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Latvian experience in Governance of State-owned enterprises

Dzintra Gasūne
Head of State-owned enterprises governance division
Cross-Sectoral Coordination Centre
Republic of Latvia

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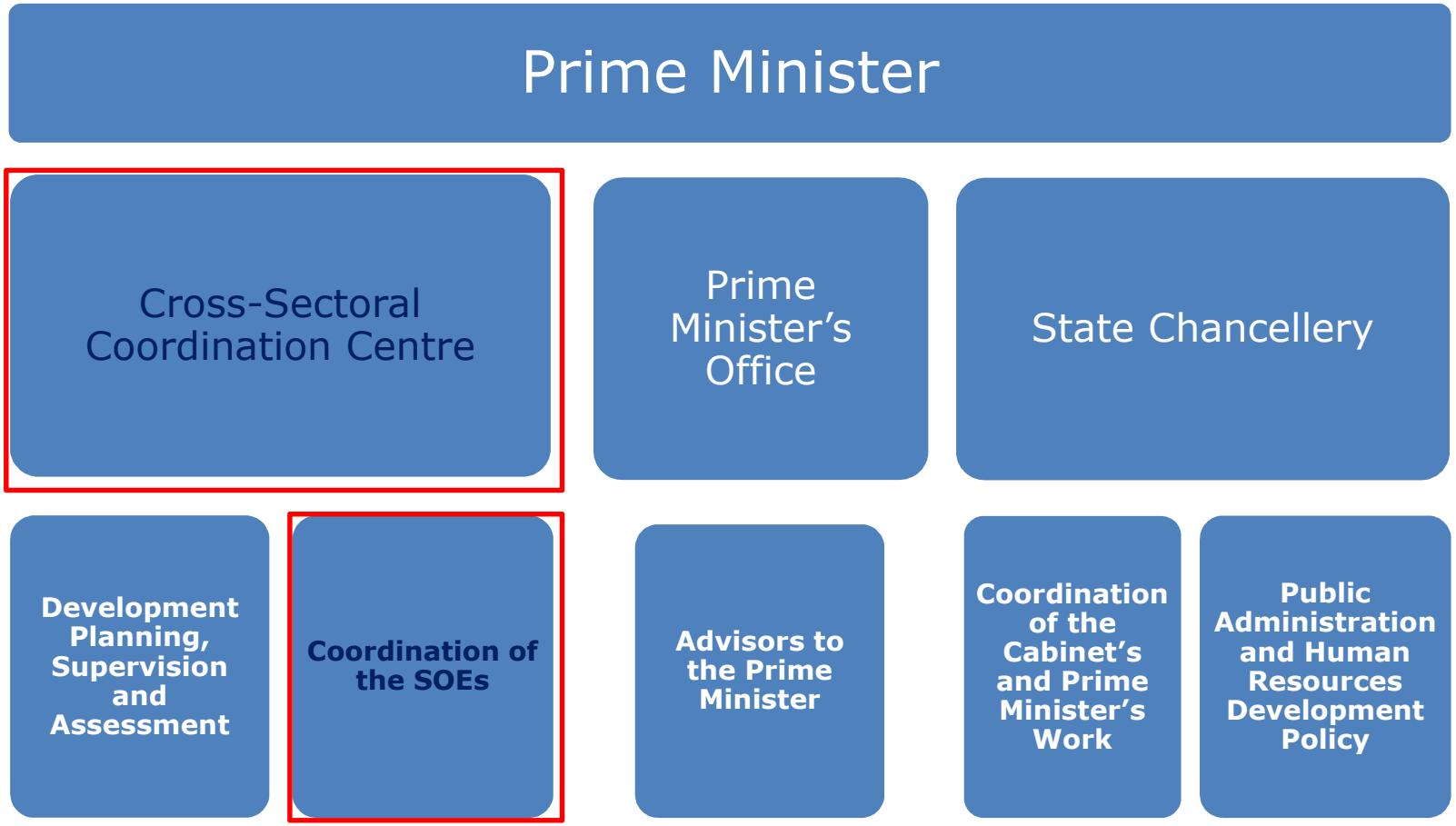
Organisational Structure



