

# Dividend payments by state-owned enterprises

## Policies and practices

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This report addresses the importance of dividend policies for jurisdictions with profitable or potentially profitable state-owned enterprises (SOEs), against the background of current challenges in public finances and increasing pressures on SOEs to contribute revenues to the public purse. It explores how, and subject to what criteria, state-owners decide how much profit to distribute versus retain for future investments in commercially oriented SOEs where the state is a major shareholder. The report further attempts to establish good practices for dividend policies, and offers guidance to support state ownership entities in setting such policies.

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# Foreword

This report addresses the importance of dividend policies for jurisdictions with profitable or potentially profitable state-owned enterprises (SOEs), against the background of current challenges in public finances and increasing pressures on SOEs to contribute revenues to the public purse. It explores how, and subject to what criteria, state owners decide how much profit to distribute versus retain for future investments in commercially oriented SOEs where the state is a major shareholder. The report further attempts to establish good practices for dividend policies, and offers guidance to support state ownership entities in setting such policies.

This report was prepared based on national practices collected by the OECD Directorate for Financial and Enterprise Affairs and the Governance Global Practice of the World Bank, from questionnaire responses submitted by 41 jurisdictions, supplemented by desk research. Information was collected by the OECD for 24 jurisdictions<sup>1</sup>, and collected by the World Bank for 17 jurisdictions<sup>2</sup>. Chapter 2 was primarily drafted by Emeline Denis and Hans Christiansen (OECD), and chapters 1 and 3 were primarily drafted by Henri Fortin and Jael Billy (World Bank).

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<sup>1</sup> Information was collected by the OECD for Australia, Austria, Brazil, Chile, Colombia, Croatia, Estonia, Finland, India, Israel, Italy, Kazakhstan, Korea, Latvia, Lithuania, the Netherlands, New Zealand, Norway, Romania, Slovak Republic, Sweden, Switzerland, Türkiye and the United Kingdom.

<sup>2</sup> Information was collected by the World Bank for Azerbaijan, Bhutan, Bulgaria, Cabo Verde, Cameroon, Costa Rica, Cote d'Ivoire, Djibouti, Egypt, Georgia, Ghana, Kenya, Morocco, Oman, Peru, Serbia and Uzbekistan.

# Executive summary

Dividends from particularly profitable SOEs can be a significant source of fiscal revenue. However, given the volatility in corporate profits, dividend policies should carefully balance the financing and investment needs of SOEs with adequate returns to the state budget. While SOE dividends are not the only source of fiscal revenue, in jurisdictions with particularly profitable SOEs, dividend amounts can be significant – albeit volatile. On the other hand, excessive dividend payments can threaten the financial position and commercial viability of SOEs. As such, SOE dividend policies should be carefully devised based on informed guidance by the state owner so as to balance the financing and investment needs of enterprises (particularly those of capital-intensive SOEs) with the budgetary needs of the state.

The state can communicate its dividend expectations to SOEs in several ways, including via a specific dividend policy. The chosen method depends to some extent on the country's ownership arrangements, the size and composition of its SOE portfolio, and the fiscal and economic context in which SOEs operate. Regardless of the approach adopted, when a dividend policy exists for SOEs, it is important that it is periodically reviewed so that it remains fit for purpose.

Minimum dividend payments from SOEs are sometimes mandated in law, particularly where the state budget is highly dependent on SOE dividend payments. In some jurisdictions, a minimum share of net profit to be distributed as dividend is legislated, and actual amounts can be revised downward or upward depending on the company's financial position and medium-term strategic objectives (in particular with regards to investments). When they exist, statutory requirements apply most commonly to majority-owned SOEs (with >50% state shareholding), and in some cases to SOEs "of special and strategic interest" only. While most jurisdictions legislate minimum pay-out levels, some jurisdictions legislate maximum dividend pay-out ratios, thus requiring a minimum share of profit to be allocated to reserves, similar to private sector practice.

Some jurisdictions have introduced broad guidelines on dividends aiming to align dividend pay-out levels of SOEs with private sector practices, where the state's dividend expectations are explicitly linked to the achievement of an optimal capital structure as measured by the maintenance of a target credit rating. In these jurisdictions, SOE dividend policies cover a multi-annual period, typically referred to as the "business cycle", and are linked to the medium-term operational strategy of the company and approved financial key performance indicators to be achieved over a three-year period, leading to predictable and relatively stable dividend payments.

In other jurisdictions, dividend pay-outs are negotiated annually between the SOE and the state. In around two-fifths of surveyed jurisdictions, dividends are negotiated annually between SOE boards and the state shareholder and are not subject to guidelines. This approach can potentially hinder capital structure optimisation as well as the predictability of dividend revenue that the state can expect.

Dividend levels are most commonly set based on projected cash flows and debt-to-equity ratios, taking into account the continuity of the company, its creditworthiness and its investment programme. State owners of SOEs tend to require relatively stable dividends based on their assessment of the long-term

profitability of the enterprises. Some jurisdictions have also issued guidance on interim dividend payments, so as to ensure the cash availability for SOEs' year-end payments.

Dividend levels are generally proposed by the board, and approved by the Ministry of Finance, line ministry, ownership entities and/or the general shareholders' meeting. It may be inferred that the degree of autonomy and discretion of SOE boards in setting dividend levels might differ according to the manner in which the state communicates its dividend expectations, with a potentially smaller role for boards in jurisdictions where minimum ratios are legislated than in jurisdictions where boards are granted full discretion to set the company's dividend policy based on agreed medium-term financial targets. However, it is important that dividend pay-out rates be proposed by professional and independent boards of directors which are able to discern the financial interests of the company.

In some jurisdictions, SOEs which receive subsidies to cover their expenses in delivering public service obligations use methods other than dividends to transfer earnings to the state. While policy-oriented SOEs are excluded from the scope of the report, and are usually not expected to pay dividends, some jurisdictions have introduced the possibility of budget transfers of some SOE earnings to specific social programmes and government institutions (mandated by law), so that excess reserves of policy-oriented SOEs be used to finance public policy objectives.

To demonstrate an efficient and effective use of public funds to the markets and general public, governments should strive to achieve high levels of transparency and financial disclosure of SOE dividends. Where SOEs compete with private peers, transparency can also contribute to levelling the playing field. In almost all jurisdictions, dividends distributed by SOEs to the state are disclosed by the state owner in the government financial statements and/or the annual aggregate report on SOEs. Regarding the latter however, the granularity of disclosures differs across jurisdictions.

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# Abbreviations and acronyms

BNDES	National Economic and Social Development Bank (Brazil)
CPSEs	Central Public Enterprises (India)
DIPAM	Department of Investment and Public Asset Management (India)
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
FCFE	Free Cash Flow to Equity
FONAFE	<i>Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado</i> (Peru)
GBE	Government Business Enterprise (Australia)
GEO	Government Executive Order
IMF	International Monetary Fund
iSOEF	Integrated State-Owned Enterprise Framework
OIA	Oman Investment Authorities
PSO	Public Service Obligation
ROE	Return on Equity
SIGA	State Interest and Governance Authority (Ghana)
SOE	State-Owned Enterprise



# 1 Introduction: rationale, scope and methodology

## 1.1. Rationale

**A core principle of corporate governance of state-owned enterprises is for the state to exercise active and informed ownership in enterprises where it has significant investment holdings.** State-owned enterprises (SOEs) – defined in this report as entities owned or controlled by the state that provide goods or services on a commercial basis – are key actors in the economy in many jurisdictions irrespective of income level. A recent Fiscal Monitor report by the International Monetary Fund (IMF) observed that in the last decade, the percentage of SOE assets in the top 2 000 companies globally has doubled to 20 percent (IMF, 2020<sup>[1]</sup>). As a result, there has long been a call for the state to exercise an active role as owner and manage its investments in SOEs adequately, and in the long-term national interest.

**While much of the policy dialogue on SOEs has traditionally focused on loss-making and underperforming companies, the issue of the state receiving a fair return from profitable SOEs can be equally relevant, particularly in certain sectors.** Policymakers often focus attention on the state's ability to manage the fiscal risks associated with underperforming, inefficient or poorly run SOEs. However, some SOEs are profitable or have the potential to generate a profit. SOEs tend to be profitable in industries where demand is growing and that favor monopoly or market leader status such as in telecommunications or in the extractive sectors (oil, gas and mining). For example, the April 2020 IMF Fiscal Monitor report observed that SOEs are among the largest oil companies and control more than half of the global oil and gas production (IMF, 2020<sup>[1]</sup>).

**With increasing pressure on public finances, dividend policies are becoming a key issue for jurisdictions with profitable or potentially profitable SOEs.** Investors take an interest in a company's dividend policy as they expect a cash return for the funds invested; similarly, when SOEs generate a profit or have the potential to do so, the state owner may reasonably expect to receive some of the profits as dividends (see Box 1.1). As SOEs have become corporatised, the international standard on corporate governance of state-owned enterprises, the OECD Guidelines on Corporate Governance of State-Owned Enterprises (the "Guidelines"), calls for the state to articulate sound dividend policies as part of its ownership role. The OECD Guidelines encourage the state to consider setting targets on rates-of-return and to assess the appropriateness of capital structure of SOEs (OECD, 2015<sup>[2]</sup>). As public finances are deteriorating in many jurisdictions, dividends can also represent a key source of fiscal revenue, an aspect that is considered in the World Bank integrated SOE framework (iSOEF).

### Box 1.1. Key terms

A **dividend** is the remuneration a company distributes to its shareholders usually out of its profits or reserves.

A **dividend policy** is the set of guidelines a company uses to decide how much it will distribute to shareholders. Dividend policies can be broadly categorised into two main types:

- *residual dividend policies* where the company pays dividends from earnings remaining after its investment needs have been met and after achieving its target capital structure; and
- *managed dividend policies* where management aims to achieve a specific pattern of cash distribution to shareholders over time. Many large companies apply the managed dividend policy approach as this allows for a steady flow of returns which is attractive to investors.

The **dividend pay-out ratio** is the proportion of dividends distributed to shareholders relative to net income, usually expressed as a percentage. The ratio can also be calculated as dividend per share divided by earnings per share. A higher dividend pay-out ratio means a company distributes more of its earnings to shareholders. To determine the amount of the dividend pay-out, companies consider a range of information such as annual financial statements, budget data, multi-year plans, the business cycle (a cycle of economic activity usually consisting of recession, recovery, growth, and decline), cash flow forecasts, business plans, investments plans or feasibility studies.

Source: (Baker, 2009<sup>[3]</sup>).

