



# STATE-OWNED ENTERPRISE REFORMS - THE GLOBAL IMPACT OF COVID-19 ON SOES AND HOW GOVERNMENTS CAN RESPOND

ADB Governance Forum, 25 October 2021.

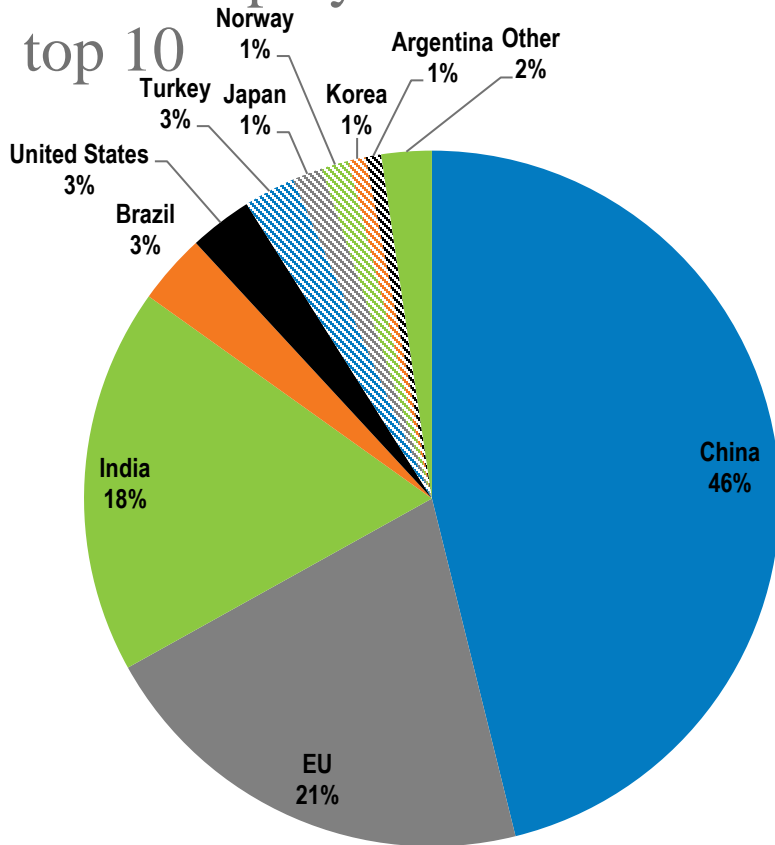
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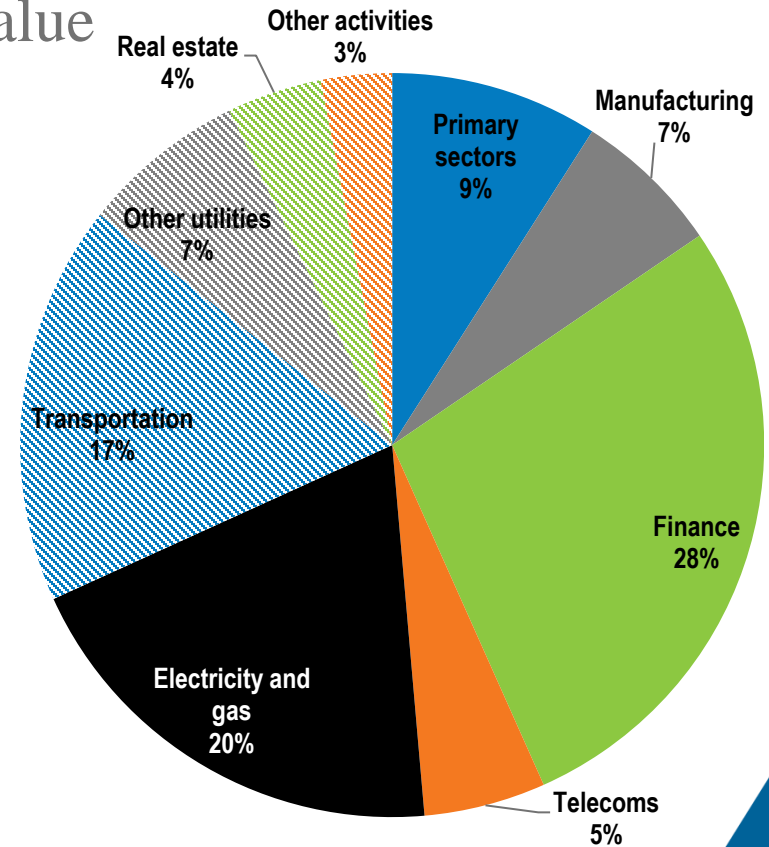
# Global SOE Landscape