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Main tasks of the Cross-Sectoral Coordination Centre (CSCC)

1 December 2011

CSCC established

Development, monitoring and assessment of *National Development Plan* and *Sustainable Development Strategy of Latvia 2030*

Contributing and implementing the Declaration of the Cabinet of Ministers and its Action Plan

State-owned enterprise governance

Budget reviews

Center for demographic issues

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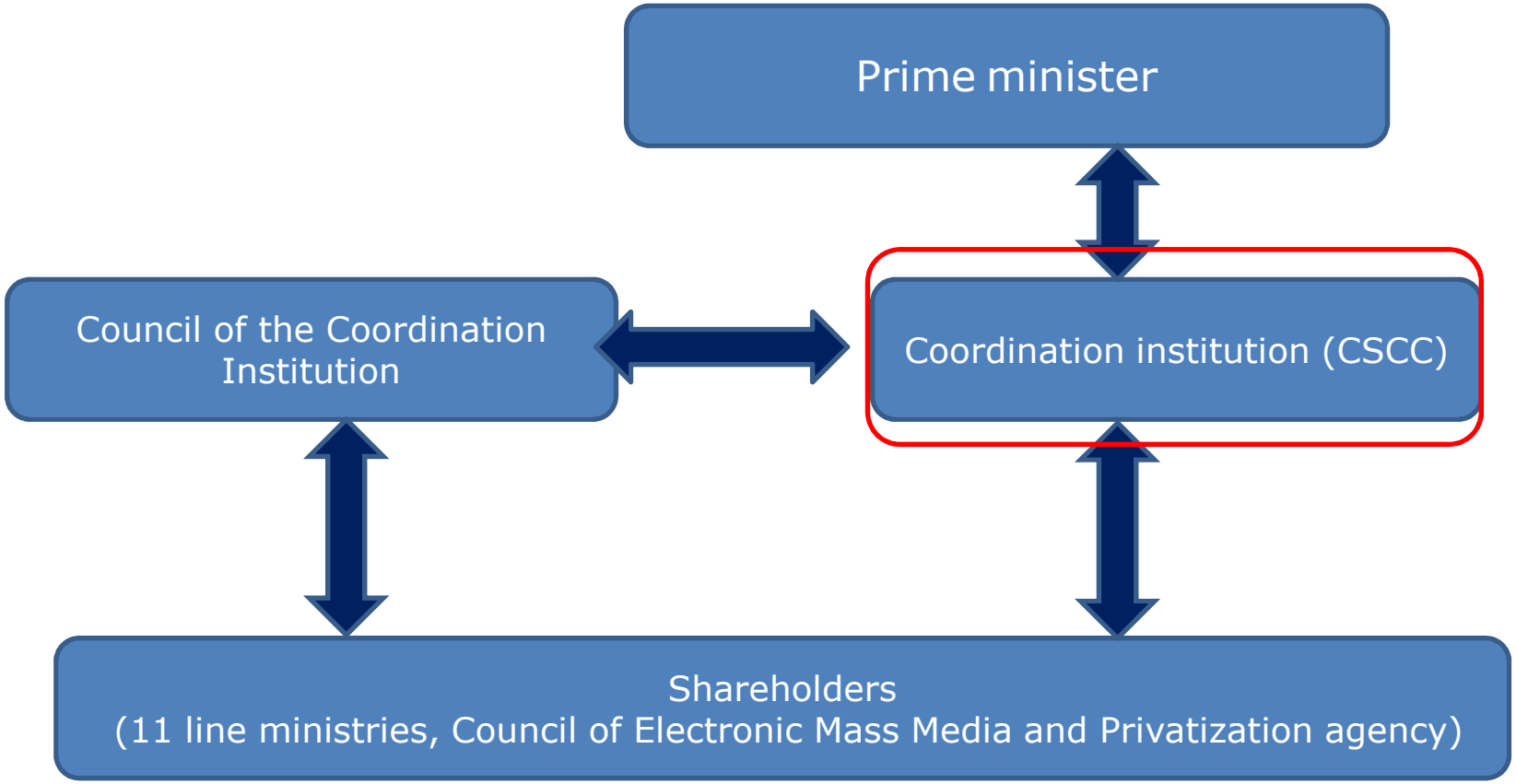
Governance of the SOEs

