



Corporate Governance of State-Owned Enterprises – Key Principles

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

About project

- Title: Strengthening democratic resilience of key public institutions in Ukraine
- Duration: July 1, 2020 – September 30, 2021
- Implemented by: INEKO in partnership with ICPS
- Funded by:
 - The U.S. Embassy in Ukraine
 - The Official Development Assistance of the Slovak Republic (SlovakAid)
- Follow-up on previous projects running since October 2015

Why we do this

- Project goal: To support democracy in Ukraine by transferring the Slovak know-how in following areas:
 1. Evaluation of independence of 17 regulatory and judiciary institutions;
 2. Evaluation of transparency and financial health of 50 biggest public enterprises;
 3. Evaluation of transparency and financial health of at least 50 biggest cities and 22 regions.

Key outputs and results

- June 2021: Report and internet portal on independence of key public institutions in Ukraine: <http://institutions.icps.com.ua/>
- Regular update of transparency and financial health ratings of:
 - Public enterprises: <http://companies.icps.com.ua/>
 - Local governments (cities and regions): <http://local-governments.icps.com.ua/>

Transparency rating	2017	2018	2019	2021
Biggest cities (52)	43 %	51 %	72 %	70 %
Regions (24)	45 %	-	63 %	63 %
Public enterprises (50)	-	-	32 %	49 %

Corporate Governance

- Why to care about SOEs:
 - Risk of inefficiency, low quality products, corruption and state capture
 - 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.
 - Autonomous (non-coordinated) governance, lack of transparency and social/financial responsibility
 - 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, 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

OECD Principles 1/3

- Higher transparency:
 - ✓ Transparent compensation for activities performed in the public interest, their separation from commercial activities
 - ✓ Informing about any support (subsidies/transfers/guarantees) from the state
 - ✓ Transparent remuneration of managers
 - ✓ Regular evaluation and awards
 - ✓ Open selection procedures for top positions, involving independent experts in selecting top managers of big and important SOEs

OECD Principles 2/3

- Protection from political interference:
 - ✓ Autonomous operation of SOEs, clear separation from regulation and economic policy
 - ✓ 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

OECD Principles 3/3

- Central/coordinated monitoring on **objectives, indicators** (financial and non-financial KPIs) **and their fulfilment** for every SOE
 - ✓ Publishing annual summary reports by ownership entities
- 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 Government will approve the OECD Principles
- The MoF will:
 - ✓ Publish list of SOEs with basic information (legal form, ownership structure, economic activity, etc.)
 - ✓ Publish datasets with key financial indicators, dividends, subsidies
 - ✓ Collect data on objectives, indicators and their fulfilment
 - ✓ Start due diligence in selected companies
 - ✓ Monitor compliance with the Principles

Thank you for your attention!

<https://www.ineko.sk/projekty/strengthening-democratic-resilience-of-key-public-institutions-in-ukraine>

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

<http://companies.icps.com.ua/>