



THE MENA COMPACT FOR SOE REFORM

Improving the Performance and
Governance of State-Owned Enterprises

Draft



CONTENTS

1.

Preamble

page 1

2.

The Purpose of the MENA Compact

page 2

3.

The Main Principles of the MENA Compact

page 3

4.

Administration of the Compact

page 6

1. PREAMBLE

State-owned enterprises (SOEs) play an important role in the economies and societies in the Middle East and North Africa (MENA) region. This is in part due to the historical evolution of the role of the State which has been reinforced by the gradual expansion of the scope of SOEs now covering a large number of sectors. While the private sector often leads in growth and job creation, SOEs can have a significant impact on employment, innovation, and economic development. Therefore, more effective approaches to management of SOEs are expected to contribute significantly to better economic management and social outcomes in the MENA region.

The MENA Compact for SOE Reform aims to foster consensus on good ways to manage the large SOE sector in the MENA region with agreement on core common practices. The aim is to improve their performance, as well as their governance for better fiscal and economic outcomes and provision of equal playing field to unleash private initiatives across the region.

The aim is to improve their performance, as well as their governance for better fiscal and economic outcomes

The MENA SOE Compact considers SOEs from four different perspectives:



1
Corporate Governance



2
Competition



3
Climate change and sustainability



4
Fiscal management

Under each of these thematic areas, the Compact stipulates fundamental principles considered essential to maximize the performance of SOEs and their contribution to society. The principles are based on a number of international benchmarks including the OECD Guidelines for the Governance of State-owned Enterprises, the IMF Fiscal Transparency Code, and the United Nations Sustainable Development Goals. Each of the principles in the Compact is, in turn, supported by a series of commitments.

The World Bank is committed to helping countries that are signatories to the Compact in developing reform roadmaps that support the implementation of the reform principles included in the Compact.



2. THE PURPOSE OF THE MENA COMPACT

The intent of the initiative is to create momentum, cohesion, and peer learning on SOE governance issues, which most MENA countries are committed to, but where further progress is warranted. Parties to the Compact are expected to develop a Roadmap for Reform for each thematic area to guide the implementation of their commitments. Progress against the commitments will be assessed regularly to: assist in measuring progress; to form the basis for learning across the region and internationally; and to provide a framework for support from development partners.

Parties to the Compact are expected to develop a Roadmap for Reform for each thematic area

3. THE MAIN PRINCIPLES OF THE MENA COMPACT

The parties subscribe to the following principles and commitments:



THEME I: STRONG CORPORATE GOVERNANCE

Principle 1: Clear rationales for state ownership

Commitments:

Endorse formal objectives and a rationale for state ownership.

Apply the rationale for state ownership to the state's portfolio and decide what activities should and should not remain in state hands, and what activities are commercial or entail a strong public sector obligation. This rationale will consider the strategic nature of the activities / public services carried out by SOEs.

Develop an ownership policy or ownership strategy that outlines the methods and institutions needed to achieve state ownership goals.

Principle 2: The efficient organization of the state's role as an owner

Commitments:

Establish centralized oversight to monitor SOE performance, govern SOEs actively and support the development of sound SOE policies.

Set up a clear reporting system to allow the ownership entity to regularly monitor and assess SOE performance.

Separate the state's roles as shareholder, policymaker, and regulator.

Clarify and formalize the decision-making authorities and thresholds of the state, boards, and executives in accordance with best practice.

Establish commercial SOEs according to standard legal forms under company law (or equivalent thereto).

Establish a code of governance for SOEs in line, to the extent possible, with private sector practices and international best practices in terms of SOE governance.

Principle 3: Transparency and disclosure

Commitments:

Require annual financial reports to be adhered to gradually and, to the extent possible, with International Financial Reporting Standards (IFRS), and by default to local norms.

Require annual financial reports to be audited using International Standards for Auditing (ISA) by qualified independent external auditors.

Ensure timely, complete and fair disclosure concerning all material issues, including Environmental Social and Governance (ESG) matters.

Publish an annual "aggregate report" (or group holdings report) on the state's SOE portfolio, its management of the portfolio and SOE performance.

Principle 4: Effective SOE boards

Commitments:

Align, to the extent possible, SOE board duties and roles with private sector best practice, including responsibility for: controls; risk management; internal and external audit; integrity and anti-corruption; compliance; and financial and ESG reporting.

Ensure that the quality of SOE boards is enhanced through a formal, transparent, and merit-based nominations process.

Constitute effective boards that have appropriate autonomy, accountability, independence, and diversity.

Evaluate SOE boards against best practice benchmarks, and require boards to implement annual governance improvement plans to implement best practices.

Ensure that effective policies and procedures exist to minimize and manage conflicts of interest and related-party transactions.

Ensure that board members have the required expertise by supporting training activities.



THEME II: FAIR COMPETITION

Principle 5: Competitive neutrality for SOEs operating in the marketplace

Commitments:

Progressively adapt laws, regulations, and practices in order to encourage fair competition between SOEs and the private sector.

Ensure that SOEs and private sector firms working in the same sector are treated equally (de jure and de facto) in terms of tax treatment, regulatory treatment, and access to factors of production (land, labor and finance).

Disclose the Public Service Obligations (PSOs) of SOEs and their costs.

Ensure fair tariffs and compensate SOEs fairly for the costs of delivering PSOs.

Ensure fair, transparent and efficient procurement for SOEs.



THEME III: CLIMATE CHANGE AND SUSTAINABILITY

Principle 6: Responsible and climate-friendly business practices

Commitments:

Ensure that SOE boards and management take into account and report on sustainability factors in the conduct of the business. Action plans will be put in place to gradually integrate sustainability factors.

Encourage SOEs to observe standards of responsible business conduct (RBC) by establishing RBC policies.

Require the establishment of effective anti-corruption and whistle-blower programs.

Progressively introduce mandatory climate disclosure and climate risk assessments.



THEME IV: SOUND FISCAL MANAGEMENT

Principle 7: Sound fiscal management and frameworks of SOEs

Commitments:

Ensure tracking of fiscal risks including contingent liabilities, and encourage better reporting thereof.

Identify, value and account for assets at market value using the necessary tools and methods.

Limit explicit and implicit state guarantees to SOEs, and encourage greater non-sovereign lending.

Establish dividend policies for SOEs with positive results.



4. ADMINISTRATION OF THE COMPACT

The parties commit to developing a Roadmap for Reform that will guide the implementation of their commitments. Since each country has different conditions, challenges and approaches, Roadmaps should respond to the national context and needs of each individual country. Roadmaps should include actions and implementation benchmarks, and could, where relevant, also include sector-specific actions and implementation benchmarks. The sequencing of reforms will also be driven by the national context. Progress against the commitments will be assessed regularly to assist in measuring improvement. The World Bank will be available to support the development of Roadmaps and Implementation Progress Reports, and it may also be available to support the implementation of specific commitments within the Roadmap.

Roadmaps should include actions and implementation benchmarks, they could also include sector-specific actions and implementation benchmarks

IMAGE REFERENCES

Coverpage: GTS Productions / Shutterstock

Page ii: RuslanKphoto / Shutterstock

Page 2: Pand P Studio / Shutterstock

Page 6: marwa m. dakhakhny / Shutterstock