Partly centralized Model



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Main responsibilities of Coordination institution (CSCC)

From June 2015

- Elaboration of governance guidelines
- Evaluation of SOE strategies and significant transactions
- Consultations to the government on dividend policy of SOEs
- Organizing training for employees of line ministries and SOEs
- Elaboration of annual aggregated report on SOEs
- Consultations to the government regarding state ownership
- Participation in nomination processes for selecting members of management and supervisory boards

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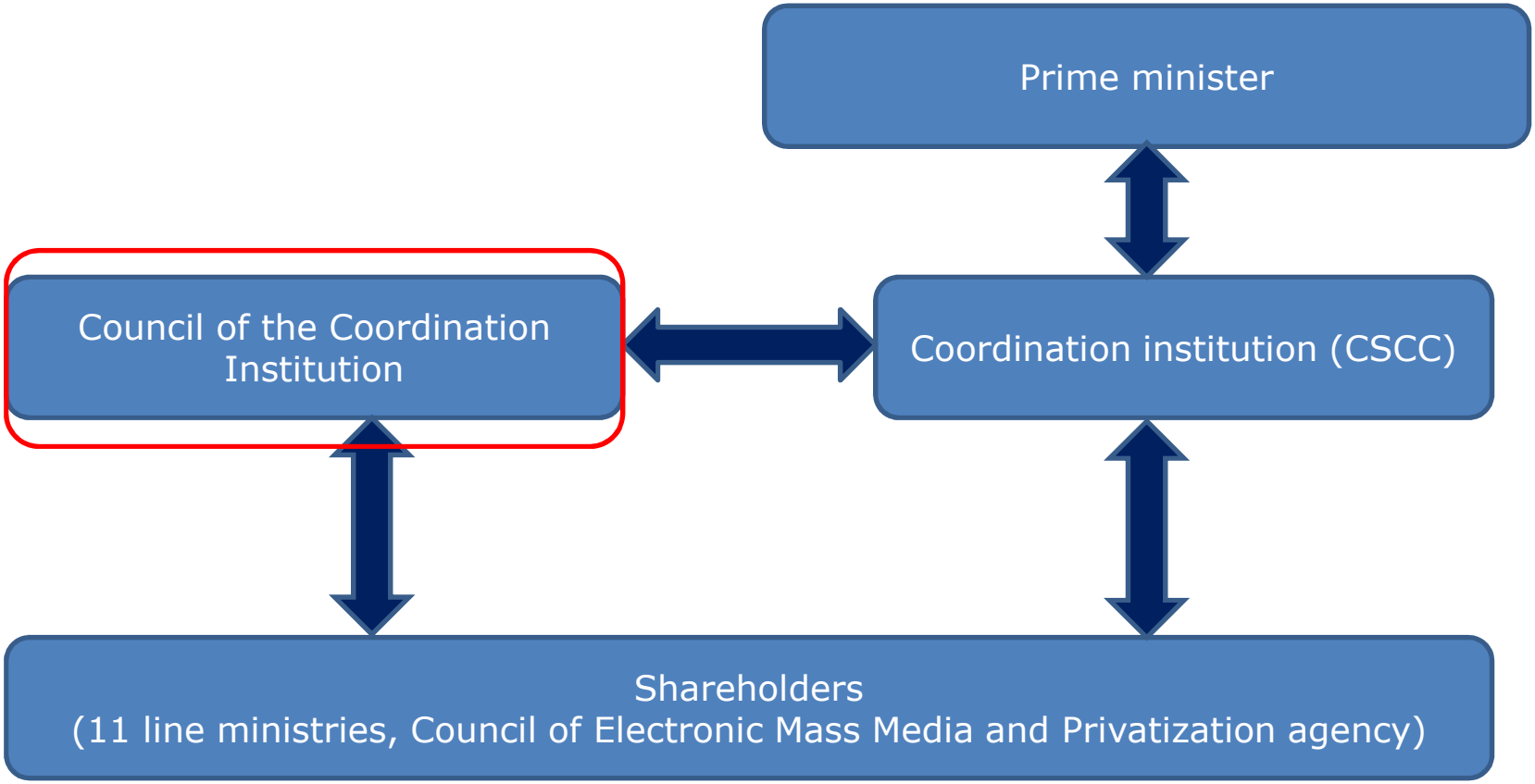
Governance of the SOEs

