

Corporate Governance of State-Owned Enterprises

THE ROLE OF STATE-OWNED ENTERPRISES

State-owned enterprises—SOEs—account for 20 percent of investment, 5 percent of employment, and up to 40 percent of domestic output in countries around the world. SOEs deliver critical services in key economic sectors, including utilities, finance, and natural resources. In many countries, large manufacturing and services enterprises remain in state hands. Today, SOEs around the world face strong pressure on multiple fronts to improve their performance. They are being pushed to:

- Enhance their competitiveness as a way to boost the economy as a whole, particularly in nations where they play a dominant role
- Increase their operational efficiency and cost effectiveness in the delivery of essential infrastructure, financial, and other services to businesses and consumers
- Reduce their fiscal risks and burdens
- Demonstrate better transparency and accountability in the use of scarce public funds

IFC'S RESPONSE

IFC's efforts are integrated into the World Bank Group's broader SOE reform work, which includes corporate governance and financial management. This involves assessing the state of SOE corporate governance in various countries, providing policy recommendations and actions plans, and supporting reform implementation through advisory and lending operations.

IFC's corporate governance professionals intervene in collaboration or coordination with World Bank-led teams to:

- **Develop corporate governance frameworks** aimed at strengthening the state's monitoring of SOE governance and performance
- **Train SOE board directors**, including state nominee and independent directors to empower SOE boards and develop board practices in line with international standards
- **Train government officials** of state ownership entities and line ministries as well as SOE managers responsible for preparing and implementing governance reforms on issues such as exercising the rights of the state as shareholder
- **Design and implement SOE director training and certification**, in partnership with key market intermediaries, including institutes of directors, business schools, and SOE-specific academies



BACKGROUND

Corporate governance is defined as the structures and processes by which companies are directed and controlled. Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk, and safeguard against mismanagement. It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns. Corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities.

IFC CORPORATE GOVERNANCE GROUP

The Group brings together staff from investment and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family business governance. The Group also supports corporate governance improvements and reforms in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks regionally and globally.

IFC SOE GOVERNANCE TRAINING CURRICULUM

The SOE governance training curriculum, developed by IFC, meets the needs of corporate governance training institutes, state ownership entities and corporate governance professionals. It features materials to help director training organizations as they develop training programs for SOE directors, train SOE directors, and support state ownership entities as they seek to professionalize the state's nominee directorships.

REGIONAL EXAMPLES

IFC's corporate governance teams work at the firm, market, and regulatory levels, deploying a multi-pronged approach to target the range of stakeholders involved in improving the governance of SOEs.

In **Colombia**, IFC and the World Bank are jointly supporting the government in its efforts to implement corporate governance practices as required by an OECD corporate governance committee. This support includes advising the Ministry of Finance on the creation of a new ownership agency, developing policies for appointing SOE board members, and training SOE board members. The IFC and World Bank team also assessed the governance practices of Colombia's foreign trade development bank. The assessment helped raise awareness about the importance of depoliticizing boards of SOEs.

In **Egypt**, IFC and the World Bank have a joint mandate to improve the corporate governance practices in the oil and gas industry. The World Bank's *Modernization Project for the Energy Sector* includes an IFC work program to reform the governance practices of energy SOEs, with the goal of preparing these firms to go public with initial public offerings. Efforts include crafting a corporate governance code and equipping SOE boards with knowledge and tools to drive company-wide governance improvements, from the holding level through to subsidiaries.

In **Serbia**, IFC helped the Ministry of Economy conduct an analysis of corporate governance practices in state-owned enterprises, with a view to introducing a certification program for supervisory board members. This engagement is at the core of the World Bank Group's country strategy for Serbia, which aims to reform the governance of state-owned enterprises and complements other activities being undertaken by the World Bank. It also aligns with the government's economic reform program, which prioritizes the professionalization of state-owned enterprises.

In **Sri Lanka**, IFC and the World Bank are building a director training certification program for SOE board directors. The program will be offered by the Sri Lanka Institute of Directors, an IFC partner in general director training programs. Through the SOE director certification program, the country's SOE board directors will gain both corporate governance and leadership skills.

TRAINING METHODOLOGY

Training for transformation is a key component of IFC's corporate governance advisory projects. The SOE Governance Training Curriculum is aligned with the methodology of its flagship Board Leadership Training Resources. It places a unique emphasis on training that maximizes the learning experience. Each module is designed to provoke discussion and debate and uses interactive strategies to enrich training for adult learners. By encouraging participants to draw on personal experiences, their development is reinforced by sharing knowledge and board room practices in a way that addresses the challenges that many SOE board directors face.

SELECTED RESOURCES

[Private Sector Opinion: The State of Governance at State-Owned Enterprises](#), 2018

[Corporate Governance of State-Owned Enterprises: A Toolkit](#), 2014

[IFC Corporate Governance Progression Matrix for State-Owned Enterprises](#), 2006

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July 2018