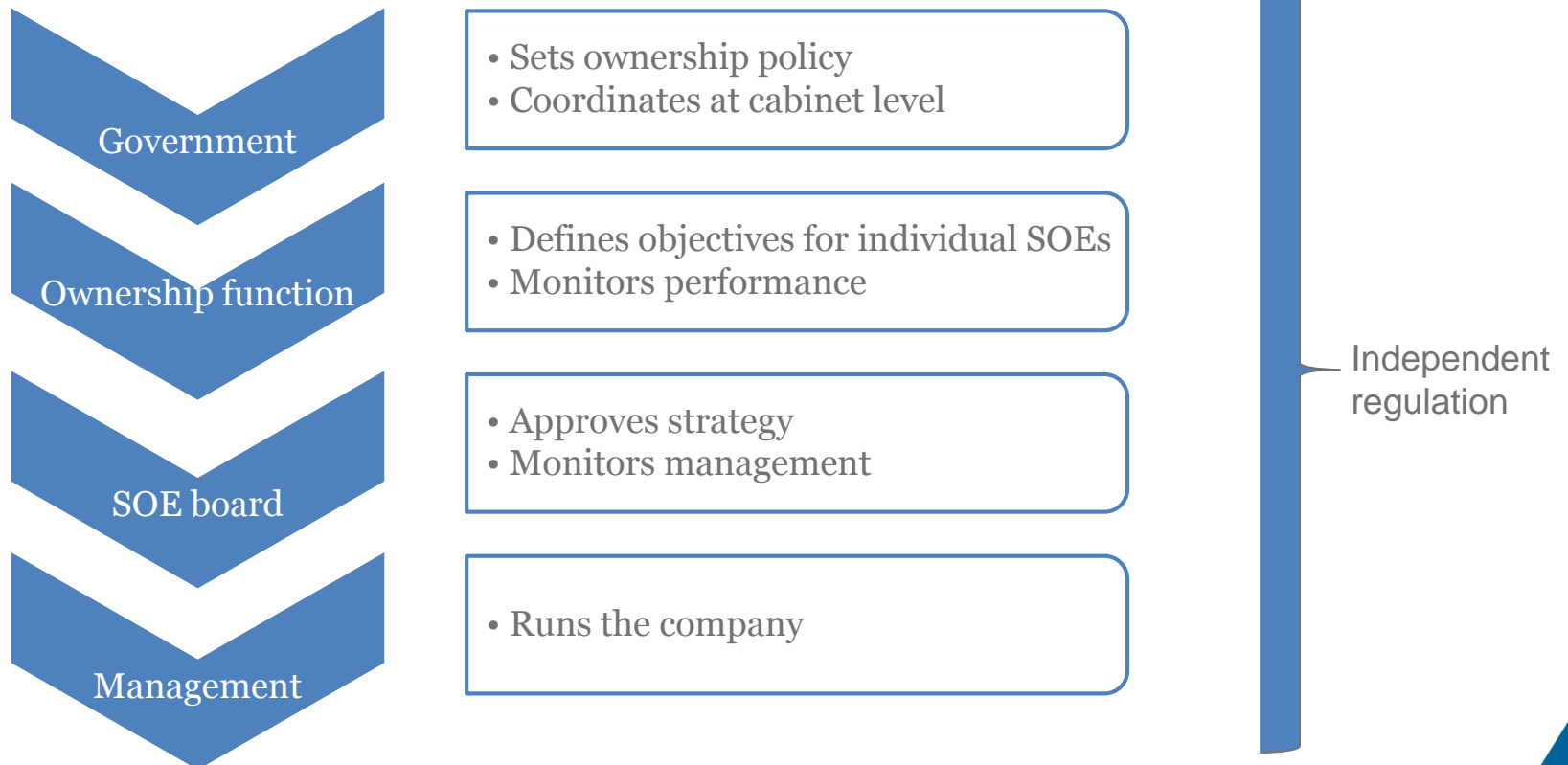
- **A rules-based environment.** SOEs should be subject to the same rules and regulations as other enterprises. They should compete on a level playing field with private enterprises and not distort competition.
- **Reinforcing the ownership function.** The state administration should exercise SOE ownership on a whole-of-government basis. The state ownership function should be separate from the regulatory function to avoid conflicts of interest.
- **Equitable treatment of shareholders.** The state should not have any undue advantages over other investors in SOEs.
- **Transparency and disclosure.** SOEs' objectives and performance should be disclosed and reviewed.
- **Stakeholder relationship.** SOEs and their owners should treat employees, creditors and affected communities fairly and equitably.
- **Boards of directors.** The boards are the SOEs' highest decision-making bodies. They should exercise their powers free of political interference.



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The “OECD model” implies:

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





The 2015 Revision of the Guidelines

The new Guidelines embody a multitude of change, based on the experiences learned over the previous decade. The three most fundamental changes to the document are the following:

- **A new introductory section on “Applicability and Definitions”**
- **A new chapter on defining and communicating the rationales for state ownership of enterprises**
- **A revamped chapter on SOEs operating in the marketplace.**

Further details on individual chapters are provided on the following pages



The 2015 Revision of the Guidelines

A new introductory section on “Applicability and Definitions”

- **Defining an SOE.** An SOE is any corporate entity recognised by national law as an enterprise, and in which the state exercises ownership.
- **Ownership and control.** The Guidelines are applicable to enterprises under the control of the state, either through majority ownership or other measures that confer a large degree of influence.
- **Commercial orientation.** The Guidelines apply to all SOEs that pursue “economic activities”, which involves offering goods or services on a given market and which could, at least in principle, be carried out by a private operator to make profits.
- **Levels of government.** Authorities responsible for enterprises held at the sub-national levels of government should implement as many of the Guidelines as applicable.