Partly centralized Model



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Council of the Coordination Institution

From June 2015

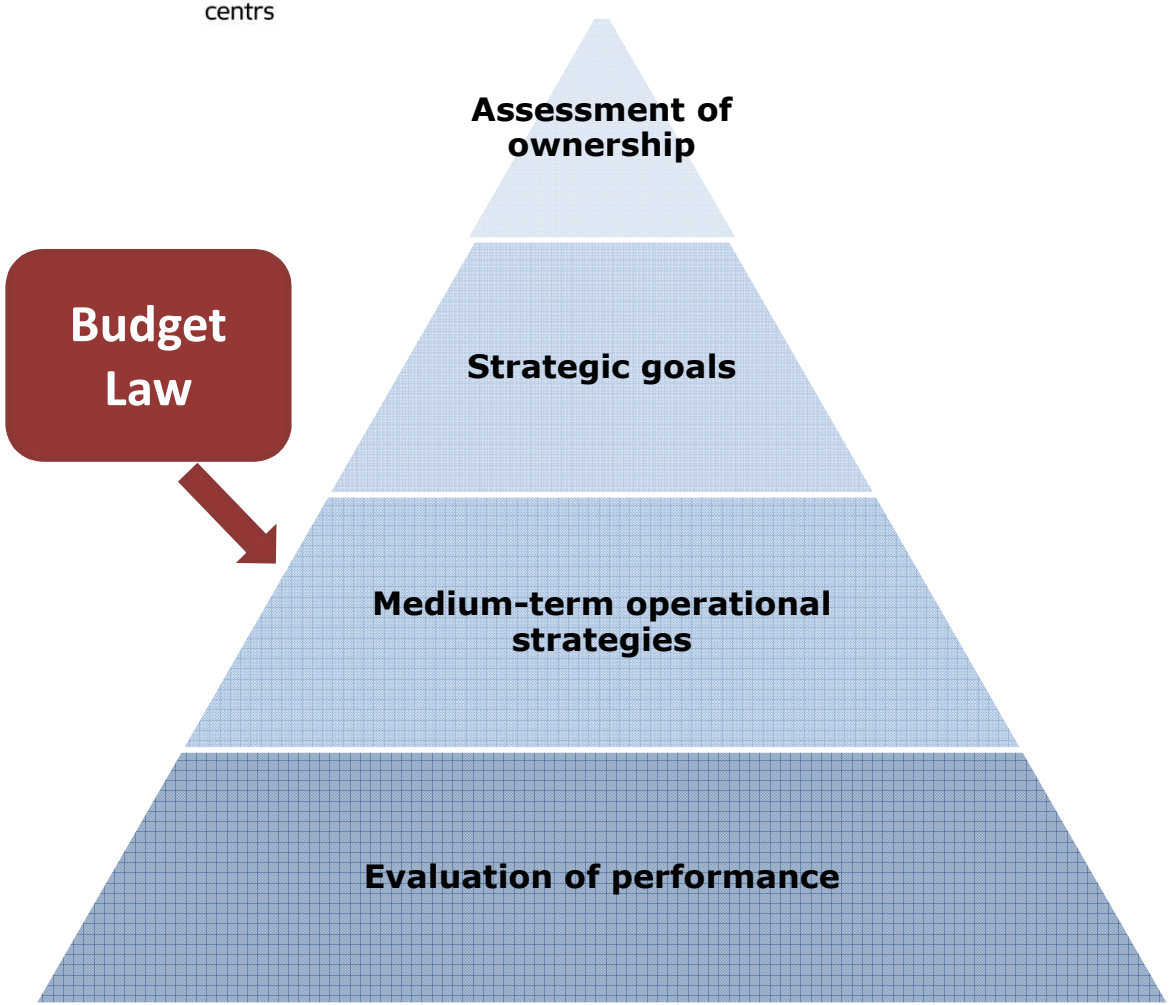
Reviews draft guidelines drawn up by the CSCC

