

Corporate Governance of State-Owned Enterprises – Key Principles

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Video Conference: Transparency and financial health of state-owned enterprises in Moldova

About project

- Title: Supporting democracy, independence and transparency of key public institutions in Moldova
- Duration: October 2019 – May 2021
- Implemented by: INEKO in partnership with IDIS „Viitorul“
- Funded by: The Official Development Assistance of the Slovak Republic (SlovakAid)
- Follow-up on previous projects running since October 2015

Why we do this

- **Goal: To support democracy in Moldova**, to reduce risk of “state capture” and “power abuse”
- Objectives:
 - To support public debate about current state of democracy in Moldova
 - To strengthen the independence of key regulatory and judiciary institutions in Moldova
 - To increase transparency and support implementation of anti-corruption measures in state-owned companies and local governments in Moldova
- Transferring know-how from projects implemented in Slovakia

Key outputs

- June 2020: Report on current state and development of democracy in Moldova
- November 2020: Report on independence of key public institutions in Moldova
- Updating transparency and financial health data of:
 - May 2020, May 2021: Public enterprises: <http://companies.viitorul.org/>
 - June 2020: Local governments (cities and regions): <http://localbudgets.viitorul.org/> and <http://localtransparency.viitorul.org/>
- Electronic monthly newsletters

Corporate Governance

- Why to care about SOEs:
 - Risk of inefficiency, corruption and low quality products
 - Risk of low revenues from dividends and high subsidies
- Current situation in Slovakia:
 - SOEs include major firms in energy, transport, construction, healthcare, water supply, post service, lottery, waste disposal, land use, etc.
 - 400-500 million EUR dividend revenues of the State Budget
 - Up to 2 billion EUR transfers and subsidies from the State Budget
 - Autonomous (non-coordinated) governance, lack of transparency and social/financial responsibility
 - Active NGOs: Transparency International, INEKO
 - Ministry of Finance plans to implement Corporate Governance principles

Example of bad practice from Slovakia

- In 2020-21 the Ministry of Transport selected 11 members of the Boards of Directors in 4 major SOEs (highway construction, personal and cargo railway transport, and Bratislava airport)
- Only 14 candidates met basic criteria
- Almost zero competition
- Often no CVs, secret changes, generally low transparency
- Comment from local media: „*Eligible candidates appear to be either unaware of the interviews or are convinced that the winners have been decided in advance.*“

Example of good practice from Slovakia

- In 2020-21 the Ministry of Finance selected 8 members of the Boards of Directors in 2 major SOEs (electricity transit, Slovak guarantee and development bank)
- 52 candidates met basic criteria (from total pool of 118)
- Expert committees helped to assess top candidates
- The Minister presented the winners in a press conference: *"I wanted to make sure I really picked the best ones... No political nominations, we selected quality managers."*

Example of the best practice from Slovakia

- In 2019 the City of Bratislava selected 4 Chairpersons of the Boards of Directors in 4 major enterprises owned by municipality (transport, waste disposal, water supplies, municipal forests)
- 74 candidates met basic criteria (from total pool of 104)
- 16 candidates participated in public hearings
- Expert committees helped to assess top candidates
- All CVs and final evaluations were published
- The City adopted methodology for selecting top managers and has used it as a standard in all subsequent tenders

Key Principles 1/2

- OECD guidelines on corporate governance of state-owned enterprises
 - Central/coordinated monitoring and regular updates on **objectives, indicators** (financial and non-financial KPIs) **and their fulfilment** for every SOE – publishing annual summary reports by ownership entities
 - Legal form as for commercial companies, no special protection/support
 - Transparent compensation for activities performed in the public interest, their separation from commercial activities, no cross-subsidies
 - Transparent remuneration of managers
 - Transparent structure of governance, autonomous operation of SOEs, clear separation from regulation and economic policy
 - Enforcing transparency, e.g. by regular evaluation and awards

Key Principles 2/2

- OECD guidelines on corporate governance of state-owned enterprises
 - Open selection procedures for top positions, involving independent experts in selecting top managers of big and important SOEs
 - Avoiding nomination of people from the government as top managers
 - Avoiding nomination of high-ranked people from the government in SOEs structures (supervisory boards, boards of directors, etc.)
 - SOEs structures (supervisory boards) should have the right to elect/dismiss the CEO and other top managers without any political interference
 - Informing about any support (subsidies/transfers/guarantees) from the state
 - Adopting Codes of Ethics, including rules for protecting the whistleblowers
 - Ban on funding the political campaigns and activities
 - High-quality independent external audits of financial statements

Next steps in Slovakia

- The MoF will publish relevant information on its webpage:
 - List of SOEs with basic information (legal form, ownership structure, economic activity)
 - Datasets with key financial indicators, dividends, subsidies
- The MoF will collect data on objectives, indicators and their fulfilment
- The MoF will start due diligence of selected companies
- The Government will approve the Principles on Corporate Governance of SOEs
- The National Parliament will approve law strengthening competences of the MoF for enforcing the Principles
- The MoF will regularly monitor performance of SOEs and compliance with the Principles

Priorities according to INEKO

- **General transparency** (economic indicators, access to information, contracts and procurement, CVs, conflicts of interest, codes of ethics, grants and charity, etc.)
- **Open selection procedures for top positions** (open call for candidates, clear criteria, independent selection committees, publishing CVs and projects of top candidates, publishing the report confirming the winner)
- **Financial health** (key indicators, easy access and comparison, time series, narrative explanation)
- **Setting financial and non-financial KPIs** and regular monitoring of their fulfillment
- **Transparent financial flows between the State and SOE**
(publishing datasets with times series of dividends and any support from the state)

Thank you for your attention!

<https://www.ineko.sk/projekty/supporting-democracy-independence-and-transparency-of-key-public-institutions-in-moldova>

<https://www.oecd.org/corporate/guidelines-corporate-governance-soes.htm>

<http://companies.viitorul.org/>