The 2015 Revision of the Guidelines

A new chapter on defining and communicating the rationales for state ownership of enterprises

- **Developing an ownership policy.** Builds on the previous version of the Guidelines that called on governments to issue an ownership policy that defines the objectives of state ownership and outlines the state's role in the corporate governance of SOEs.
- **The overall rationales for state ownership.** Puts forward that the purpose of state ownership should be to maximise value for society, through an efficient allocation of resources. It is up to national governments to determine the rationales for state ownership, but whatever they are, they should be clearly evaluated and disclosed to the general public.
- **Enterprise-specific rationales.** Calls for governments to also define the rationales for owning individual SOEs and subject these to recurrent review. Any public policy objectives placed on SOEs should be clearly mandated and disclosed.



The 2015 Revision of the Guidelines

A revamped chapter entitled “SOEs in the marketplace”

- **Legal and regulatory framework.** Builds on previous text calling for the legal and regulatory framework to ensure a “level playing field” when SOEs compete with private enterprises. SOEs should not be exempt from general laws and regulations.
- **Market consistent financing.** Explicitly calls for SOEs’ economic activities to face market consistent conditions on debt and equity financing – whether it is provided by the state or the commercial marketplace – and to achieve rates of return consistent with competing private enterprises. SOEs should not receive any indirect support from the state or other SOEs that confers an undue competitive advantage (e.g. production inputs, tax arrears or preferential trade credits)
- **Non-discriminatory public procurement.** Highlights that when SOEs engage in public procurement – whether as bidders or procurers – the procedures involved should be competitive, non-discriminatory and transparent.



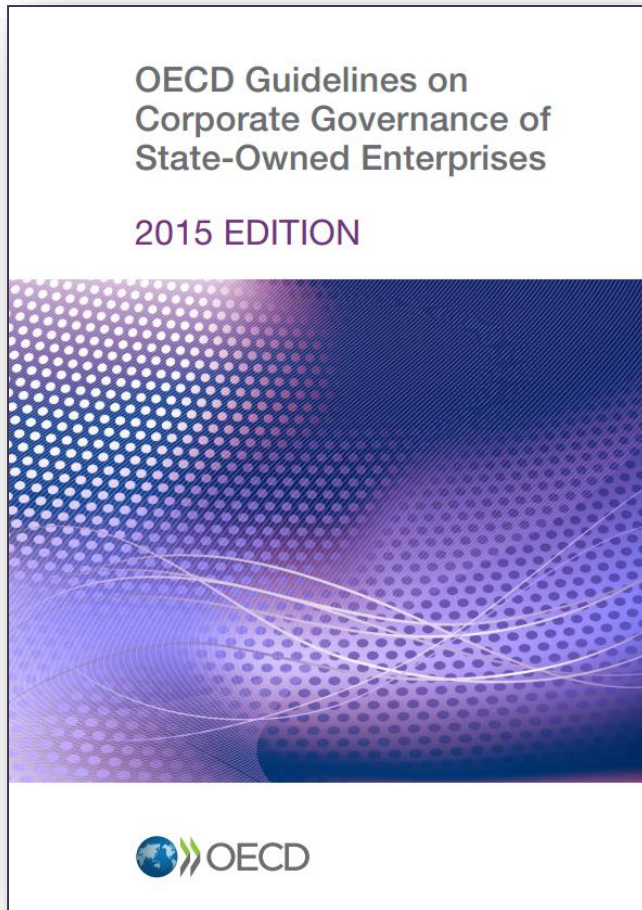
The 2015 Revision of the Guidelines

Other material changes of note

- Greater attention to **responsible business conduct** by SOEs, in line with the standards that governments encourage private enterprises to implement through the OECD Guidelines on Multinational Enterprises.
- Broadened scope of the **board's risk management** duties, going beyond operational and financial risk to include risks related to human rights, labour, environmental and tax-related issues.
- An explicit recommendation to **eliminate political donations** by SOEs, or to use SOEs to achieve partisan political goals, given the inherent conflicts of interest involved.
- A call to ensure that when SOEs engage in **public-private partnerships**, care is taken to respect partners' contractual rights and to monitor and manage related fiscal risks for the government.
- More detailed **disclosure standards**, reflecting the best practice of the updated OECD Principles of Corporate Governance.



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



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



Now also in Russian



- I. Обоснование владения государственной собственностью
- II. Государство в роли собственника
- III. Предприятия с государственным участием на рынке
- IV. Соблюдение равенства прав акционеров и иных инвесторов
- V. Отношения с заинтересованными лицами и ответственное ведение предпринимательской деятельности
- VI. Прозрачность и раскрытие информации
- VII. Обязанности советов директоров предприятий с государственным участием



Resources and contacts

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

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

For more information on OECD work on corporate governance in Russia,
please visit:

<http://www.oecd.org/russia/corporategovernanceinrussia.htm>

Questions can be addressed to:

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