Majority or fully state-owned

## Total employment in SOEs – top 10



## Sectorial distribution of SOEs – by value



Source: [OECD \(2017\), The Size and Sectoral Distribution of State-Owned Enterprises, OECD Publishing, Paris.](#)

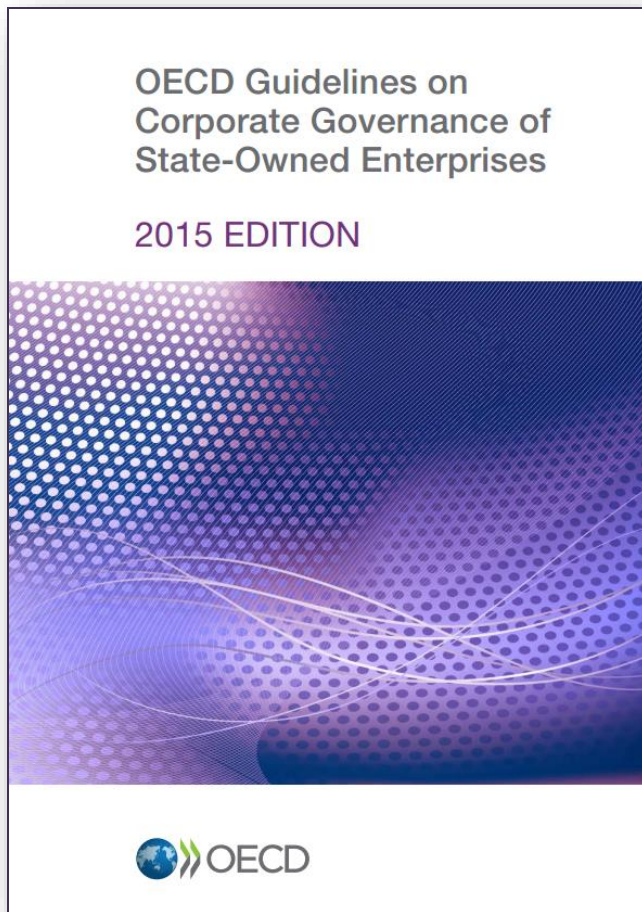


# Government support for the airline industry announced or implemented since 1 March 2020

Country	Target	Measures implemented/announced	Equity investment by state?
<i>Company specific interventions</i>			
Austria	Austrian Airlines	Loan guarantees	No
Belgium	Brussels Airlines	State loan	No
Finland	Finnair	Loan guarantees plus a rights issue to all shareholders underwritten by the state	Potentially
France and the Netherlands	Air France-KLM	Mostly loan guarantees, plus a state loan	No
Germany	Condor	Loans by federal and regional government	No
	Lufthansa	Equity, loans and convertible debt	Yes
Hong Kong, China	Cathay Pacific Airways	A combination of share and warrant purchases and a bridge loan	Yes
Israel	El Al	Loan guarantee and stock issuance.	Yes
Italy	Alitalia	Nationalisation	Yes
Korea	Korean Air	Bond purchases	No
Latvia	Air Baltic	Recapitalisation	Yes
New Zealand	Air New Zealand	State loan convertible to equity	Potentially
Norway	Norwegian Air	Loan guarantees (conditional on a debt equity swap with the private creditors)	No
Portugal	TAP	Loan and capital injection	Yes
Singapore	Singapore Airlines	Equity and convertible debt issuance. The state acts as investor of last instance	Potentially
South Africa	South African Airways	Recapitalisation by the state owner	Yes
Sweden and Denmark	Scandinavian Airlines SAS	Loans, loan guarantees, hybrid notes and stock issuance.	Yes
Switzerland	Swiss	Loan guarantees (sureties)	No
<i>Industry-wide programmes</i>			
United Kingdom	Three airline companies	State loans	No
United States	Airline industry	Mix of grants, redeemable loans and warrants	Potentially



