

Integrated State-Owned Enterprises Framework (iSOEF) - World Bank



Objective and features

1. Objective

The overall aim of iSOEF is to assess the adequacy of the policy and institutional framework underpinning the management of state-owned enterprises (SOEs) and provide guidance on improving the performance of SOEs in a country, and their contribution to economic development.

The objective of Module 4 is to carry out diagnostics of SOE corporate governance and accountability mechanisms. This module summarizes the steps to be taken in assessing SOEs, highlights the key issues, and aids in development of policy reforms.

2. Institutional coverage

Entity-level, public corporations. The framework could also be used to assess the governance of parastatals, with some adaptations.

3. Technical coverage

iSOEF comprises five modules. Modules 1 to 3 address the role of SOEs in the market, and their fiscal and distributional implications. Module 4 focuses on SOE corporate governance. Module 5 takes a sectoral perspective, focusing on state-owned financial institutions. Each module can be applied independently and contains additional analytical tools and instruments to be used for diagnostics and assessment.

Module 4 covers the corporate governance and procurement functions of PFM and assesses six interrelated dimensions of SOE corporate governance: (1) legal and regulatory framework; (2) the state as owner; (3) performance management; (4) board of directors; (5) financial accountability, controls, and transparency; and (6) procurement.

4. Application method

Custodian. The framework could be used for self-assessment when it is made available to the public.

Methodology



5. Methodology

In carrying out a country diagnostic of corporate governance and accountability mechanisms, teams assess the overall institutional framework for SOE governance. In addition, for a limited number of economically significant individual SOEs in various sectors, the team assesses the way the framework is implemented in practice.

There are two assessment questionnaires - one for country-level assessment and one for entity-level assessment. There are 390 questions on country-level assessment in six key areas outlined in the technical coverage section above. There are 110 questions on entity-level assessments, covering areas such as commitment to corporate governance, board structure and functioning, financial oversight, shareholder's rights, and transparency and disclosure.

6. Benchmarking system

Narrative evaluation.

7. Linkage to PEFA framework

Monitoring of public corporations (PI-10.1) is linked to the financial reporting and performance management dimension of iSOEF Module 4.

8. Complementarity with PEFA framework

iSOEF provides further details on monitoring of SOEs across the dimensions of performance management and financial accountability and transparency.

Development and use

9. Development and coordination

Module 4 of iSOEF draws on and updates the World Bank Group's 2014 State-Owned Enterprise Corporate Governance and Risk Toolkit (CG-SOE) and presents an integrated approach that emulates the Financial Sector Service program. The reason for developing iSOEF is that existing tools, such as the CG-SOE Toolkit, do not assess fiscal implications of SOEs, distributional implications, and market implications on competitive neutrality. A broader set of guidance notes was developed in response to growing demand for an integrated analytical tool, especially from low-income countries (post global financial crisis) that can be used as part of policy dialogue for WB operations in several countries. An entity-specific questionnaire was added to the toolkit in addition to the existing one to assist the countries in assessing the institutional framework.

Module 4 was prepared by the WB Governance Global Practice and the International Finance Corporation (IFC). Input from other WB teams and external consultants were also considered. The development was funded by the World Bank Group. The framework's procurement aspect is taken from OECD's Principles on Corporate Governance, 2015. Consultations were made with donors, regional development banks, and subregional development institutions, such as ADB, AFD, EBRD, EC, FCDO, GIZ, IDB, IMF and JICA.

10. Assessment management

There are five steps in conducting the assessment:

- Step 1: Conducting preparatory desk review. All relevant reports and assessments available in the public domain are studied, including government or SOE websites, information from counterpart agencies (such as SOE ownership entities or the finance ministry), and WB documents (for example, systematic country diagnostics, country partnership frameworks, and project appraisal documents), among several others. Where available, PEFA fiscal risk reporting (PI-10) is studied to gain an understanding of the SOE reporting environment. Based on the available information, the assessment team could decide how many individual SOEs will be included as part of the assessment.
- Step 2: Adapting and distributing questionnaires for country- or entity-level assessment. Depending on the circumstances, the questionnaire can be completed by country authorities and/or SOEs or used as a list of data requirements for the WB team to conduct due diligence. The questionnaire can be customized to country context, especially for low-income countries. Questionnaires could be partly filled in during the desk review and validated during the interviews or could be filled in by the corporations or by an external consultant.
- Step 3: Interviewing key counterparts and/or holding focus group discussions. Several groups can be interviewed including institutions charged with SOE ownership functions (for example, a central ownership entity, finance ministry, or line ministries), institutions in the accountability chain (such as a supreme audit institution, securities market regulator, and professional audit firms), leadership of key SOEs (chief executive, chief financial officer, and the board chair), and the local institute of directors and professional accountancy organization.
- Step 4: Reviewing additional documents and validating the information. Documents include annual financial statements and management reports, auditor reports, management letters, and performance contracts.
- Step 5: Summarizing the analysis and writing the assessment report. The analysis is discussed with country stakeholders to help build buy-in on findings and recommendations, strengthen commitment to reform, and potentially identify further reform steps and assistance needed.

WB quality assurance procedures are followed. The report is discussed with the governments and is peer reviewed.

11. Uses by the government and members of the PFM community

The framework provides a snapshot of the SOE operations in the country and the findings can be used to design a reform action plan.

12. Sequencing with other tools

iSOEF framework is usually complemented with fiscal risk assessments to analyze the information on contingent liabilities. iSOEF can also complement AA-ROSC (D14) assessments with respect to financial accountability, controls, and transparency.

13. PFM capacity building

Recommendations may include capacity-building measures and can be integrated into the overall reform agenda of the country. Initiatives could include targeted technical assistance in developing countries through trust funds, sector-specific investment project financing, and WB-funded analytical and advisory activities, to support the strengthening of ownership function, legal framework, and management information systems, among others. The WB teams may collaborate with other development partners in developing the assistance.

14. Tracking of changes and frequency of assessments

The toolkit is not designed to track performance change over time. However, a decision on reassessments can be taken on a case-to-case basis.

15. Resource requirements

Average cost of conducting an assessment (Module 4) is about US\$100,000. Cost can vary based on the portfolio of SOEs which are a part of the assessment. The average time required to conduct the assessment and publish the report is about a year. The time required depends on the jurisdiction to be covered. The team should comprise an SOE expert, a corporate governance expert, and an economist with an understanding of the country context.

Transparency



16. Access to methodology

The custodian is planning to make the user guidelines available.

17. Access to assessment results

Disclosure of final reports is at the discretion of the government. Published reports are available on the [WB webpage](#).