**Some studies have underlined the importance of defining the financial relationship between the SOE and the state owner.** A 2005 World Bank paper examining dividend policies for SOEs in one country found that reforms granting managers of SOEs greater autonomy on how to distribute profits, leading to instances where SOEs generating more profits were permitted to retain a greater share, in turn led to a fiscal decline due to the decrease in budgetary transfers to the state owner (World Bank, 2005<sup>[4]</sup>). According to a 2020 IMF working paper, the size of the SOE sector relative to the size of the state budget is an important consideration when managing fiscal risks from SOEs, especially given the potential volatility of dividend inflows to the state budget (IMF, 2020<sup>[5]</sup>).

**Dividend policy-setting for SOEs is therefore complex and requires consideration of the financial position of the state and of the SOEs, as profits are often volatile.** For profitable or potentially profitable SOEs in which the state is a major shareholder, a key issue for state owners is how much profit should be distributed (and hence become fiscal revenues) and how much should be retained by SOEs in the interest of funding future investment and maintaining a healthy capital structure. While the combination of commercial objectives and public service obligations (PSOs) imposed on SOEs may impact dividend policy-setting, in some cases, SOEs may also be expected to distribute dividends to supplement the state budget. Overall, while excessive dividend pay-out ratios can undermine an SOE's financial viability, if not handled carefully, dividend policies could also become the object of counter-cyclical fiscal policies or become beholden to national electoral cycles. Devising an adequate dividend policy for SOEs is therefore an increasingly important consideration for jurisdictions.

## 1.2. Scope and methodology

**This report serves to identify trends in setting dividend policies for SOEs and support ownership entities in setting such policies.** While there is a well-established body of academic literature bearing on dividend practices and their link with good corporate governance, especially with regard to listed

companies, this report aims to investigate dividend policies and practices that are specific to SOEs. It takes stock of policies and practices applicable to commercially oriented enterprises that are majority-owned by the state and operate across a range of sectors and national contexts (section 2), and identifies trends and good practices that state owners may find useful for setting dividends for their SOE portfolios (section 3).

**The report primarily draws on observed practices.** The report was prepared based on information provided on a voluntary basis by 41 jurisdictions against a short questionnaire on dividend policies and practices applicable to majority-owned and commercially oriented SOEs spanning a wide range of sectors, supplemented by desk research (Table 1.1). It should be noted that some caveats exist regarding the comprehensiveness and sample size of information reported in some jurisdictions. Detailed information on the ownership arrangements and SOE portfolios of responding jurisdictions is provided in Annex B.

**Table 1.1. List of respondents**

Region	Jurisdictions
Sub-Saharan Africa	Cabo Verde, Cameroon, Cote d'Ivoire, Ghana, Kenya
East Asia and Pacific	Australia, Korea, New Zealand
Europe and Central Asia	Austria, Azerbaijan, Bulgaria, Croatia, Estonia, Finland, Georgia, Italy, Kazakhstan, Latvia, Lithuania, the Netherlands, Norway, Romania, Serbia, Slovak Republic, Sweden, Switzerland, Uzbekistan, the United Kingdom
Latin America and the Caribbean	Brazil, Chile, Colombia, Costa Rica, Peru
Middle East and North Africa	Djibouti, Egypt, Israel, Morocco, Oman, Türkiye
South Asia	Bhutan, India

Note: In **Austria** and **Azerbaijan**, information was reported for a sub-set of the SOE portfolio managed by the Ministry of Finance (Austria), and the state holding company (Azerbaijan Investment Holding). In **Croatia** information collected covered SOEs of strategic and special interest only, and in the **Netherlands**, reported information covers centralised majority-owned SOEs only held by the Ministry of Finance.

## 2 Stock-taking of policies and practices: observed approaches to setting dividends for SOEs

**There is a well-established body of academic literature bearing on dividend practices and their link with good corporate governance, especially with regard to stock-listed companies** (Annex C). While investors take an interest in dividend policy as many expect a cash return for the funds invested, the impact of dividends on value maximization has long been debated in financial circles. While current theories emphasize the relationship between company size, potential growth and profitability as the drivers of dividend pay-outs, evidence suggests that dividend policies vary according to the legal and institutional framework in a country as well as the ownership structure of companies (Baker, 2009<sup>[3]</sup>; L. Correia da Silva, M. Goergen, and L. Renneboog, 2004<sup>[6]</sup>; David J Denis, Igor Osobov, 2008<sup>[7]</sup>).

**As SOEs have become corporatised, policymakers are focusing more on the issue of balancing the financing and investment needs of SOEs with adequate returns to the state budget, which is often articulated in a dividend policy.** Key issues and considerations that might impact how dividends are set for SOEs include (i) the concentration of SOEs in resource sectors in some jurisdictions, making them crucial to the conduct of fiscal policy, (ii) fully-owned enterprises, whereby dividend policies are closely linked with other policy issues such as public investments, and (iii) the way the state (unlike other investors) has more options than private shareholders to withdraw cash from enterprises. Overall, SOE dividend policies should be carefully designed based on informed guidance by the state owner to balance the financing and investment needs of enterprises (particularly those of capital-intensive SOEs) with the budgetary needs of the state.

### Key findings

- **While dividends from particularly profitable SOEs can be a significant source of fiscal revenue, given the volatility in corporate profits, dividend policies should carefully balance the financing and investment needs of SOEs with adequate returns to the state budget.** While SOE dividends are not the only source of fiscal revenue, in jurisdictions with particularly profitable SOEs, dividend amounts can be significant – albeit volatile. In many jurisdictions, in 2021, dividends paid by the five largest SOEs only accounted for between 75%-95% of the total amounts (e.g. Brazil, Estonia, the Netherlands, Norway, Sweden). On the other hand, excessive dividend payments can threaten the financial position and commercial viability of SOEs. As such, SOE dividend policies should be carefully devised based on informed guidance by the state owner so as to balance the financing and investment needs of enterprises (particularly those of capital-intensive SOEs) with the budgetary needs of the state.
- **The state can communicate its dividend expectations to SOEs in several ways, including via a specific dividend policy.** The chosen method depends to some extent on the country's ownership arrangements, the size and composition of its SOE portfolio, and the fiscal and

economic context in which SOEs operate. Regardless of the approach adopted, when a dividend policy exists for SOEs, it is important that it is periodically reviewed so that it remains fit for purpose (e.g. Korea, Lithuania, Oman).

- **Minimum dividend payments from SOEs are sometimes mandated in law, particularly where the state budget is highly dependent on SOE dividend payments.** In some jurisdictions, a minimum share of net profit to be distributed as dividend is legislated, and actual amounts can be revised downward or upward depending on the company's financial position and medium-term strategic objectives (in particular with regards to investments). When they exist, statutory requirements apply most commonly to majority-owned SOEs (with >50% state shareholding), and in some cases to SOEs "of special and strategic interest" only. While most jurisdictions legislate minimum pay-out levels, some jurisdictions legislate maximum dividend pay-out ratios, thus requiring a minimum share of profit to be allocated to reserves, similar to private sector practice (e.g. Romania and Türkiye).
- **Some jurisdictions have introduced guidelines on dividends aiming to align dividend pay-out levels of SOEs with private sector practices.** For example, in Australia and New Zealand, the state's dividend expectations are explicitly linked to the achievement of an optimal capital structure as measured by the maintenance of a target credit rating, which should presumably result in dividend levels consistent with private sector practices. In these jurisdictions, SOE dividend policies cover a multi-annual period, typically referred to as the "business cycle", and are linked to the medium-term operational strategy of the company and approved financial key performance indicators to be achieved over a three-year period leading to predictable and relatively stable dividend payments.
- **In other jurisdictions, dividend pay-outs are negotiated annually between the SOE and the state.** In around two-fifths of surveyed jurisdictions, dividends are negotiated annually between SOE boards and the state shareholder and are not subject to guidelines. This approach can potentially hinder capital structure optimisation as well as the predictability of dividend revenue that the state can expect.
- **Dividend levels are most commonly set based on projected cash flows and debt-to-equity ratios, taking into account the continuity of the company, its creditworthiness and its investment programme.** State owners of SOEs tend to require relatively stable dividends based on their assessment of the long-term profitability of the enterprises. Some jurisdictions have also issued guidance on interim dividend payments, so as to ensure the cash availability for SOEs' year-end payments. Out of the 41 surveyed jurisdictions, one explicitly recommends that SOEs also consider buy-back options when relevant (India).
- **Dividend levels are generally proposed by the board, and approved by the Ministry of Finance, line ministry, ownership entities and/or the general shareholders' meeting.** This is the case in almost all surveyed jurisdictions with available information (except in Georgia where it is proposed by the ownership entity). It may be inferred that the degree of autonomy and discretion of SOE boards in setting dividend levels might differ according to the manner in which the state communicates its dividend expectations, with a potentially smaller role for boards in jurisdictions where minimum ratios are legislated than in jurisdictions where boards are granted full discretion to set the company's dividend policy based on agreed medium-term financial targets. However, it is important that dividend pay-out rates be proposed by professional and independent boards of directors which are able to discern the financial interests of the company.
- **In some jurisdictions, SOEs which receive subsidies to cover their expenses use methods other than dividends to transfer earnings to the state.** While policy-oriented SOEs are excluded from the scope of the report, and are usually not expected to pay dividends, some jurisdictions have introduced the possibility of budget transfers of some SOE earnings to specific

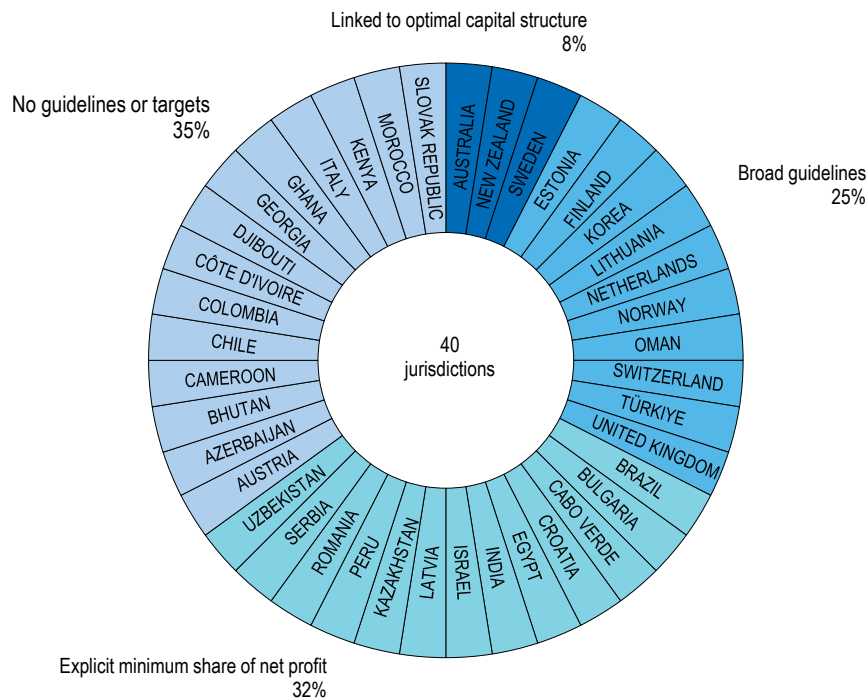
social programmes and government institutions (mandated by law), so that excess reserves of policy-oriented SOEs be used to finance public policy objectives (e.g. Costa Rica and Côte d'Ivoire).

