Governance of State-Owned Enterprises
Good Practices and International Trends

Baku, 14 June 2017
Corporate Governance: the Logic

Objective: Maximize Value

Owners

Managers

Board

Owners: Accountable to
Managers: Report to
Board: Guide and monitor

Provide capital
Elect & dismiss

Adapted from IFC 2008
SOE Corporate Governance: Key Aspects

- **The State as Owner**
- **Supervisory Board**

**Legal and Ownership Framework**

- Performance Management
- Financial discipline
- Transparency and Controls
- Equal Treatment of Shareholders
- Relations with Stakeholders
SOE Ownership: Key Functions

**Appoint**
- Board members
- External Auditor

**Direct and Guide**
- Strategic Objectives
- Remuneration Policies
- Return Targets

**Monitor**
- Financial Performance
- Financial Risks
- E.S.G.* Aspects

**Report** on SOE Sector and Ownership Activities

* Environmental, social and governance
Institutional Arrangements for SOE Ownership

Ownership Model

- Centralized
- Advisory/Hybrid
- Decentralized

Key Ownership Bodies

- Central Ownership Entity
- Coordinating Body
- Lines Ministries
Advantages of Centralized Model

- Clearer **separation between ownership and policy** formulation at sector level
- More **consistent and coherent ownership** practices
- **Pooling** of specialized resources and expertise
- Central point for **data collection** on SOEs and **monitoring** of SOE performance
- More efficient **management of financial/fiscal risks** associated with SOEs
- State’s increased ability to **report on ownership role**
Recent Trends in SOE Corporate Governance
Trends in SOE Corporate Governance
Ownership Function

- Centralization and professionalization
- Modern performance monitoring
- Aggregate reporting
- Development of rationale for ownership of economic activities
Trends in SOE Corporate Governance
Supervisory Boards

• Appointment of independent board members
• Systematic evaluation of board members
• Specialized committees
Trends in SOE Corporate Governance

Other

- Regulation of procurement practices
- “Integrated dashboard”
- Sustainability reporting