# 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



## The OECD Guidelines on Corporate Governance of State-Owned Enterprises

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### *The Guidelines embody a shared vision:*

- **The general public is the ultimate owner of SOEs.** The Guidelines are based on, and complementary to, the G20/OECD 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

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## *Main priorities in the Guidelines:*

- **A rules-based environment.** The rationale for state ownership should be clear, and each SOE should operate subject to transparent financial and non-financial objectives.
- **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.
- **Level playing field.** 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.
- **Equitable treatment of shareholders.** The state should not have any undue advantages over other investors in SOEs.
- **Stakeholder relationship.** SOEs and their owners should treat employees, creditors and affected communities fairly and equitably.
- **Transparency and disclosure.** SOEs' objectives and performance should be disclosed and reviewed.
- **Boards of directors.** The boards are the SOEs' highest decision-making bodies. They should exercise their powers free of political interference.



# The OECD Guidelines on Corporate Governance of State-Owned Enterprises

## *The “OECD model” implies:*

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



- Sets ownership policy
- Coordinates at cabinet level

- Defines objectives for individual SOEs
- Monitors performance

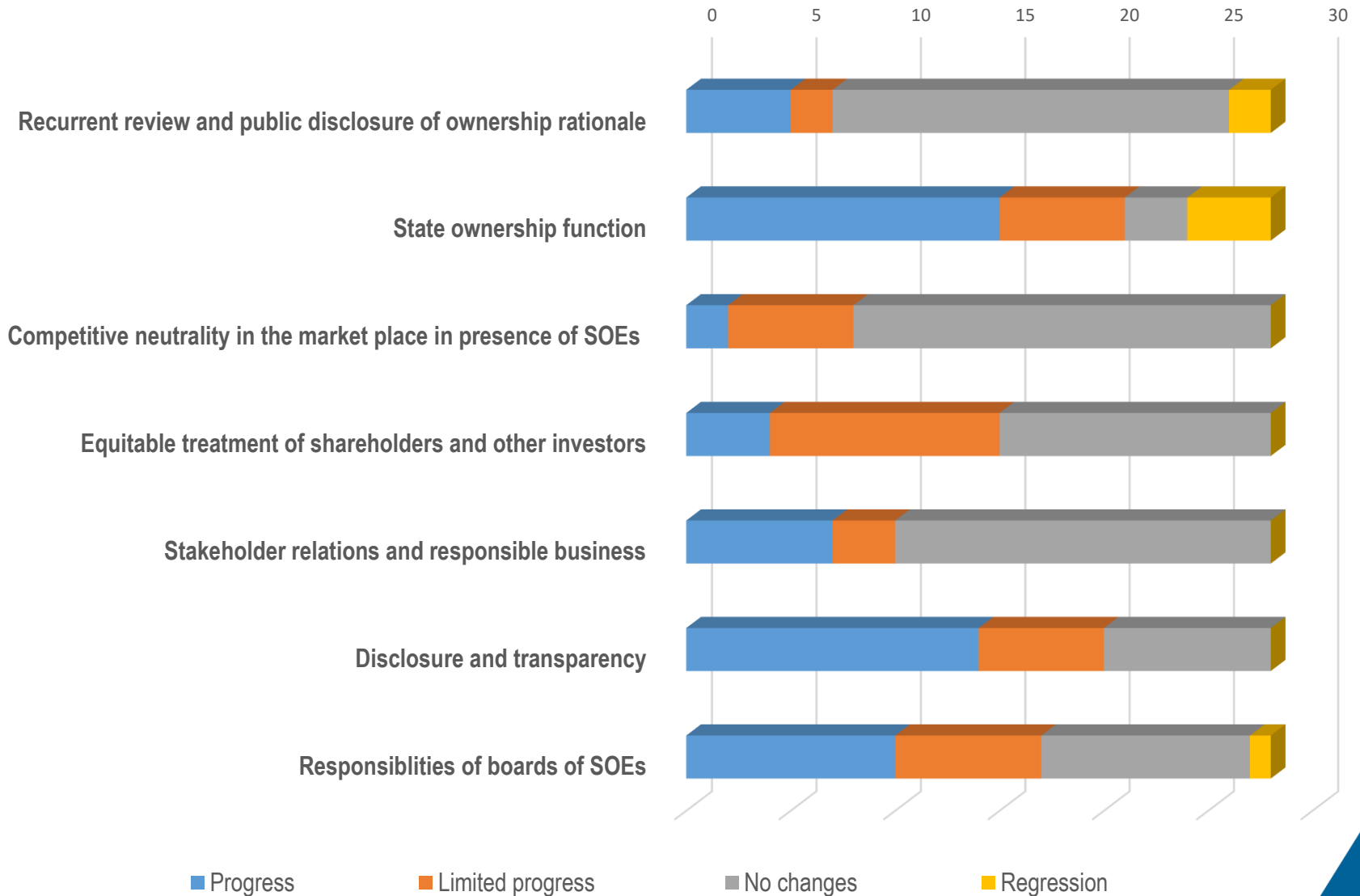
- Approves strategy
- Monitors management