- **To demonstrate an efficient and effective use of public funds to the markets and general public, governments should strive to achieve high levels of transparency and financial disclosure of SOE dividends.** Where SOEs compete with private peers, transparency can also contribute to levelling the playing field. In almost all jurisdictions, dividends distributed by SOEs to the state are disclosed by the state owner in the government financial statements and/or the annual aggregate report on SOEs. Regarding the latter however, the granularity of disclosures differs across jurisdictions.

### 2.1. Types of dividend policies and practices for SOEs

**Dividends can be a significant source of revenue from SOEs to the state budget.** While dividends stand as only one source of budget transfers from SOEs to the state budget (besides taxes, royalties, and concessions or interest payments), in jurisdictions where SOEs are particularly profitable (especially those operating in the energy and extractives sectors), dividends from SOEs can be a significant source of revenue for the government – with the caveat that the volatility of dividends can also pose significant fiscal risks. On the other hand, excessive dividend (or tax) extraction can also be detrimental to the financial health of SOEs, as retained profits are one of the main sources of investment, growth and value creation for firms (IMF, 2020<sup>[8]</sup>). As such, dividend policies for SOEs should be carefully designed with a view to maintaining adequate equity and liquidity ratios, and avoid threatening their commercial viability.

Figure 2.1. Typology of dividend policies and practices across 40 jurisdictions



Note: Costa Rica is excluded from this Figure, as SOEs are not expected to make profits and pay dividends.  
 Source: Details on individual dividend policies and practices are provided in Annex A.

**Around three-fifths of jurisdictions surveyed have established guidelines or targets to align dividend pay-out levels with private sector practices, while the remaining two-fifths of surveyed jurisdictions tend to negotiate pay-outs annually.** Established guidelines are expressed as either: (i) broad guidelines identifying the factors that should be taken into account when establishing dividend levels; (ii) an explicit minimum share of net profit; or (iii) the level of dividends required to maintain an optimal capital structure, as measured by the achievement of a target credit rating (Figure 2.1). However, for the remaining 35% of surveyed jurisdictions with no dividend guidelines or targets in place, dividends are negotiated annually between SOE boards and the state shareholder and are not subject to guidelines, which could potentially hinder capital structure optimisation (OECD, 2021<sup>[9]</sup>).

### **2.1.1. Broad guidelines**

**In several jurisdictions, broad guidelines have been adopted regarding the factors that should be taken into account when establishing dividend frameworks for SOEs, often with the aim of aligning dividend pay-out levels with private sector practices.** For instance, in **Oman**, the “Code of Governance of entities managed by Oman Investment Authorities (OIA)” issued in 2022 lays out a methodology for setting dividend amounts of SOEs with at least 40% of OIA shareholding (Box 2.1). Likewise, in **Egypt** and **Türkiye**<sup>3</sup>, the main law on SOEs provides for a minimum share of profits to be allocated as reserves by companies before the distribution of dividends. In **Switzerland**, dividend expectations of the Federal Council are set in the medium-term strategic objectives of individual SOEs, and emphasize maintaining business continuity while performing comparably to private counterparts (for Swisscom and Swiss Post). For the real estate company of the aerospace and defence group RUAG however, dividend expectations are expressed as an explicit percentage of net profit (40%).

**General expectations on dividend frameworks are often set out in the state ownership policy or embedded in the medium-term performance management framework for SOEs.** In some jurisdictions, actual levels are determined for individual SOEs on an annual basis based on their unique capital requirements and planned expenditures via consultations between SOE boards and the state owner. For instance, in the **Netherlands**, dividend policies are established for individual companies and cover a multi-annual period, based on the company’s projected cash flows and debt-to-equity ratio. They include criteria used to determine on an annual basis the share of profits that should be distributed as dividends, which should account for (i) the continuity of the company, (ii) the creditworthiness of the company, and (iii) the company’s investment agenda. In practice, dividend levels are proposed by the board annually and approved by the Ministry of Finance. Overall, only a few companies account for a large proportion of dividend payments: in 2021, dividends paid by four companies (Gasunie, Nederlandse Loterij, TenneT and UCN) accounted for more than 75% of the total amount (Dutch Ministry of Finance, 2022<sup>[10]</sup>; Dutch Ministry of Finance, 2022<sup>[11]</sup>).

Likewise, in **Norway**, the ownership policy states that dividends should be used to obtain or maintain an optimal capital structure for companies. The state communicates both long-term and annual dividend expectations (along with return requirements) to each commercial SOE, based on its assessment of the company’s capital structure, competitiveness and industry dynamics, projected earnings, cashflow and capital requirements including profitable investment opportunities, how dividends contribute to the achievement of policy goals, and other relevant factors). The state’s annual dividend expectations for the various SOEs are set by the relevant line ministry, often based on a dialogue with the SOE about factors such as those previously mentioned. The expectations are communicated to each SOE board. The board proposes a dividend level to the annual general meeting, in which the state is represented by the line ministry. In wholly-owned companies, the board’s proposal is usually identical to the state’s expectation.

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<sup>3</sup> In Türkiye, SOEs or Public Economic Enterprises (PEEs) include State Economic Enterprises (SEEs) and Public Economic Institutions (PEIs).

In partially-state-owned companies, the board will normally consider the views of various shareholders and often propose dividends different from the state's expectation. In 2021, dividend payments amounted to NOK 51 billion (compared to 27.3 billion in 2020), around three-quarters of which was comprised of dividend payments from five large SOEs (Equinor, Statkraft, Telenor, DNB Bank and Norsk Hydro)<sup>4</sup> (Norwegian Government, 2022<sup>[12]</sup>; Norwegian Government, 2022<sup>[13]</sup>).

### Box 2.1. Oman Investment Authority (OIA)'s Code of Governance for OIA Entities

According to section 3.5 of the Code, OIA Entities shall adopt a clear and disclosed policy on dividends as follows:

- Based on the annual consolidated financial statements or audited financial statements where consolidation is not applicable, each Entity shall prepare a cash flow statement to arrive at the free cash flow to equity ("FCFE") available to the shareholders.
- If the FCFE is positive, it shall be applied in the following order of preference:
  - adjusted against any amount budgeted to be received from the shareholders during the current year (referred to as "SC")
  - prepayment of debt, if required as per debt agreements or if approved by OIA (referred to as "DR")
  - Maintaining 10% of the remaining cash, which is calculated according to the following equation (FCFE-SC-DR)
  - repayment of any shareholders' loan
  - dividend to the shareholders.
- Dividend payments should be subject to applicable legal and regulatory requirements, including (i) availability of cash balances, (ii) availability of adequate reserve on the Entity's standalone accounts, (iii) required corporate approvals, and (iv) consistency with financing agreements such as debt covenants and lender consent.
- In case of receipt of cash from one-off items (such as divestments and debts), the Entity shall propose an interim dividend taking into account the projected year-end FCFE. This shall be adjusted from the final dividends declared for the year.

Source: Oman Investment Authority (2022<sup>[14]</sup>), Code of Governance for OIA Entities, <https://www.oia.gov.om/SOE/SOEGovernance.En.pdf>

In **Korea**, the Ministry of Economy and Finance sets the dividend policy as mandated under the State Property Act for the SOEs prescribed by Presidential Decree. Dividends are distributed taking in account: the size of profits; reasonableness of the amount in the state budget amount for expected investment revenue as well as the financial position of the state; dividend pay-out ratio of each SOE in comparison with private sector peers and industry norms; conditions of the company paying dividends to the Government, such as the size of its capital stock, the size of internal funds, debt ratio, net worth ratio; historical dividend payment and appropriateness of financial resources required for investment.

An interesting framework exists in **Lithuania**, where the policy regulating the procedures and amount of dividend payments was periodically reviewed and has significantly evolved since its introduction in 1997. While the regulation previously provided for minimum shares of net profits to be distributed as dividends by SOEs according to their legal forms, since 2018 the amount of minimum pay-outs is directly related to the accounting amount of the return on equity (ROE) earned during the reporting year (Box 2.2). Some

<sup>4</sup> In 2021, Equinor had a shareholder return (including dividends) of 67%, Statkraft had a return of 1.2%, Telenor 1.2%, DNB Bank 31.8%, and Norsk Hydro 78.4%, while the Oslo Stock Exchange Benchmark Index provided a return of 23.4% over the same period.



enterprises are also subject to statutory reductions or exemptions.<sup>5</sup> However, the regulation was amended in 2021, and now provides that dividend levels be set on the basis of the approved key financial performance indicators to be achieved by SOEs over a three-year period (Lithuanian Government, 2021<sup>[15]</sup>; GCC, 2022<sup>[16]</sup>).

### Box 2.2. Lithuania – Procedures for dividend payments by SOEs, as underpinned by regulation

In Lithuania, the Government Resolution concerning dividends and profit contributions by SOEs was amended in 2016 to require SOEs to distributed dividends with specific amounts calculated based on their Return on Equity (RoE) for the accounting year (effective from 2018 until 2021). Overall, the higher the RoE of the accounting year, the smaller the share of the profit to be paid by the SOE as dividends to the state budget.

Table 2.1. Mandatory distributable profit according to the RoE for the accounting year

Distributable profit for the accounting year to be allocated as dividends or profit contributions	RoE for the accounting year
85%	Not exceeding 1%
80%	Over 1% but not exceeding 3%
75%	Over 3% but not exceeding 5%
70%	Over 5% but not exceeding 10%
65%	Over 10% but not exceeding 15%
60%	Over 15%

In 2021, dividends paid by the electricity distribution company AB Ignitis grupė accounted for more than 40% of the total amount paid by the SOE portfolio. Due to the impact of the COVID-19 pandemic, while some companies did not pay dividends due to reported losses (such as the oil terminal company AB Klaipėdos nafta), the railway company AB Lietuvos geležinkeliai chose to pay out a higher dividend than the statutory requirement (85% instead of the minimum possible 80%). Other companies in similar circumstances include the inland water transport company AB Smiltynės perkėla which paid out almost 97% of its profits as dividend instead of the required minimum 75%, the property administration UAB Projektų ekspertizė (70% of profits paid out instead of the required minimum 60%), and the construction products company AB Viamatika which distributed almost 98% of its profits as dividend, instead of 65% as determined by its RoE.