Assesses the statement of the CSCC regarding the draft medium-term operational strategy
(if the holder of State capital shares or the council of a SOE does not agree with the statement prepared by the CSCC)

Provides proposals to the CSCC regarding other issues related to the management of capital shares of a public person

Pārresoru koordinācijas centrs

Legal framework and Governance



Law on Governance

State administration Structure law

Guidelines on setting strategic goals for SOEs

Guidelines on elaboration of SOEs strategies

Regulation, Guidelines for evaluation of performance

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Law on Governance

defines general framework of SOE governance while delegating:

to the Government to approve regulation on:

- ✓ standard articles of association
- ✓ nomination procedures to select candidates to be elected as management board members or supervisory board members
- ✓ number of management board members and supervisory board members as well as their remuneration depending on the size of SOE
- ✓ decision-making procedure regarding dividend payments to the state budget
- ✓ performance evaluation

to the CSCC to approve guidelines on:

setting strategic goals for SOEs, elaboration of SOEs strategies, information disclosure and evaluation of performance, nomination procedures, remuneration

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Justification of state ownership

State administration structure law

Article 88

Market deficiency

Goods and services strategically important for national security and development of state/municipality

Strategically important properties

State ownership to be reassessed at least once in 5 years

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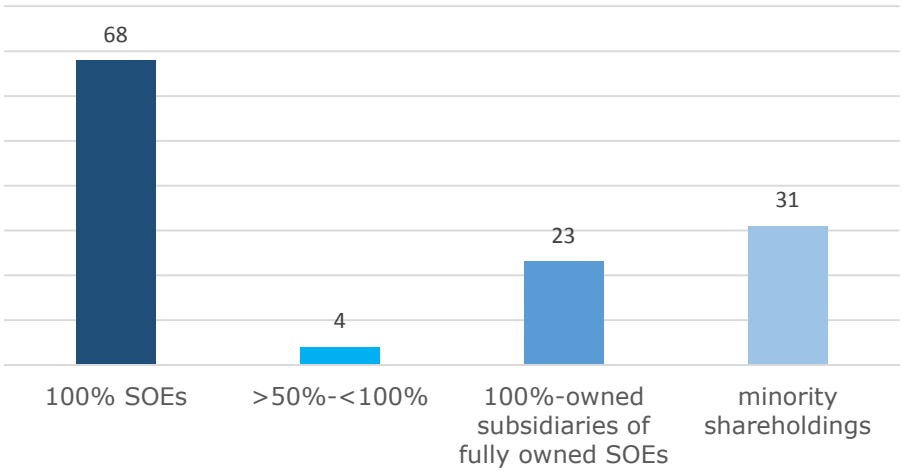
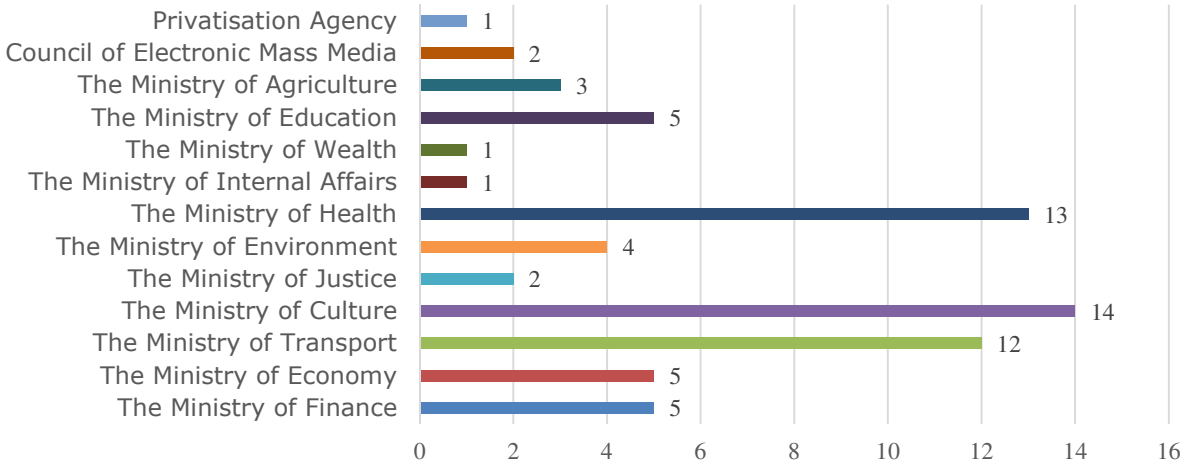
SOEs in Latvia