- Runs the company

Independent regulation



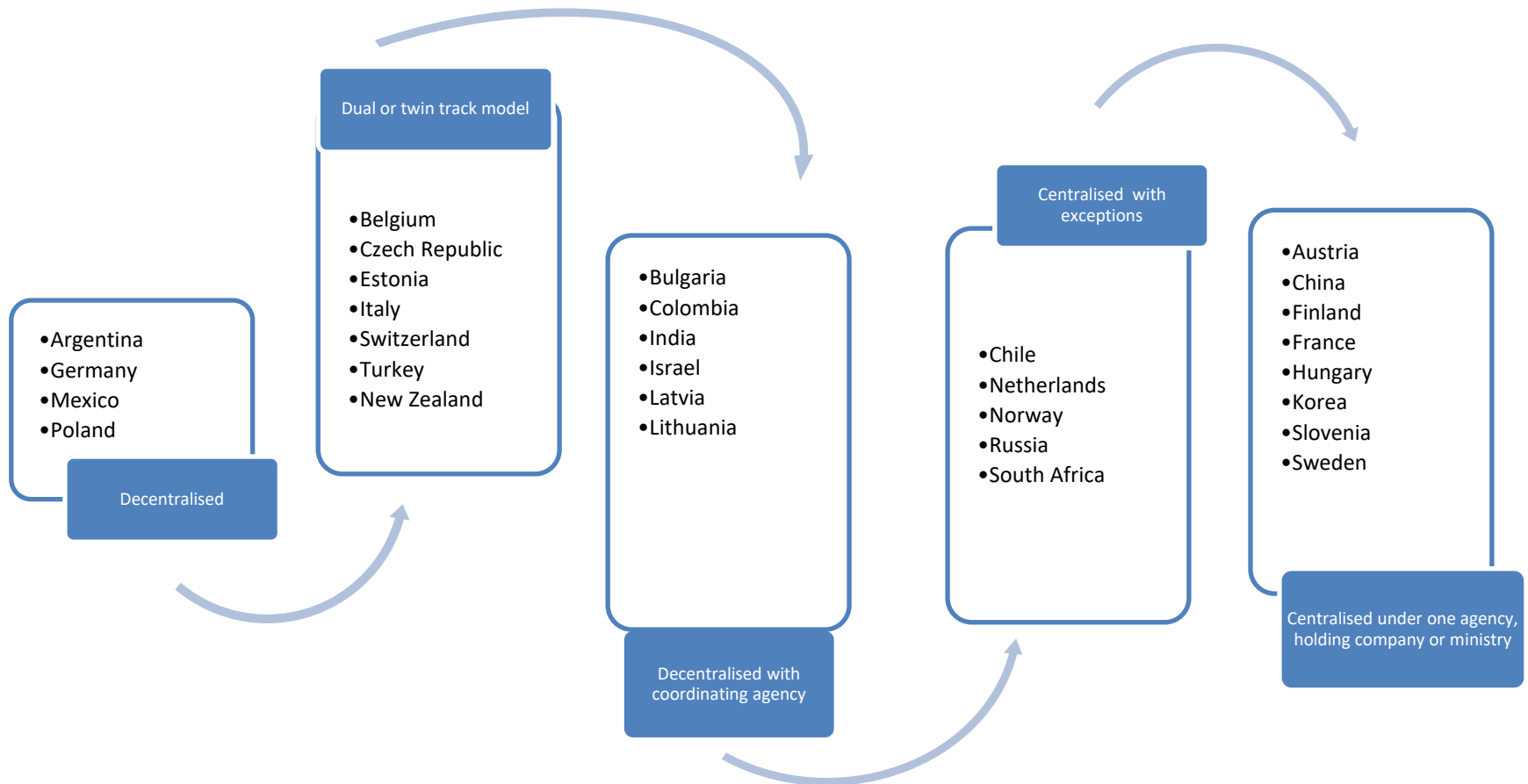
## Number of countries with policy changes with respect to the implementation of the Guidelines