Source: Lithuanian Government (2021<sup>[15]</sup>), Resolution No. 786 regarding Decision of the Government of the Republic of Lithuania of January 14, 1994 No. 20 amendment “concerning dividends for state-owned company shares and profit contributions of state enterprises”, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/931f69e1609211e688d29c6e5ef0deee?jfwid=-3qnp7fn57> and GCC (2022<sup>[16]</sup>), State-owned enterprises in Lithuania 2021/2022, [https://governance.lt/wp-content/uploads/2022/11/VKC-VVI-Metine-Ataskaita\\_2022\\_EN\\_WEB\\_08.pdf](https://governance.lt/wp-content/uploads/2022/11/VKC-VVI-Metine-Ataskaita_2022_EN_WEB_08.pdf)

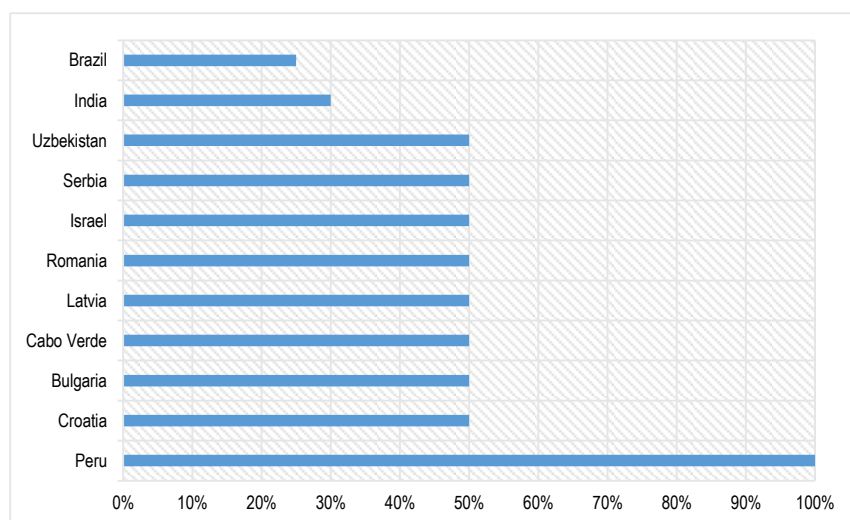
### 2.1.2. Explicit minimum share of net profit

**In some jurisdictions, dividend expectation levels are generally calculated as a pre-defined target percentage of net income (e.g. Brazil, Cabo Verde, India, Israel, Romania), or established by government or parliament on an annual basis as a minimum share of profit to be paid in dividends**

<sup>5</sup> For instance, the energy transmission company EPSO-G should pay 0.5% of its annual profits as dividends, while the manufacturer of military ammunitions is subject to a pay-out of 10% of profits in 2020-2021. In 2020 the amount of dividends to be paid was also reduced for the oil terminal company Klaipėdos nafta in order to account for the impact of fluctuating exchange rates, and the state-owned financial institution SE Indėlių ir investicijų draudimas is required by the Law on Insurance of Deposits and Liabilities to Investors to allocate all of its profits to the legal reserve.

for the previous reporting year (e.g. Bulgaria, Latvia). This model tends to be observed in jurisdictions which have inherited large SOE portfolios displaying uneven financial performance (e.g. post-transition economies), in jurisdictions where ownership tends to be decentralised, or in jurisdictions with a large share of SOEs of “strategic interest” where dividends account for an important source of fiscal revenue. In most jurisdictions, dividend levels set by statutory requirements can be revised downward or upward on an ad-hoc basis depending on the company’s financial position and medium-term operational strategy.

**Figure 2.2. Minimum dividend pay-out ratio as a percentage of net profit for selected jurisdictions**



Source: Questionnaire responses and desk research.

Note: In **Croatia**, the government defines an exact percentage of the profit that enterprises of strategic and public interest are required to transfer to the state budget, not the minimum.

For instance, in **Brazil**<sup>6</sup> and **Cabo Verde**, SOEs operating on the basis of the Company Law are subject to a minimum pay-out of 25% and 50% of their net income, respectively. While in Cabo Verde most SOEs are loss-making and currently do not pay dividends, in Brazil, SOE boards have discretion to set a higher ratio than the minimum statutory requirement (for approval by the general shareholders’ meeting). In recent years, Petrobras and BNDES have paid out almost 70% and 60% of their net profit, respectively. It should also be noted that in 2021, dividends and interest on equity paid by the five largest Brazilian SOEs<sup>7</sup> accounted for 98% of the total amount (which might indicate that the majority of SOEs operate at a loss) (SEST, 2022<sup>[17]</sup>).

In **Romania**, while the SOE portfolio displays mixed financial and economic performance, some enterprises represent an increasingly important source of revenues for the state budget. In 2001, Ordinance no. 64/2001 established that at least 50% of SOEs’ net profit should be paid as dividends to the national or local budget (with the exception of state-owned credit institutions). However, in response to growing fiscal pressures during the 2016-19 period (where increases in public expenditures concurred with

<sup>6</sup> In Brazil, SOEs are classified as “dependent” and “non-dependent”. While “dependent SOEs” are those that receive funds from the controlling shareholder to be spent in operational expenditure or overhead expenditures, “non-dependent SOEs” can only receive funds from the controlling shareholder to capital expenditures. For the purpose of this report, the latter are considered as ‘commercial’.

<sup>7</sup> These include Petrobras Group (R\$ 21,1 billions of dividends and interest on equity paid to the Federal government in 2021), BNDES Group (R\$ 13,6 billions), Bank of Brazil Group (R\$ 3,2 billions), Caixa Group (R\$ 2,8 billions) and Eletrobras Group (R\$ 13 billions).

a reduction of certain taxes), the law was amended by GEO no. 29/2017 to provide that SOEs' financial reserves may be redistributed in the form of dividends to the state budget, if they had not been used for investments and are included in the company's liquid assets.<sup>8</sup> In addition, GEO no. 114/2018 provides that 35% of SOEs' financial reserves found in cash should be distributed as dividends. As such, between 2016-19, some SOEs distributed 85%-90% of their net profits as dividends to the state budget. In 2021, the dividend payments of SOEs operating in electricity production and natural gas extraction sectors accounted for more than 70% of total payments to the state budget (OECD, 2023<sup>[18]</sup>).

In **Latvia**, a legal framework was introduced in 2015 providing for parliament to set a minimum share of profit to be paid in dividends on an annual basis (upon the adoption of the annual budget law), which in practice has always been higher than 50% of the profit of the reporting year (e.g. 85% in 2019, 80% in 2020 and 64% in 2022). However, derogations can be granted by the Cabinet of Ministers to SOEs requesting to pay a different amount (or be exonerated from dividend payments) upon justification (e.g. debt and investment plans, in line with their medium-term strategies). Such requests are then assessed by the Council of Ministers to determine whether such reduction in dividends from statutory requirements would qualify as state aid, thus requiring permission by the European Commission (CSCC, 2020<sup>[19]</sup>; CSCC, 2021<sup>[20]</sup>).

### Box 2.3. Procedures for dividend payments in Latvia (according to Regulation no. 806 of 2015)

As mentioned above, dividend levels as a minimum share of profits earned during the previous fiscal year are set on an annual basis for all SOEs, upon the adoption of the annual budget law. However, differentiated amounts for some SOEs can also be stipulated in the law. For instance, in 2020, the state budget law provided for specific amounts (lower than the mandated ratio) to be paid as dividends to the state budget by four energy, forestry, electricity distribution and lottery companies, the first three of which were also subject to exceptions (i.e. lower dividend amounts) in the 2019 budget law.

Current procedures for SOE dividend payments also allow companies to submit proposals to the Council of Ministers to pay dividends that derogate from the minimum legislated amount. If such derogations are granted, the decision nevertheless includes various conditions – including about how the profit unpaid in dividends can be used, or about the effective date of the waiver from dividend payments (e.g. exemptions would only take effect after the adoption of the annual state budget, or upon the permission granted by the European Commission if such exemptions qualify as state aid).

Until 2019, proposals for derogations had mostly been approved for SOEs operating in the cultural sector, as they are exempted from state aid, as well as for SOEs operating in the health sector and other policy-oriented enterprises. However, in 2020, a large number of SOEs submitted derogation proposals for differentiated dividend payments, and it was observed over the years that SOEs seem unclear about whether they should pay corporate tax in cases where they are exempted from dividend payments. Against this background, in 2020, the Cross-Sectoral Coordination Centre (CCC) and the Ministry of Finance developed a guidance report for SOEs regarding the presentation of the profits made in the balance sheet. Since 2022, SOEs are required to apply a standardised approach for profit distribution and disclosure of dividend payments in their financial statements.

Source: CSCC (2020<sup>[19]</sup>), Public Report on the State-Owned and Municipalities-Owned Enterprises and Shares in 2019, [https://www.valstskapitals.gov.lv/images/userfiles/GP2019\\_Latvia\\_Report-on-State%26Municipalities-Owned-Enterprises-and-Shares-in-2019\\_ENG%282%29.pdf](https://www.valstskapitals.gov.lv/images/userfiles/GP2019_Latvia_Report-on-State%26Municipalities-Owned-Enterprises-and-Shares-in-2019_ENG%282%29.pdf) and CSCC (2021<sup>[20]</sup>), Public Report on the State-Owned and Municipalities-Owned Enterprises and Shares in 2020, [https://www.valstskapitals.gov.lv/images/userfiles/GP2020\\_Latvia\\_Report-on-State%26Municipalities-Owned-Enterprises-and-Shares-in-2020\\_ENG\\_1p.pdf](https://www.valstskapitals.gov.lv/images/userfiles/GP2020_Latvia_Report-on-State%26Municipalities-Owned-Enterprises-and-Shares-in-2020_ENG_1p.pdf)

<sup>8</sup> This decision was based on the government's findings that reserves of majority-owned SOEs were not used by companies, with surpluses reflected in their liquid assets.

