EXCLUSIVE INTERVIEW

OECD

> “Profitability alone is not a sufficient measure of SOE performance. What matters is whether there is a clear and transparent rationale for state ownership. Governments should strengthen professional governance, establish clear performance expectations, ensure appropriate capital structures and assess whether ownership continues to serve an identifiable public interest.”



Mr. Carmine Di Noia

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ICMA: Given that global SOEs command a massive footprint of USD 141 trillion in assets yet lag behind private peers in profitability and carry higher leverage, what policy instruments should ownership entities deploy to enforce capital discipline and bridge this performance gap without compromising essential public policy mandate?

Carmine Di Noia: State-owned enterprises play a major role in the global economy. According to our latest OECD report Ownership and Governance of State-Owned Enterprises 2026, their economic footprint has doubled over the past decade, so ensuring they are well governed is increasingly important.

Profitability alone is not a sufficient measure of SOE performance, because many SOEs are also expected to deliver essential services or other public policy objectives. That said, the OECD's latest evidence shows that, across the six industries examined (energy, finance, transport, telecommunications, manufacturing and other utilities), SOEs have on average been less profitable and more leveraged than comparable private firms, which reinforces the importance of active and professional state ownership.

Governments can strengthen capital discipline by setting clear commercial and non-commercial objectives, monitoring performance against measurable targets, establishing appropriate rate-of-return expectations where relevant, and adopting dividend policies that take account of investment needs, financial sustainability and an appropriate capital structure.

Crucially, public service obligations should be clearly identified, transparently costed and adequately compensated, so that boards and ownership entities can distinguish the cost of achieving public policy objectives from underlying commercial performance.

ICMA: With less than half of surveyed jurisdictions maintaining a consolidated ownership policy and only 42% achieving a strict functional separation between ownership, policymaking, and regulation, how can governments effectively mitigate conflicts of interest and protect SOE boards from undue political influence?

Carmine Di Noia: There has been meaningful progress in professionalising state ownership, but the evidence also shows scope to strengthen institutional arrangements further.

Only 43% of surveyed jurisdictions have developed a government-wide ownership policy, while only 42% report functional separation between ownership and policymaking or regulatory responsibilities.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises ("OECD Guidelines") therefore emphasise a clear allocation of responsibilities and, as far as possible, separation of the state's ownership function from functions that could affect market conditions. Where complete institutional separation is not feasible, clear mandates, internal separation and independent regulatory functions can provide important safeguards.

At enterprise level, professional and transparent board nomination processes, appropriate competency and independence requirements, conflict-of-interest safeguards and sufficient board authority and autonomy are equally important in enabling boards to exercise objective judgement and limiting undue political influence.

ICMA: When statutory exemptions or indirect state support soften hard budget constraints for commercial SOEs, how can international standards better enforce competitive neutrality to ensure private market competitors are not disadvantaged?

Carmine Di Noia: There can be legitimate reasons for governments to support SOEs or other market participants, particularly when they are required to provide essential services or pursue clearly defined public policy objectives. The critical issue is how that support is designed and disclosed. The OECD Guidelines call for SOEs' economic activities to operate on a level playing field with private competitors. This means avoiding ownership-based regulatory or tax advantages, ensuring financing is consistent with market principles for commercial activities, making state support transparent, and clearly identifying the costs associated with public service obligations. Separate accounting for commercial and public-service activities, coupled with compensation proportionate to the cost of fulfilling those public service obligations, is particularly important in reducing the risk of distortive cross-subsidisation. The objective is not to prevent legitimate public intervention, but to ensure that it is transparent, proportionate and does not unnecessarily distort competition.