Shareholders of SOEs



By 01.01.2018.

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SOE portfolio in Latvia

ROE (%)

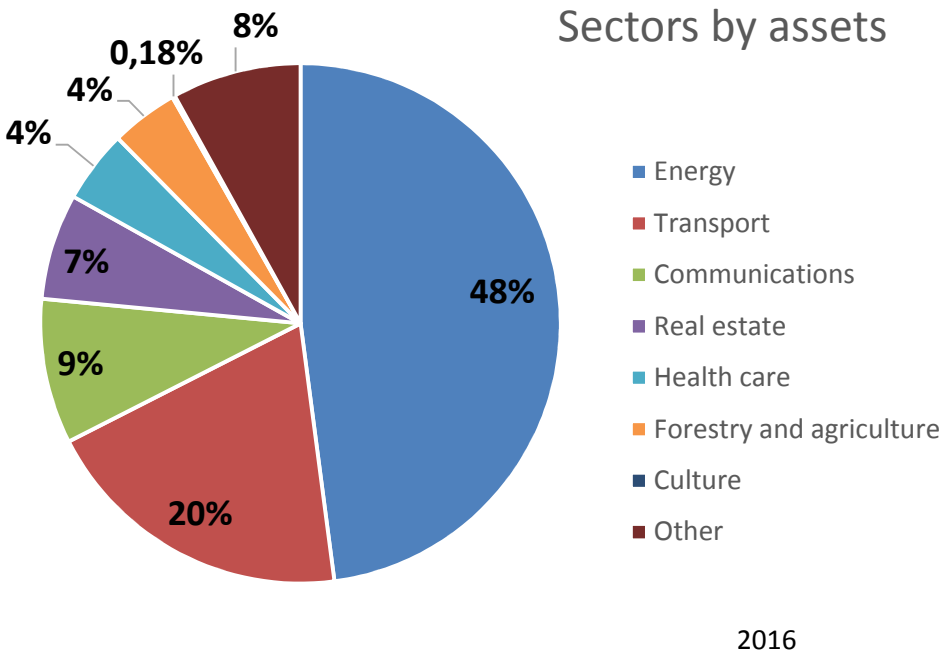
2014	2015	2016
-0.6	4.4	4.9

Total assets (M,EUR)

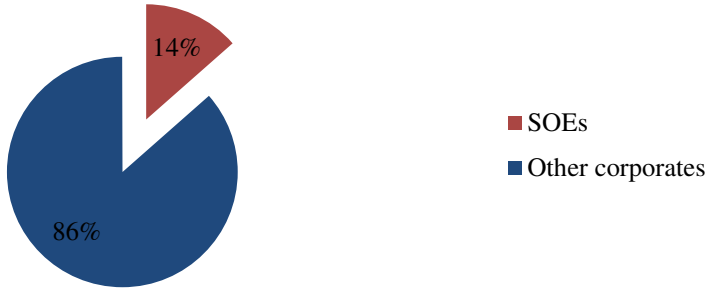
2014	2015	2016
11 085	8 167	8 727

Employees (K)