**The amount of dividend pay-outs can also be set by government decision on an annual basis, applicable to profits earned during the previous fiscal year by SOEs.** This is the case in **Bulgaria** and **Croatia**, and applicable to SOEs with at least 50% of state shareholding in Bulgaria, and to enterprises of strategic and public interest only in Croatia. Exceptional dividends and exemptions are possible in both cases. In Bulgaria, the amount of dividends is typically set at 50% of the previous year's profits, but ratios may differ for specific companies, and some companies may be exempted from dividend payments altogether. For instance, in 2021, dividend payment was waived for state-owned hospitals and regional Water and Sewerage companies – the former because of the pandemic crisis, and the latter because of an ongoing investment programme – and in 2020, the Council of Ministers mandated the state-owned Bulgarian Development Bank to pay (an exceptionally high) dividend of 80% of its 2019 profits. In Croatia, 17 special interest companies were required to pay 60% of profits after tax to the state budget in 2022, with the exception of a state-owned defence equipment company which was required to pay 100% of its profits to the state budget for the modernisation and operation of the armed forces (Bulgarian Government, 2020<sup>[21]</sup>; Croatian Government, 2022<sup>[22]</sup>).

A similar trend is observed in **Serbia**, whereby dividends are set by the Ministry of Finance and articulated in the annual budget law, which prescribes a minimum dividend pay-out of 50% of net profits for all SOEs (commercial SOEs and public enterprises). Of note, the government may approve a waiver of this requirement if an SOE provides justification that the profits will be used for capital increases or investments. Likewise, in **Uzbekistan**, the Ministry of Economy and Finance articulates the dividends to be paid by SOEs where the state owns more than 50% of the company (the law also applies to any subsidiary companies). The minimum pay-out ratio per the most recent budget law was 50%.

In **Peru**, SOEs are legally required to transfer all their profits to the holding company FONAFE unless the annual general meeting of shareholders approves a different percentage. Exceptions are Electroperu, which is required to transfer 86% of its profits to the Consolidated Provisional Reserve Fund (Fondo Consolidado de Reservas Provisionales), the actuarial public pension fund that is the legal owner of the shares of the company and the remaining 14% to FONAFE, and Banco Nación, which transfers its profits directly to the Treasury. The board and management of FONAFE decide on the allocation of the combined profits between dividends to the Treasury and reinvestments in some of the enterprises, in line with the government's investment priorities and the SOEs' record in carrying out investment plans (IDB, 2018<sup>[23]</sup>). Peru is an interesting case relative to other jurisdictions in requiring SOEs to transfer all profits to the state ownership entity FONAFE where decisions on investments are taken at the level of the portfolio instead of by the individual enterprise (Box 2.4).

#### Box 2.4. Dividend policies and practices in Peru

In 1999, Peru created the National Fund for Financing State Business Activity (Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado – FONAFE) under Law 27170 to regulate and manage the State's business activity and establish a general legal framework for SOEs. FONAFE oversees SOE activities, issues related norms, administers SOE dividends, maintains share registers, and directs SOE budgets and management processes. FONAFE exercises key functions for the SOE portfolio such as approval of budget and staffing in addition to ownership rights, including for SOEs where the state is a minority shareholder.

Dividend policy is established by Decreto Supremo No. 176-2010-EF which stipulates that dividend policies for SOEs should be defined prioritising the investment needs of the SOE, its strategic plans and corporate policies. The corporate plans of FONAFE should also be considered in the dividend policy. The law holds that dividends should be calculated according to the provisions of the General Company Law. It further mandates that dividend policies should establish criteria for distribution that allow the amount and timing of payments to be estimated. Policies should also be structured to consider

the interests of minority shareholders. Dividend pay-outs are required to be approved by the general meeting of shareholders.

According to its most recent annual report, FONAFE received dividends of S/ 758.6 million in 2021 (approx. USD 209 million) compared to S/ 962.1 million in 2020 (USD 266 million), a year-on-year drop of over 20% which was largely attributed to the impact of the COVID-19 pandemic on the operating performance of SOEs in Peru. SEDAPAL, the water and wastewater state-owned utility, which reported the highest dividends to FONAFE in 2020 of S/ 141 million did not report any dividends in 2021. The top five companies by dividends returned in 2021 and 2020 all operate in the electricity industry – in generation or distribution – and are as follows:

**Table 2.2. Distributed dividends by the top five Peruvian SOEs in 2020 and 2021**

Company	2021 Dividend (S/ Millions)	2020 Dividend (S/ Millions)
ELECTRONORTE	113.1	106.1
ELECTROCENTRO	104.5	109.8
Hidrandina	94.8	109.2
EGASA	64.8	45.9
ELECTRO SUR ESTE	50.3	73.3

Source: World Bank (2020), Centralized Companies for SOE Ownership; FONAFE (2021), Memoria Annual 2021, <https://www.fonafe.gob.pe/centrocorporativo>; Inter-American Development Bank (2018), State-Owned Enterprises and Fiscal Risks in Peru, <https://publications.iadb.org/en/state-owned-enterprises-and-fiscal-risks-peru>

In **India**, “Guidelines on Capital Restructuring of Central Public Enterprises (CPSEs)” were issued in 2016, requiring SOEs to pay a minimum of 30% of profits after tax or 5% of their net worth as dividends, whichever is higher. However, in practice it has been observed that since 2016 many SOEs consider only paying minimum amounts as per the Guidelines, and in 2020 central enterprises were advised by the Department of Investment and Public Asset Management (DIPAM) to strive paying higher dividends taking into account relevant factors such as profitability, Capex requirements with due leveraging, cash/reserves and net worth (DIPAM, 2020<sup>[24]</sup>). It has also been observed that most SOEs pay interim dividends in February-March<sup>9</sup>, which can impact their cash availability for year-end payments to suppliers and towards advance tax. In light of this, DIPAM issued guidance on recommended procedures and amounts of interim dividend payments.

<sup>9</sup> In India, the financial year starts from 1<sup>st</sup> April and ends on 31<sup>st</sup> March.

### Box 2.5. India – Advisory regarding Consistent Dividend Policy by CPSEs (issued by DIPAM)

In 2020, DIPAM issued guidance on procedures for interim dividend payments in order to ensure for a predictable and staggered dividend regime that would enable SOEs to avoid end-loading of annual payments by freeing up resources payable during the last quarter. While predictability in regular dividend payments would help attract and retain investor interest for SOE stocks, this would also allow the government to get predictable and periodic dividend payments.

In light of observed issues highlighted above, companies paying relatively higher dividends (i.e. 100% of Rs 10 per share) are advised to consider paying interim dividends every quarter after quarterly results, while other SOEs may consider paying dividends on a half-yearly basis. Only companies which cannot pay the minimum prescribed dividend pay-out are advised to pay interim dividends during October/November of each year based on projected profits after tax, with the declaration of second quarter (Q2) results. Further, all SOEs should consider paying at least 90% of projected annual dividends as interim dividends, in one or more instalment(s). The final dividend of the last financial year should be paid soon after the annual general meeting in September of every year, in cases where the interim dividend has not been paid out fully during the last financial year and there is a remaining balance to be paid out as final dividend.

Note: in India, the financial year starts from 1<sup>st</sup> April and ends on 31<sup>st</sup> March.

Source: DIPAM (DIPAM, 2020<sup>[24]</sup>), Advisory regarding Consistent Dividend Policy by CPSEs, <https://dipam.gov.in/capital-restructuring#>

### 2.1.3. Linked to optimal capital structure

**In a small subset of surveyed jurisdictions, an interesting model exists whereby the state's dividend expectations, communicated via established guidelines, are explicitly linked to the achievement of an optimal capital structure as measured by the maintenance of a target credit rating.** In Australia, New Zealand and Sweden, ownership entities communicate a target credit rating by which to measure the optimal capital structure, which stands as an overarching guiding principle for setting annual dividend pay-out levels (OECD, 2014<sup>[25]</sup>). The fact that these jurisdictions have centralised ownership functions and relatively small portfolios of commercial SOEs operating in competitive markets may facilitate the implementation of this practice for enterprises on an individual basis. Overall, dividend expectations set on the basis of rates-of-return requirements that are in line with those of private companies help ensure that commercial SOEs operate on a level playing field.

For instance, in **Australia**, according to the Government Business Enterprise Guidelines (GBE Guidelines), dividend levels should be established with a view to achieving an optimal capital structure, taking into account company profitability and future capital expenditure needs. An optimal capital structure is defined as one that provides for an investment grade credit rating while optimising company efficiency (with a target of BBB). In practice, annual dividend pay-out levels are agreed upon annually between boards of Government Business Enterprises and the shareholder minister(s) through the corporate plan consultation process, based on explicit guidance (Box 2.6).

Likewise, in **New Zealand**, the government expects that SOEs will have a capital structure consistent with a BBB (flat) credit rating as a minimum, “unless the SOE can demonstrate good reasons otherwise” in order to ensure that all SOEs have appropriate financial disciplines to manage capital efficiently at similar risk levels. According to the Owner's expectations document, SOEs should operate a dividend policy that (i) translates to pay-outs that are commensurate with those of their listed peers not owned by the Crown, (ii) gives an appropriate balance between dividends and re-investment in the company, and (iii) shows a degree of consistency and improvement over the years. Overall, an appropriate dividend policy should relate to a proportion of a financial metric that is suitable for each company (i.e. either operating or free

cash flow, adjusted or underlying net profit after tax, or earnings), and should be linked to the company's desired medium-term sustainable financial structure (e.g. desired credit rating). In practice, the proposed dividend pay-out ratio is set by the board after considering comments by shareholding ministries through the business planning process, also considering the desired capital structure, profitability and level of future capital expenditure as outlined in the business plan and Statement of Corporate Intent (SCI) (New Zealand Treasury, 2020<sup>[26]</sup>).

In **Sweden**, according to the state ownership policy, financial targets of SOEs are set based on profitability, capital structure and dividend targets so as to ensure *inter alia* predictable dividends taking into account the SOE's future capital requirements and financial position (Swedish Government, 2020<sup>[27]</sup>). In practice, SOE boards propose dividend levels based on the dividend policy decided by the general shareholders' meeting. In cases where the proposal goes beyond the scope of the policy, then there is dialogue with shareholders. In 2021, 19 of the 45 enterprises in the SOE portfolio decided to pay dividends (for the financial year 2021), with the largest dividends paid by five companies in the energy, extractives, telecommunication, gambling and property administration sectors (Vattenfall, LKAB, Telia, Svenska Spel, Akademiska Hus) together accounting for 90% of total dividends (Swedish Government, 2022<sup>[28]</sup>). Enterprises that receive budget appropriations from the state for public policy objectives usually do not pay dividends.

### Box 2.6. Australia – Linking dividends to optimal capital structure (as per the GBE Guidelines)

Each GBE and its subsidiaries are expected to target an optimal capital structure (the combination of financial liabilities and equity used to fund the assets of the GBE) that is agreed annually between the board and Shareholder Ministers in the Corporate Plan consultation process.

