

Corporate governance

ENSURING EFFECTIVE MANAGEMENT AND PRIVATIZATION OF STATE-OWNED ENTERPRISES

- ▶ Improving Slovenia's corporate governance remains a key challenge, particularly in relation to state-owned enterprises (SOEs).
- ▶ Better corporate governance of Slovenia's SOEs will enhance their value and can also support better outcomes in Slovenia's efforts to privatise many of its SOEs.
- ▶ Effective implementation of Slovenian Sovereign Holding, Slovenia's new state-ownership entity which is responsible for both improving SOE governance and managing Slovenia's privatisation programme, will be an essential component of Slovenia's future efforts to support a strong corporate sector and underpin future economic growth.
- ▶ Strengthening Slovenia's Company Law, including the framework for corporate and managerial accountability, and ensuring its effective enforcement, will also be important to support more vibrant capital markets.

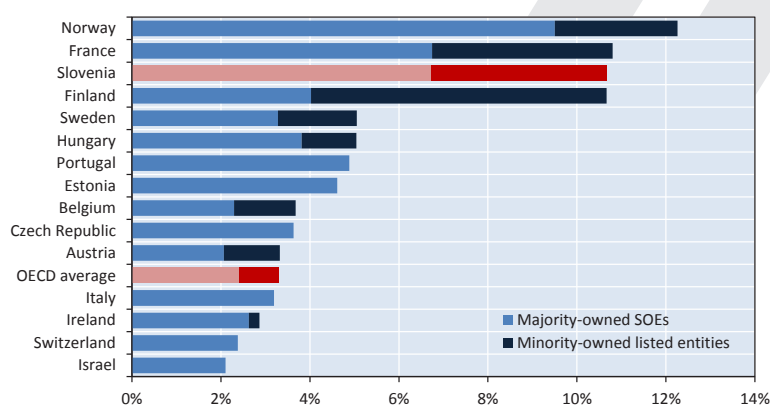
What's the issue?

OECD work suggests that Slovenia's model for economic growth has suffered from both corporate governance weaknesses and heavy reliance on state involvement in the economy. Despite some recent privatisation efforts, Slovenia's degree of state ownership in the economy remains one of the highest in the OECD, with majority- and partially-owned SOEs accounting for almost 11% of employment – more than triple the OECD average (see Figure).

Many of these state-controlled enterprises are poorly governed. This has negatively impacted the credibility and viability of Slovenia's relatively illiquid capital market. Market capitalisation of the 61 companies listed on the Ljubljana Stock Exchange as of the end of 2012 represented just 14% of GDP, compared to an OECD average of 84%. In addition, the inward stock of FDI is just above 30% of GDP, less than half the share in Estonia, Hungary or the Czech Republic. Weaknesses in

State-owned enterprises still play a strong role in the Slovenian economy

SOE employment as percentage of total national dependent employment, 2012



Source: OECD (2014), *The Size and Sectoral Distribution of SOEs in OECD and Partner Countries*, OECD Publishing.

the framework for the governance of state-owned banks and in their supervision also contributed to poor credit standards, excessive risk-taking and misallocation of credit.

More recently, Slovenia has implemented a range of reforms to tackle these problems. In response to OECD accession recommendations to establish and implement centralised and more transparent management of SOEs, a new law entered into force in April 2014, which provides legal authority for a centralised holding company – the Slovenian Sovereign Holding (SSH) – to consolidate the management and sale of its assets – previously spread out among several independently managed funds. The SSH has also issued a new corporate governance code consistent with the OECD's *Guidelines on Corporate Governance of State-Owned Enterprises*. In addition, a comprehensive asset management strategy encompassing 95 companies is to be submitted to Parliament for enactment in May 2015. This should boost Slovenia's privatisation efforts, which so far have progressed relatively slowly.

The broader corporate governance framework provides a relatively high degree of protection for shareholders, but in practice minority shareholders are widely dispersed and have limited economic interests in companies. The extent to which duties of directors in companies can be enforced has been limited. A number of questionable buyout and takeover transactions in the past suggest that there have been difficulties in appropriately regulating capital markets. It remains important to ensure the Securities Market Agency has the financial and operational independence to adequately exercise its function.

Amendments to the company law, expected to be enacted by summer 2015, would provide another set of meaningful achievements. Provisions require company groups to disclose business agreements and subject them to audit requirements and to clarify board responsibilities, including the use of a business judgment rule to ensure that directors act with due diligence in the interests of the company.

Why is this important for Slovenia?

The state's significant direct and indirect control over a large number of sizeable companies in the domestic market (largely focused in energy, transportation, banking and insurance) allowed past governments to exercise a substantial and sometimes opaque role. The absence of a strong state ownership function and good corporate governance in individual SOEs increases the risk that companies are inefficient, uncompetitive, and used to pursue undisclosed political objectives.

As the Slovenian government seeks to reduce its public debt and strengthen public finances, further progress on corporate governance and privatisation of its considerable portfolio of SOEs will be of critical importance. Better corporate governance can improve the value of companies to be privatised and the commercial

performance of those remaining in the state's hands.

Company law amendments will also be a key success factor to strengthen minority shareholder rights. It may also encourage greater use of Slovenian capital markets and facilitate the privatization programme.

What should policymakers do?

- ▶ Ensure that state-owned assets are managed in conformity with the *OECD Guidelines on Corporate Governance of State-Owned Enterprise* and enactment of amendments to the company law that follow the *Principles of Corporate Governance*.
- ▶ Implement a comprehensive asset management strategy through the development of an annual asset management plan.
- ▶ Ensure appointment of qualified directors to the SSH supervisory board and to the boards of the SOEs that the SSH oversees, with relevant private sector experience and the capacity to act with independent judgment in the companies' interest.
- ▶ Strengthen the Securities Market Agency.



Further reading

OECD (2013), *OECD Economic Surveys: Slovenia 2013*, OECD Publishing. http://dx.doi.org/10.1787/eco_surveys-svn-2013-en

OECD (2011), *Corporate Governance in Slovenia*, OECD Publishing. <http://www.oecd.org/slovenia/corporategovernance/inslovenia.htm>

OECD (2005), *Guidelines on Corporate Governance of State-Owned Enterprises*, OECD Publishing. <http://www.oecd.org/daf/ca/34803211.pdf>

OECD (2004), *Principles of Corporate Governance*, OECD Publishing. <http://www.oecd.org/corporate/oecdprinciplesofcorporategovernance.htm>