## Example of national practices: Who exercises the state ownership function?





## Example of national practices: Who exercises the state ownership function?

### **Decentralised**

- Argentina, Canada, Denmark, Germany, Japan, Mexico, Saudi Arabia, Tunisia, Ukraine

### **Twin Track Model, Separate Track Model or Dual Model**

- Australia, Belgium, Brazil, Croatia, Czech Republic, Estonia, Indonesia, Kazakhstan, Malaysia, Romania, Switzerland, Turkey, Viet Nam

### **Co-ordination Agency Model**

- Bulgaria, Costa Rica, India, Ireland, Latvia, Lithuania, Morocco, Philippines, Poland, United Kingdom

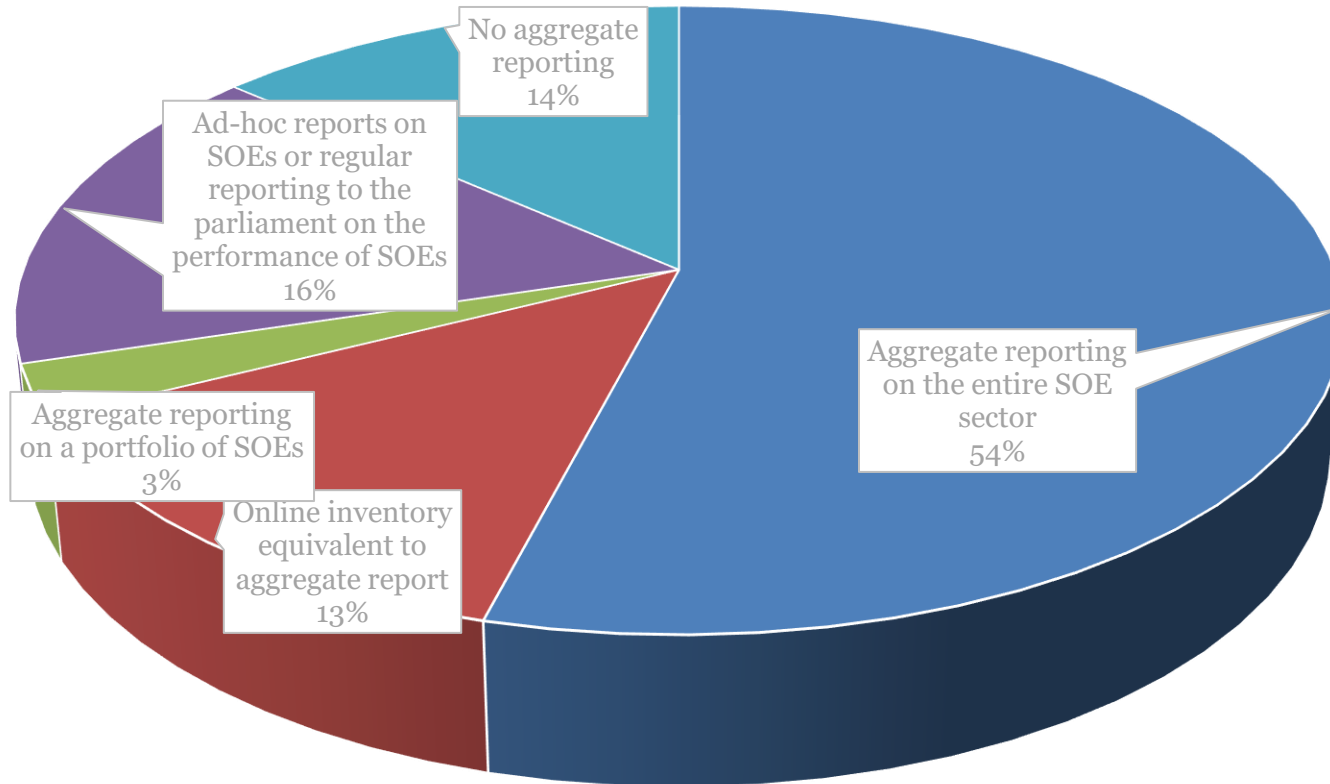
### **Centralised with or without exceptions**

- Austria, Chile, China, Colombia, Finland, France, Greece, Hungary, Iceland, Israel, Italy, Korea, Netherlands, New Zealand, Norway, Peru, Russia, Slovenia, South Africa, Spain, Sweden