- An optimal capital structure is one that, in light of economic, industry and GBE specific factors, would provide for an investment grade credit rating, whilst at the same time imposing a discipline on the GBE to optimise efficiency. The standalone target credit rating is BBB.
- As part of developing a target optimal capital structure, consideration is expected to be given to the forecast level of capital expenditure in the GBE's Corporate Plan, and appropriate options for funding capital expenditure (including via retained earnings or debt). Consideration is also to be given to longer term objectives outlined in a GBE's Corporate Plan.
- In providing for a GBE to expand its capital base through retained earnings, any proposed future capital expenditure is expected to add shareholder value. That is, as a minimum, capital expenditure plans should meet a hurdle rate of return that is consistent with the GBE's principal financial target (Refer paragraphs 1.8 and 4.7 – 4.13 'Financial Targets for GBEs').

The level of estimated dividends (and forecast pay-out ratio) for a GBE and its subsidiary should be agreed annually between the GBE and the Shareholder Ministers through the Corporate Plan consultation process, and is expected to have regard to the maintenance of, or progress toward, its optimal capital structure.

- The level of estimated dividends shall be driven by the desired capital structure, the profitability of the enterprise, and the level of agreed future capital expenditure.
- The proposed dividend pay-out ratio and estimated dividend payment should be included in the Corporate Plan for each year covered by the Corporate Plan.
- The agreed dividend pay-out ratio should take account of the government's preference for dividends over capital gains.
- Profits generated by subsidiaries are to be taken into account in agreeing the level of estimated dividends and forecast pay-out ratio.

Dividends are expected to be paid in two instalments: an interim dividend and a final dividend.

- Interim dividends are payable by 30 April and final dividends by 30 October.
- Shareholder Ministers may agree on variations to those dates, after consultation with the board of the GBE.

Interim and final dividends to be paid must be agreed between the board and Shareholder Ministers, as soon as possible after the quarterly progress reports for the periods ending in December and June have been received by Shareholder Ministers.

The capital structure of a GBE is expected to be reviewed where the application of the dividend policy has not led to, or is unlikely to lead to, an optimal capital structure within a reasonable period of time.

Dividend policy for partly owned GBEs is expected to have regard to the above principles, the extent of Commonwealth ownership, and the views of other shareholders.

Source: Australian Government (2018<sup>[29]</sup>), Commonwealth Government Business Enterprises – Governance and Oversight Guidelines: Resource Management Guide No. 126, <https://www.finance.gov.au/sites/default/files/2019-10/commonwealth-gbe-governance-and-oversight-guidelines-rmq126.pdf>

#### 2.1.4. No dividend guidelines or targets

**In around two-fifths of surveyed jurisdictions, dividends are negotiated annually between SOEs (whether boards or executive management) and the state shareholder without guidelines or targets.** While this could potentially hinder capital structure optimisation, some jurisdictions report that the process for setting dividend amounts is closely linked with the performance monitoring system for SOEs (e.g. Colombia). In many jurisdictions, the exact amount is proposed by the board and approved either by the Ministry of Finance or on a whole-of-government basis (or sometimes via a two-step process involving both).

For instance, in **Djibouti**, once the financial statements of SOEs (*sociétés d'Etat*) indicate that there are distributable profits, the board of directors may propose the amount to be distributed as dividends (Djibouti Official Gazette, 2019<sup>[30]</sup>). Dividend amounts are then approved by the annual general meeting of shareholders. In **Azerbaijan**, the board of the SOE proposes a dividend on the basis of distributable profits, which is then approved by either the SOE's supervisory board (if instated) or, as more often the case, the general meeting of shareholders of the SOE. In the portfolio of SOEs of Azerbaijan Investment Holding (AIH), the role as state shareholder in the general meeting is exercised by AIH, in coordination with the President. As part of the state budgeting process, SOEs are required to submit projected cash flows by August each year.

**In some jurisdictions, while SOEs are not expected to generate profits and pay dividends, when they do generate profits, excess reserves should be used for public policy objectives.** For instance, in **Costa Rica**, some SOEs – such as the public banks (BCR and BN), the insurance company (INS) and the telecom and electricity company (ICE) – are required by law to pay various charges based on their annual earnings (which are deducted after EBITDA as shown in the financial statements) that are earmarked for special purposes<sup>10</sup> (i.e. “*cargas parafiscales*”). A similar system exists in **Estonia**, where in addition to dividends, SOEs can also pay subsidies and make donations to research and development

<sup>10</sup> For instance, public banks are required to transfer annually a net percentage of their annual income to CONAPE (government scholarship program), NFOCOOP (cooperative sector government institute), CNE (national agency for emergencies and disasters), public pension funds, and to the “incapacity, seniors and death regime” within the social security fund.



programs in their fields of activity if deemed that these would contribute to the achievement of the company's operational and financial goals. In **Côte d'Ivoire**, to promote wider economic development, the law governing SOEs (Law No. 2020-626) mandates that a portion of surplus dividends distributed by SOEs are directed for the development of small and medium-sized enterprises.

### Box 2.7. Payment of subsidies by Estonian SOEs (according to the State Assets Act)

According to subsections 1 and 2 of article 88 of the State Assets Act which came into force in 2010 and was amended in 2017, SOEs can pay subsidies and make donations only for the purpose of research and development in their fields of activity if it contributes to the achievement of the company's operational and financial goals, and the articles of association stipulate the procedure for paying subsidies.

Relevant provisions were amended in 2017 to reduce the maximum rate of payment of subsidies to 0.5% of the company's average consolidated net profit of the three previous financial years, and a more narrow purpose was also introduced (i.e. only for research and development in the field of activity of the enterprise). Therefore, a very steep decrease in the volume of subsidies can be observed in recent years (i.e. from EUR 1 200 000 in 2016 to less than EUR 200 000 in 2021). In 2021, five SOEs paid subsidies (including two energy companies – Elering and Eesti Energia, two railway companies – Operail and Esti Raudtee, and a state property company – RKAS), with Eesti Energia paying the largest proportion of the three-year average net profit to subsidies (0.3%).

Source: Estonian Government (2009<sup>[31]</sup>), State Assets Act, <https://www.riigiteataja.ee/akt/128062012028?leiaKehtiv> and Estonian Government (2022<sup>[32]</sup>), General report of business companies, foundations and non-profit companies with state participation for the year 2021, <https://www.fin.ee/media/8283/download>

### Other jurisdictions have signalled intent to establish dividend policies or have legislation pending.

For example, in **Ghana**, a draft Dividend Payment Guideline is with the Ministry of Finance for approval and signature as part of the implementation process. Dividends and dividend payment clauses are captured in all performance contracts signed between the ownership entity, the State Interests and Governance Authority (SIGA), and SOEs, which mandate SOE boards to abide by the annual dividend policy approved by the Minister of Finance on the advice of SIGA. Currently, the requirement under the SIGA Act of 2019 is that SIGA is responsible for ensuring that dividends due to the State are received from SOEs. Similarly, in **Morocco**, the recently established ownership entity (*Agence Nationale de Gestion Stratégique des Participations de L'Etat*) intends to develop a dividend policy for SOEs.

## 2.2. Actual SOE dividend pay-out ratios: overview of sectoral trends and selected company examples

**This section reviews the magnitude of dividend payments relative to corporate earnings, including with regards to the so-called dividend pay-out (DPO) ratios.** Data for actual dividend payments are available only from around half of the surveyed of jurisdictions, limited mostly to OECD members<sup>11</sup>. Firstly, the reported corporate profits may differ significantly from other metrics such as the free cashflows which are also important in determining optimal dividend payments. This is the case in companies with large sunk investments where reported profits are depressed by sizeable depreciation allowances on capital assets that the state may or may not plan to replace upon expiry. A special case is presented by the extractive

<sup>11</sup> It is worth noting that this information was not requested in the questionnaire as first issued. The OECD Secretariat subsequently contacted respondents individually and requested it.

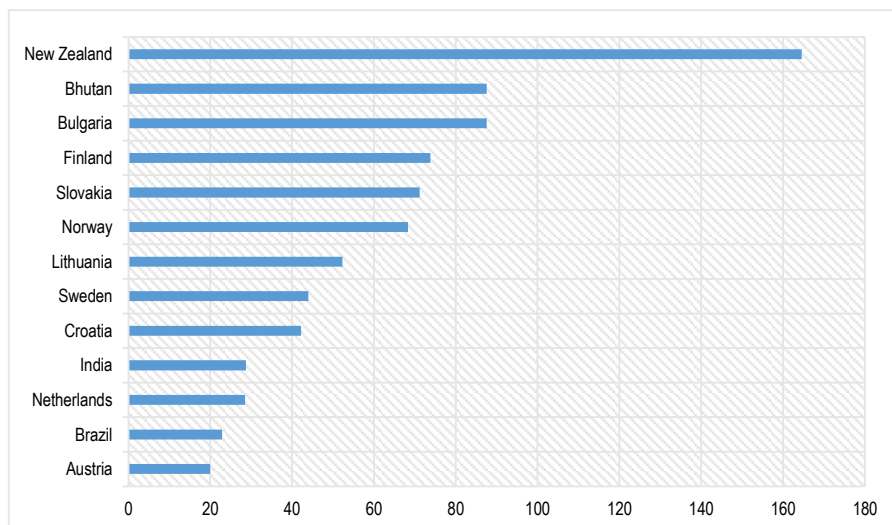
industries (mining, oil and gas) where several jurisdictions rely on resource taxes and royalties, rather than dividend payments, as a prime source of fiscal revenues.

**A further caveat when assessing annual pay-out ratios is that corporate profits in SOEs tend to be significantly more volatile than dividend payments.** As mentioned in the previous section, many state owners of SOEs tend to require relatively stable dividends based on their assessment of the long-term profitability of the enterprises. The following two sections attempt to compensate for this limitation by applying a more granular approach and assess dividend pay-outs on the basis of total profits and total dividends over a three-year period.

### 2.2.1. SOEs in the electricity sector

The sample analysed for this report includes 13 jurisdictions that have SOEs that are solely or mostly engaged with electric power generation. Nine of them have only one such company, three have two (Bhutan, India and Slovak Republic) and one has three (New Zealand). Figure 2.3 provides an overview of the dividend pay-out ratios in these SOEs – in the form of unweighted national averages where there are more than one state-owned company in the sector. The figure displays a wide disparity in dividend pay-out ratios across jurisdictions. New Zealand with a ratio far above 100% is a clear outlier, reflecting the fact that the three state-owned power generation companies (Meridian, Genesis and Mercury) have free cashflows that significantly exceed their reported profits.