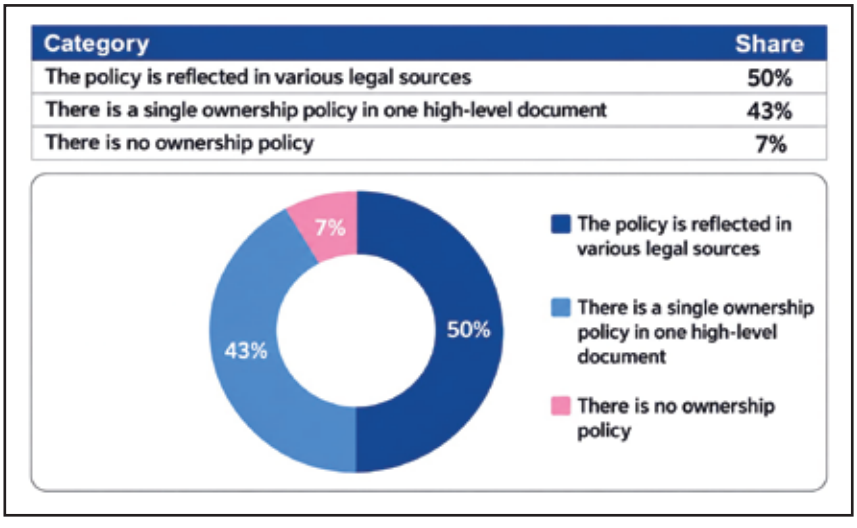
ICMA: In light of shifting global macroeconomic pressures, what criteria should guide a government's decision to pursue full-scale privatization versus retaining state ownership through structured capital frameworks and performance-based management?

Carmine Di Noia: I would say that what matters is whether there is a clear and transparent rationale for state ownership.

Governments should periodically assess whether ownership continues to serve an identifiable public interest, such as delivering essential services, addressing market failures, safeguarding strategic interests or managing critical infrastructure, and whether state ownership is the most effective way of achieving that objective.

Where ownership is retained, the focus should be on professional governance, clear performance expectations, appropriate capital structures and effective boards. Where the original rationale no longer applies, divestment, including partial privatisation, can be considered alongside other options.

Category	Share
The policy is reflected in various legal sources	50%
There is a single ownership policy in one high-level document	43%
There is no ownership policy	7%



Any decision should therefore be based on the enterprise's mandate, performance, market conditions, fiscal implications and the availability of alternative mechanisms for delivering the public policy objective, rather than on short-term fiscal considerations alone.

Good corporate governance can also contribute to broader development objectives, including capital market development, by creating an enabling environment for SOEs to access market-based financing, alongside wider efforts to strengthen the capital market ecosystem.

ICMA: In emerging market economies like Pakistan, where fiscal deficits are tightly linked to loss-making commercial SOEs, what immediate sequencing steps would you recommend to transition from ad-hoc administrative bailouts to a centralized, professionalized ownership policy that successfully attracts private capital through privatization without disrupting essential public service obligations?

Carmine Di Noia: For Pakistan, as for any economy undertaking significant SOE reform, sequencing matters and reforms need to reflect national circumstances and public-service requirements. A sound starting point is to establish the rationale for state ownership of each enterprise and distinguish commercial activities from public service obligations. This can support the development of a coherent ownership policy, clearer allocation of ownership responsibilities, and stronger portfolio-level monitoring and reporting.

Once these foundations are in place, governments are better positioned to assess enterprise by enterprise whether restructuring, continued ownership, private participation or divestment offers the best long-term outcome, while putting appropriate arrangements in place to preserve essential services. This approach can also give prospective investors greater clarity over commercial objectives, liabilities and the respective roles of the state and the SOE.

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ICMA: How can Pakistan—and similar developing economies undergoing active economic restructuring — effectively institutionalize competitive neutrality, robust anti-corruption integrity frameworks, and independent external audit practices (such as mandatory audit firm rotation) to build investor trust and ensure a level playing field?

Carmine Di Noia: Investor confidence depends not only on the ownership model, but on whether SOEs operate within credible, transparent and predictable governance frameworks. The OECD framework points to three mutually reinforcing priorities: applying comparable legal and regulatory conditions to SOEs and private firms where they undertake economic activities; embedding integrity through risk-based compliance systems, conflict-of-interest safeguards, whistleblower protection and transparent, merit-based appointments; and subjecting SOEs to high-quality independent external audit and disclosure standards.

The 2026 evidence shows that independent external audit is already widespread internationally, with 93% of surveyed jurisdictions applying it to some or all SOEs, while a majority also require audit-firm rotation. Rotation can reinforce auditor independence, but it should form part of a broader system that includes strong audit committees, internal controls, transparent financial reporting and effective follow-up on audit findings. For Pakistan and other reforming economies, building these elements consistently across commercially significant SOEs can help strengthen accountability, improve the credibility of financial information and create a more predictable environment for private investment.

*The Editorial Board thanks **Mr. Carmine Di Noia, Director, Financial and Enterprise Affairs, Organisation for Economic Co-operation and Development (OECD)** for sparing his precious time to give an exclusive interview for Chartered Management Accountant Journal.*