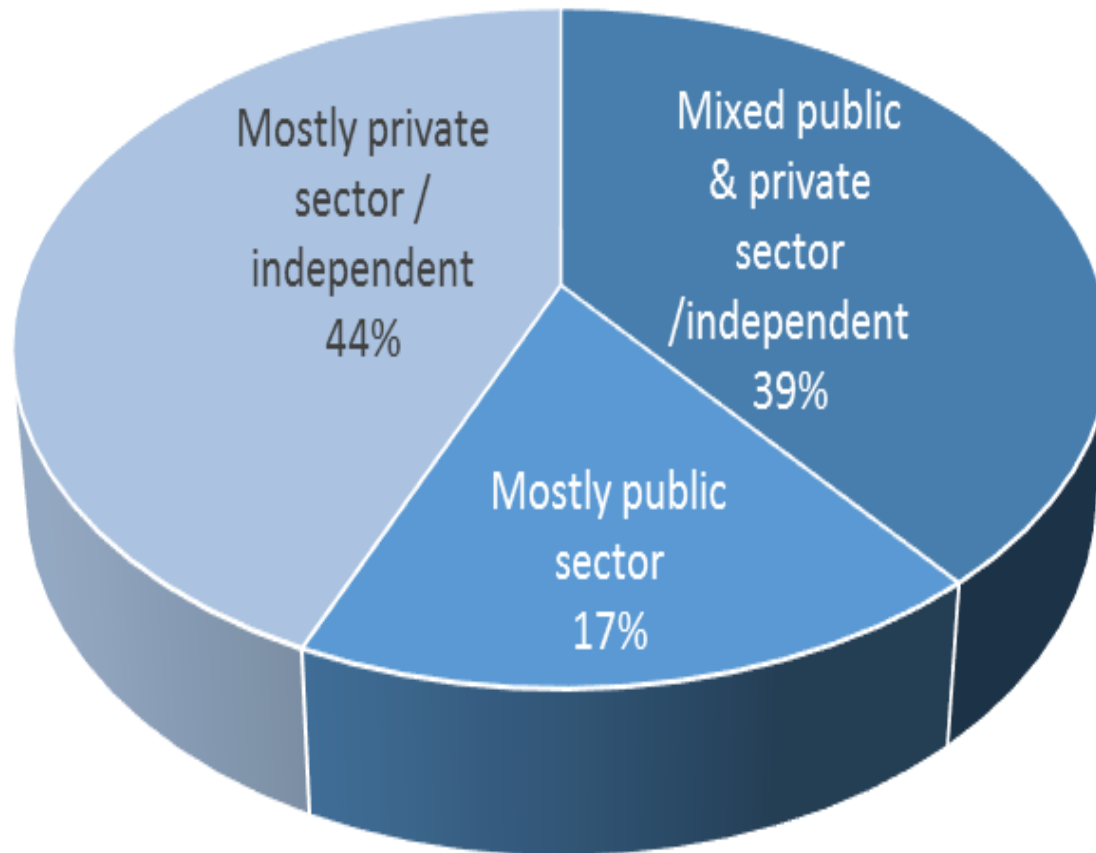
# Disclosure and transparency

## National approaches to aggregate reporting in 37 Adherent countries





## Who serves on the boards of directors?





# Challenges to good governance of SOEs in Asia

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- Politically motivated ownership interference leading to unclear lines of responsibility and a lack of accountability and efficiency losses in the corporate operations.
- The top management is often closely linked to the national executive powers, and in some cases important corporate decisions are made directly by the government bypassing the corporate decision chain. A widespread example is the case where politicians bypass SOEs' boards of directors to directly appoint CEOs.
- While many Asian jurisdictions have implemented mechanisms for disclosing financial and non-financial information concerning their SOEs, this is mostly done either on the individual SOEs' websites or via a central web site. Few governments provide such information in an aggregated and consistent manner.

Source : Asia-Pacific Network on Corporate Governance of SOEs

<https://www.oecd.org/corporate/corporategovernanceofstate-ownedenterprisesinasia.htm>

OECD (2020), Transparency frameworks for state-owned enterprises in Asia,

[www.oecd.org/corporate/transparency-frameworks-soes-asia-2020.htm](http://www.oecd.org/corporate/transparency-frameworks-soes-asia-2020.htm)



So, what should be the 3 top priorities for reform?

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- Ensure central control over the exercise of state ownership.
  - Develop and communicate financial and non-financial objectives for each SOE.