2013	2014	2015	2016
53.6	53.8	52.7	52.1



Assets of SOEs 14% of overall corporate assets



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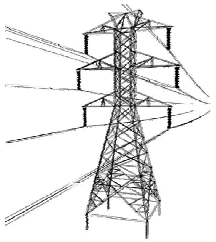
Setting strategic objectives of SOEs

General strategic objective of the SOE

- ✓ is specified by the Cabinet of Ministers
- ✓ owner wants to achieve objective through participation in the SOE
- ✓ originates from legal acts or policy planning documents



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Development of medium-term operational strategies

Law on Governance defines the authorities involved in adoption of strategy and its general features

Guidelines provide more detailed description on the content of the strategy

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Assessment of SOEs performance results

The Law on Governance states:

- ✓ Regular (ongoing) assessment every year
- ✓ Shareholder's responsibility assessing the achievement of the objectives for the SOE (taking into account the statements from the line ministry and the Coordination Institution)

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Financial reporting and database on financial data

Data – publicly available

since 2013

SOEs publish on their websites:

- interim reports (unaudited) of three, six, nine and twelve months within two months after the end of the reporting period
- annual reports (audited) within five months after the end of the reporting period

www.valstskapitals.lv is a public database with historic financial of SOE since year 2013

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Regulation on dividend payments

Approved on 22 December 2015

- ✓ Minimum percentage of dividend from profit is 50%
- ✓ Dividend payment is set for each SOE in its strategy and examined by Coordination institution (CSCC)
- ✓ If percentage of dividend is proposed lesser than in regulation or annual budget law then shareholder submits its proposal to the Government and it can decide to permit SOE to pay less dividend or not to pay them at all
- ✓ Conditionalities for eligibility of not paying dividend were amended

Problematic issues:

- ✓ Need of specific dividend policy for non-commercial SOEs (healthcare, culture, etc.)
- ✓ Medium term budget set dividend payment threshold at 80% in 2018 (for year 2017), 85% in 2019

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Regulation on number of board members and their remuneration

Approved on 22 December 2015

Most important aspects:

- ✓ Sets the criteria and size groups for SOEs that determine the number of board members and limits of remuneration
- ✓ SOEs size criteria follows EU directive – three groups
- ✓ Remuneration – balanced to average remuneration in private sector

Problematic issue

- ✓ Regular research to provide evidence-based knowledge on remuneration in the private sector

SOE size group	Members in		Coefficient of remuneration for chairman of	
	management board	supervisory board	management board	supervisory board
Small	≤ 2	none	≤ 5	none
Medium	≤ 3	≤ 3	≤ 8	≤ 2,4
Large	≤ 5	≤ 5	≤ 10	≤ 3

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Regulation on nomination procedure of board members

Approved on 1 December 2015

Most important aspects:

- ✓ Minimum requirements for candidates (education, command of languages, work experience)
- ✓ Criteria for nomination committee members
- ✓ Clear procedure, openness and transparency while keeping the names of candidates confidential

Problematic and open issues:

- ✓ Engagement of recruiting service companies (costs)
- ✓ Maintenance of the candidates database for future nomination processes (protection of personal data)
- ✓ Centralized nomination procedure for supervisory board members

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Further progress on SOE governance coordination

Continued assessment process of medium-term strategies of SOEs and communication with shareholders to achieve that **all SOEs have active medium-term strategies**

Proposal for Government on approach regarding **setting adequate return on equity ratios for SOEs**, depending on sector and extent of non-financial goals

The analysis on introduction of **supervisory boards in large SOEs**, analysis of the **criteria for independent directors**, and analysis on potential expansion of the scope of **SOEs eligible to establish supervisory boards**

Elaborating new **SOE monitoring procedures for financial results and targets**

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Key element = Public Support

Stakeholder involvement in the SOE reform

Annual Report, highlighting financial performance of SOEs

National Conference for SOEs on Corporate Governance Reform, Riga 19.02.2016.

Strong political support by Māris Kučinskis Prime Minister of Latvia

Active conference participation of SOE board members, Riga 10.11.2017.

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