**Figure 2.3. Average dividend pay-out ratios for the last three available years: power generation**



Note: Only reporting jurisdictions with positive reported profits in two of the last three years are included.

Source: OECD calculations based on data provided by respondents.

For the other jurisdictions in the sample, the pay-out ratios during the last available years range from 20% to around 85%. In most cases this may reflect different phases on the SOEs' earnings/investment cycles: power generation companies are usually considered a reliable provider of dividends to the national treasuries (as an illustration of this point, not one company in the sample reported negative profits in any of the years under review), but dividend requirements tend to get lowered in years where significant investment needs weigh down on corporate cashflows.

### Box 2.8. Kenya Electricity Generating Company

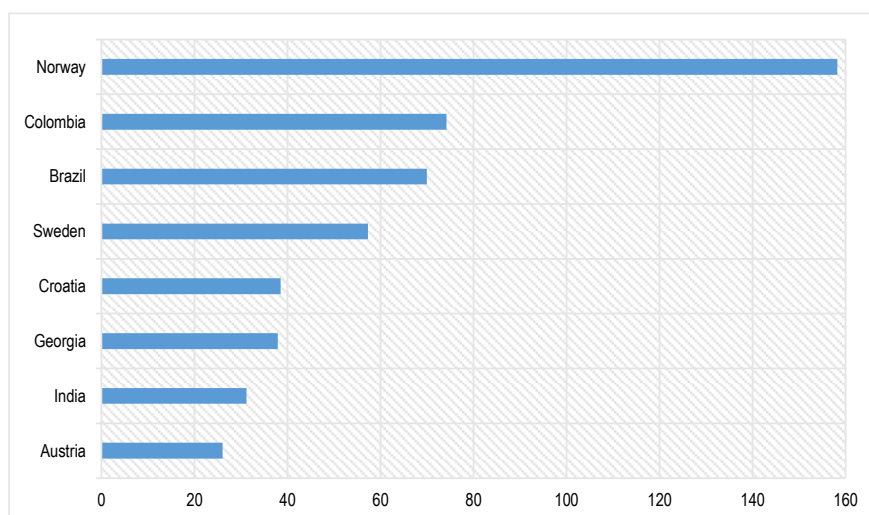
Kenya Electricity Generating Company plc (KenGen) is listed on the Nairobi Securities Exchange. KenGen is the market leader in the sector, contributing at least 70% of electricity sales in the country. The Government of Kenya is the majority shareholder with a 70% stake, with the remainder largely held by institutional investors. KenGen has distributed dividends for each of the last three years (2019, 2020 and 2021), with a fairly consistent dividend per share of Kshs. 0.30 in 2020 and 2021, an increase from Kshs 0.25 per share in 2019. However, volatility in the profits generated in the same period has resulted in significant variances in the pay-out ratio. Using the earnings per share (EPS) reported in the annual financial statements, pay-out ratios varied from 21% in 2019 (EPS = Kshs 1.20), to 10% in 2020 (EPS = Kshs 2.79) to 166% in 2021 (EPS = Kshs 0.18).

Source: Reports of the Auditor General and Financial Statements of Kenya Electricity Generating Company PLC 2021 and 2020, available at: [www.oagkenya.go.ke](http://www.oagkenya.go.ke)

### 2.2.2. SOEs in the extractive industries

For the purpose of this report, the extractive industries are defined as including mining and the production of oil and gas, but exclude the transmission of oil and gas and downstream hydrocarbons activities. Figure 2.4 shows the dividend pay-out ratios for the seven jurisdictions in the sample that have such SOEs and made information about their profits and dividends available.

Figure 2.4. Average dividend pay-out ratios for the last three available years: extractive industries



Note: Only reporting jurisdictions with positive reported profits in two of the last three years are included.

Source: OECD calculations based on data provided by respondents.

In Figure 2.4, Norway is a clear outlier with a pay-out ratio of close to 160% for the period under review. However, this mostly reflects the effect of a one-off large operational loss in the hydrocarbons company Equinor in 2020 that did not lead to a cessation in dividend payments.

The other jurisdictions in the sample had pay-out ratios that (like in the case of the electricity sector) generally ranged from 20% to 80%. Compared with the electricity sector dividend payments were

significantly more volatile from year to year within the sample, which presumably reflects the effect that a significant volatility in the pricing of minerals (and particularly hydrocarbons) has on corporate profitability and valuation. While most jurisdictions nevertheless maintained significant dividend payments in all years, some (e.g. Croatia and Georgia) on occasion renounced dividend pay-outs altogether.

### 2.2.3. SOEs in other sectors

Most jurisdictions have a significant number of public utilities – including postal services, telecommunication and railway transportation – providers in state ownership. However, these companies are not strongly represented in the current study that focuses mostly on particularly large and profitable SOEs which public utilities providers (with the occasional exception of telecoms operators) generally are not. Moreover, it has been chosen for the purpose of this exercise to exclude SOEs in the railways sector. It should also be noted that the years covered in the sample are mostly those affected by the COVID-19 pandemic, which significantly impacted the transportation sector. Table 2.3 presents examples of dividend practices in a small sample of such SOEs.

**Table 2.3. Profits and dividends in the last three available years: public utilities**

Country	Company	Two years ago		One year ago		Latest available year	
		<i>Profit</i>	<i>Dividend</i>	<i>Profit</i>	<i>Dividend</i>	<i>Profit</i>	<i>Dividend</i>
Switzerland	Swisscom	mCHF 1 669	mCHF 1 140	mCHF 1 528	mCHF 1 140	mCHF 1 833	mCHF 1 140
	Swiss Post	mCHF 225	mCHF 50	mCHF 178	mCHF 50	mCHF 452	mCHF 50
Norway	Telenor	mNOK 7 773	mNOK 12 277	mNOK 17 341	mNOK 12 595	mNOK 1 528	mNOK 13 000
Finland	Posti	mEUR -82	mEUR 30	mEUR 20	mEUR 31	mEUR 88	mEUR 32
Austria	Telekom Austria	mEUR 438	mEUR 43	mEUR -32	mEUR 47	mEUR 1 183	mEUR 53

Note: Only reporting jurisdictions with positive reported profits in two of the last three years are included.

Source: Data provided by respondents.

Table 2.3 arguably provides a strong illustration of an earlier point, namely the relative constancy of annual dividends in sectors with generally non-cyclical earnings. In all four jurisdictions reviewed in the table, the actual amount of dividends paid either barely changed from year to year, or were on a slight upward trend that may reflect inflation and/or trend-growth in corporate earnings. Insofar as pay-out ratios can be meaningfully calculated on the basis of the above figures, they would seem to indicate relatively low dividend payments in the Austrian telecom and the Swiss postal service, and relatively high payments elsewhere.

## 2.3. Transparency and disclosure practices of SOE dividends

**To ensure an efficient and effective use of public funds, governments should strive to achieve high levels of transparency and financial disclosure of SOEs towards the markets and general public.**

This can also serve to enhance the accountability of SOEs, and contribute to levelling the playing field by facilitating comparison with their private sector peers (OECD, 2020<sup>[33]</sup>).

**In all but two jurisdictions with available information, SOE dividends are disclosed by the state owner, either in the government financial statements, the annual aggregate report on SOEs, or a combination of both (Annex A).** Other disclosure channels include for instance citizen's budgets, budget planning and execution reports, as well as audited annual financial statements of SOEs.

**Although many jurisdictions (including mainly OECD members) report that information on SOE dividends is disclosed in annual aggregate reports by the government, it appears that the level of granularity of disclosures varies widely across jurisdictions.** According to a review of annual aggregate reports in selected jurisdictions by the OECD Secretariat, good practice calls for the disclosure of the following information:

- The total amount of dividend payments and aggregate dividend yield of the SOE portfolio, along with a breakdown of contributions by sector, and individual figures for the entire portfolio or the largest SOEs only.<sup>12</sup>
- How the dividend yield and total amount compares with previous years, and an explanation of variations or outliers due to exogenous shocks (e.g. linked to macroeconomic variables or market-specific factors).<sup>13</sup>
- In cases where dividends deviate from policy expectations and/or minimum legislated pay-out rates, or when SOEs are exempted from dividend payments altogether, information explaining why.
- Information about the estimated optimal capital structure of individual SOEs and explanations of any deviations therefrom, including where applicable additional information about the boards' assessments in this regard.

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<sup>12</sup> For SOEs that do not pay dividends, the amounts of subsidies granted for delivering public service obligations should be fully disclosed.

<sup>13</sup> While year-on-year variations in dividend yields of listed SOEs in particular will largely reflect changes in the valuation of shares, most SOEs are not listed.

# 3 Setting dividends for SOEs: key considerations

**A robust dividend policy is a key component of corporate governance for the state owner to manage the return on investments in the SOE portfolio.** As Box 3.1 illustrates, an established dividend policy has many benefits for the state owner which include: enabling greater scrutiny by the state owner of capital allocation of the SOEs; reducing the free cash flows available to managers, thereby reducing the scope for mismanagement or poor investment decisions that exceed the preferred risk profile or threaten financial viability; and improving the effectiveness of financial oversight while minimizing the fiscal risks created by SOEs. Further, if the state owner intends to list the SOE, a transparent dividend policy may be a requirement of the securities exchange.

## Box 3.1. Key components of a dividend policy for SOEs

A dividend policy for SOEs should divide its after-tax profit into two parts: (i) retained earnings to finance investments, and (ii) dividends to finance general public spending by the government.

As such, the rationale for a sound dividend policy is twofold: firstly, it has the potential to enhance the efficiency of investments financed by the retained earnings of SOEs; and secondly, it may improve the overall allocation of financial and fiscal resources.