  - Aggregate annual reporting and accountability to the relevant state bodies.
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- And, while we are about it...
  - ....professionalise the boards of directors.



# Asia-Pacific Network on Corporate Governance of State-Owned Enterprises

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The Asia-Pacific Network on Corporate Governance of SOEs provides a forum for government representatives and relevant non-governmental stakeholders from 22 economies in the region to share experiences, identify good practices and develop recommendations for reform to improve state ownership practices and strengthen the [OECD Guidelines on Corporate Governance of State-Owned Enterprises](#).

- This year, the 14<sup>th</sup> Meeting of the Network is taking place via three Zoom video conferences on 8 September, 6 October and 3 November each of ½ day duration. It is organized with support from the Korea Institute of Public Finance and ADB.
- The third video conference on 3 November will consist of two thematic sessions. The first will serve as a platform to compare national experiences with remuneration of SOE boards and senior management. It will be followed by a final session on national approaches for preventing corruption and enhancing business integrity in the SOE sector, building on the recently launched [OECD SOE Anti-Corruption and Integrity Implementation Guide](#).
- For speaking roles or participation, please see contact details at the Network website: <https://www.oecd.org/corporate/corporategovernanceofstate-ownedenterprisesinasia.htm>



## Resources

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

<http://www.oecd.org/corporate/soes/>