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/

• 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 fullfilment 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!

http://companies.viitorul.org/