



27 May 2016

## **Progress report of FICIL's recommendations on Competitiveness of State-Owned Enterprises**

### **1. Assessment of the current situation and retrospect to the progress achieved**

Since the submission of the FICIL position paper on Competitiveness of State-Owned Enterprises in May 2012 to the Government of Latvia a significant progress has been achieved in setting out legislative framework for governance of the state owned enterprises (SOE). On 16 October 2014 the Law on Management of Capital Shares and Companies of Public Persons has been adopted. In May 2015 the Cross-Sectoral Coordination Center was appointed as an institution carrying out duties of the coordination institution of the management of state-owned companies and shareholdings.

At the end of 2015 and in the beginning of 2016 a number of implementation regulations by the Cabinet of Ministers have been enacted setting out, amongst other, procedures for evaluation of results of activity and financial results of SOEs, principles for projection and distribution of dividends, procedure for nomination of candidates to the management boards and supervisory boards, principles for determination of number and remuneration of members of management institutions of SOEs.

At the end of March 2016 the Cross-Sectoral Coordination Center has enacted Guidelines on Determination of Overall Strategic Goals of the State Shareholding, Guidelines on Elaboration of Medium-Term Activity Strategy of SOEs and Guidelines for Publishing Information for SOEs and Holders of Capital Shares.

As follows from the above, legislative framework is largely in place. In practical terms, certain measures are implemented already. For example, in the beginning of February 2016 the Cross-Sectoral Coordination Center has issued instruction for provision of information for annual public report, as well as released a Public Report on the State-Owned Enterprises and Shares in 2014.

However, implementation of the framework is still underway in respect of many significant matters, including re-establishment of the supervisory boards in large SOEs (to be achieved during 2016), elaboration of medium-term activity strategy of each SOE, etc.

## **2. Matters that need immediate attention**

- 1) appointment of supervisory board members in large SOEs in line with the principles of openness and based on professional qualifications in order to regain public trust in the supervisory boards;
- 2) ensure that medium-term strategies to be elaborated by SOEs balance the state's interests to receive adequate return on capital and the operational goals of each individual SOE;
- 3) timely provision of information on the results of operation of SOEs and shareholdings by the state;
- 4) strict enforcement of liability provisions against members of management institutions to address abuse of powers.

## **3. Recommendations**

Longer term recommendations:

- A political discussion to be opened on implementation of partially centralized (dual) management model of SOEs (companies with commercial goals should operate under a centralized management institution (CMI) that acts as a shareholder too).
- The selection process of members of the management boards / supervisory boards in SOEs should be centralized. A database of competent candidates must be created. Holders of capital shares and supervisory boards must be involved in formulation of requirements for vacant positions while the actual selection process of the candidates shall be entrusted to nomination committees.
- Greater attention should go to overseeing the management of municipal companies: more detailed regulation to be enacted setting out the same principles which are applicable to the SOEs (including regarding transparency and openness, management selection processes, fair competition (tenders and public purchases, services), etc.)
- The state should clearly define its expectations with respect to responsible business conduct, strategic goals, non-financial deliverables. This information should be publicly available through the webpage of the Cross - Sectoral Coordination Centre.