The dividend policy should therefore include the following elements:

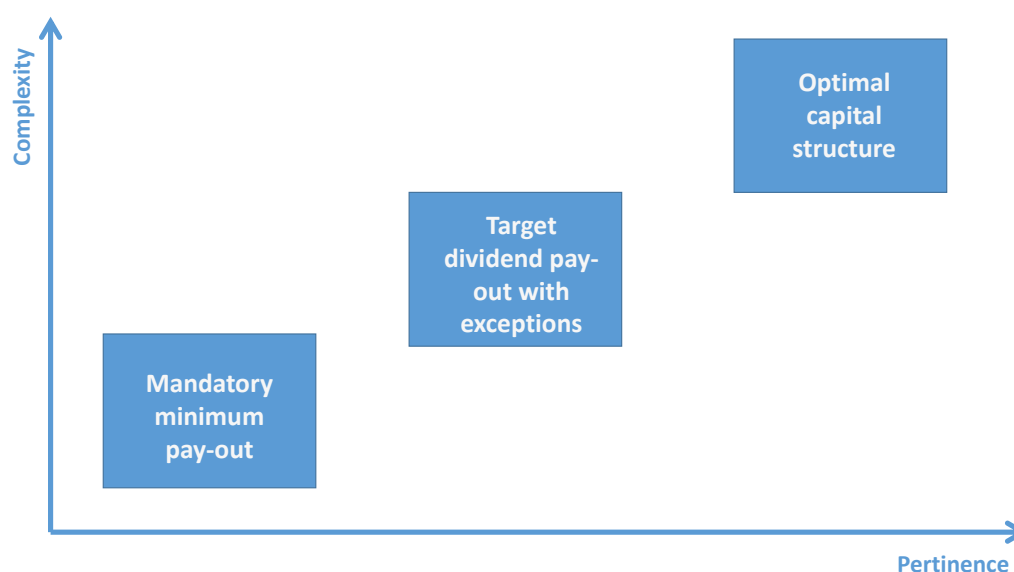
- **Introduction** describing the purpose and objectives of the policy
- **Reference** to the establishing legislation or other statutory requirement for the policy
- **Guidelines** or criteria for dividend distribution (for example, distribution is based on achieving strategic objectives; dividend amounts consider the investment needs of the SOE as well its economic and financial sustainability; consideration of public service obligations, fiscal conditions of the state, sector or industry regulations)
- **Roles and responsibilities** of decision-makers such as the board of directors or the shareholder's general meeting
- **Timing, frequency and method** of dividend payments
- **Other relevant considerations (e.g., such as interest or taxes)**

Overall, when SOEs operate in competitive sectors such as manufacturing, wholesale and trade, accommodation, among others, they are less likely to be subject to public service obligations and dividend expectations should therefore be closer to those of private sector companies. Thus, the dividend policy should consider potential benchmark against private peers to ensure a level playing field.

**Dividend policies should seek to strike a balance among potentially competing interests – adequate transfers back to the state budget and financial viability of the SOE.** The public is the ultimate owner of SOEs, with the state exercising ownership rights on its behalf. As a result, dividends transferred to the state budget may be applied to meet public policy objectives and improve service delivery outcomes. However, higher dividends to the state owner may not always be desirable, as they may reflect monopoly profits (from a dominant market leader that can limit growth and development opportunities for private sector competitors) or deprive SOEs of funds they may require for investment and financing needs.

**There is also a trade-off between complexity and relevance in developing an SOE dividend policy** (Figure 3.1). A minimum dividend pay-out ratio, often mandated by law, is simple to apply consistently across the SOE portfolio, but is likely not an appropriate approach to the circumstances of all SOEs. Conversely, a more elaborate dividend policy approach, such as by seeking to maintain an optimal capital structure, tends to achieve a more “accurate” result in terms of balancing the needs of the state and that of the SOE, but also gives rise to added complexity, particularly in cases where SOE profitability fluctuates. For state owners to maintain a basic level of financial discipline, a target dividend pay-out policy with exceptions seems to be a good approach to achieve the balance of allowing SOEs to operate at a commercially sustainable level and provide a return on the state’s investment. Overall, setting a robust dividend policy for SOEs is a complex exercise, and should take into account a jurisdiction’s ownership arrangements, the size, composition and sectoral distribution of its SOE portfolio, and the fiscal and economic context in which SOEs operate.

**Figure 3.1. Approaches to setting dividend policies: Complexity vs. Pertinence**



**Protection of minority shareholders should also be ensured.** In SOEs where the state is not the sole owner, it is important that the dividend payments be set at a level that suits not only the state’s fiscal needs but equally the interest of the minority investors. The actual dividend amount would need to be approved by the general shareholders’ meeting, but the state as the majority shareholder should take fully into account the interests and preferences of other shareholders. In the rare cases where minimum dividend pay-out ratios are imposed by law, these should generally be determined and publicly disclosed before the state invites other investors into the shareholding structure of any given SOE.

**Dividends distributed by SOEs to the state should be disclosed by the state owner, either in government financial statements and/or annual aggregate reports on the SOE portfolio.** While the quality of such disclosures may depend on the quality of public financial reporting in a given jurisdiction which can impact the calculation of SOE profits and capital structure requirements, the rigour of the transparency and disclosure regime in the jurisdiction should also be considered. Jurisdictions with higher capacity in this regard publish annual aggregate reports on the performance of the SOE portfolio. Best practice calls for annual aggregate reports to include the following information: (i) the total amount of dividend payments and aggregate dividend yield of the SOE portfolio, (ii) year-on-year comparisons of the dividend yield and total amount, with an explanation of variations or outliers where relevant, (iii) explanation regarding deviations from policy expectations, or regarding exemptions from dividend payments where relevant, (iv) information about the estimated optimal capital structure of individual SOEs and explanations of any deviations therefrom, including where applicable additional information about the boards' assessments in this regard.



# Annex A. Details on SOE dividend policies and practices in surveyed jurisdictions

Table A A.1. Overview of dividend policies and practices of SOEs across 41 jurisdictions

	Country	Details on dividend policies and practices	Disclosure channels
Broad guidelines	<b>Estonia</b>	According to the State Assets Act, the owner is required to communicate its expectations on dividend payments that may take the form of broad guidelines or an explicit pay-out ratio, while line ministries may also have adopted a dividend policy for SOEs in their portfolio (in addition to the owner's expectations). While ratios typically vary between 50%-100%, in some instances line ministries do not expect dividend payments at all. In extraordinary cases, exceptional dividends may be decided (for instance, before an IPO, so as to adjust the capital structure of the SOE). Each year the dividend payment is decided after the annual results have been audited and published, typically in March. Despite the dividend expectation or policy, if there are material evidences that pay-out of this amount would hinder the future outlook of the SOE, the dividend payments may be reduced. The opposite is also possible – if the company is liquid and has no investment projects in the foreseeable future, dividend pay-out may be elevated. While dividend amounts are proposed by the board, it is approved by the line ministry and Government Cabinet (in practice, the line minister can only approve the specific amount in the general meeting after it has been approved by the Government Cabinet).	◆ ❖ ◎
	<b>Finland</b>	The State's Ownership Steering Department (OSD) sets broad guidelines on dividend targets for each SOE, taking into account their capital structure and return on equity. To avoid volatile annual dividend distribution, the dividend policy is set by the board of directors of individual SOEs, as required by OSD.	◆ ❖
	<b>Korea</b>	The Ministry of Economy and Finance sets the dividend policy as mandated under the State Property Act for the SOEs prescribed by Presidential Decree. Dividends are distributed taking in account: the size of profits subject; reasonableness of the amount in the state budget amount for expected investment revenue as well as the financial position of the state; dividend pay-out ratio of each SOE in comparison with private sector peers and industry norms; conditions of the company paying dividends to the Government, such as the size of its capital stock, the size of internal funds, debt ratio, net worth ratio; historical dividend payment and appropriateness of financial resources required for investment. To facilitate timely budgeting of expected dividend amounts to be received by the state owner, SOEs are required to submit financial data to the state.	N/A
	<b>Lithuania</b>	Until end 2021, the procedure for the payment of dividends by state-owned enterprises and profit contributions by state enterprises was governed by the Law on State and Municipal Enterprises of the Republic of Lithuania and Resolution of the Government Concerning Dividends for Shares of State-Owned Companies and Profit Contributions by State Enterprises (i.e. " <b>Governmental Resolution Concerning Dividends and Profit Contributions</b> "). However, the act ceased to be valid on 28 December 2021. The Resolution was amended several times since its introduction in 1997. Effective from 2018 until 2021, the methodology for calculating the share of profit to be distributed as dividends by SOEs was based on their ROE for the accounting year. Going forward, the	◆ ❖

	Country	Details on dividend policies and practices	Disclosure channels
		allocation of dividends and profit payments will depend on the individual key financial performance indicators of SOEs approved by Government resolution for a specific period, which also include dividend expectations.	
	Netherlands	According to the <b>State-Owned Enterprises Policy 2022</b> , if the financial buffers of an SOE are sufficient, part of the profit can be distributed to the shareholder. This benefits the national budget. Profits that are not distributed to shareholders as dividends are added to shareholders' equity and thus contribute to the financial resilience of the SOE. The SOE draws up a dividend policy that is discussed with the shareholder. This dividend policy covers a multi-year period and is periodically reviewed. In the dividend policy, the SOE justifies what part of the profit is in principle distributed annually as dividend and what considerations are relevant in this respect. The state considers it important that at least the following matters are taken into account: (i) the continuity of the company, (ii) the creditworthiness of the company, (iii) the company's investment agenda. In practice, dividend levels are proposed by the board and approved by the Ministry of Finance.	◆ ❖
	Norway	SOEs are classified under two categories, with companies in category 1 and 2 expected to deliver the highest possible return over time in a sustainable manner, and companies in category 2 expected to have sustainable and the most efficient possible attainment of policy goals. According to the state ownership policy, while dividend(s) provide the owner with a direct return, they are also a means of adjusting the company's capital structure. As such, an optimal capital structure is defined as one that is "well-adapted to the company's goals and strategies, the risks associated with the company's activities and the company's ability and opportunities to create returns that exceed the cost of capital", and an appropriate dividend level is defined as one that "promotes long-term value development and the most efficient possible attainment of public policy goals". As many companies in category 2 are financed by the national budget or regulated revenues, the state often places restrictions on the company's financing (such as on its ability to borrow, or distribute dividends), however the board should always consider what is the optimal capital structure of the company and how the balance sheet can be adjusted as required (e.g. if the articles of association stipulate that the company shall not pay dividends, the capital structure could be adapted by changing the level of any subsidies or regulated revenues the company receives). For SOEs that do pay dividends, the state expects that companies communicate their assessments of the appropriate capital structure and dividend level to their owner(s) (or to the capital market if they are listed), based on the company's financial position and relevant forecasts. Based on the state's long-term and annual dividend expectations towards each SOE, and the SOE boards' considerations including any other shareholder views, the SOE boards annually propose dividends to the general shareholders' meeting, where the state is represented by the relevant line ministry.	◆ ❖
	Oman	The <a href="#">Code of Governance of entities managed by Oman Investment Authorities (OIA)</a> issued in 2022 requires SOEs with at least 40% of OIA shareholding to prepare a cash flow statement stipulating the free cash flow to equity, which if positive, should be adjusted against amounts budgeted to be received from shareholders during the year and debt prepayments to get the available cash. According to the Code, 10% of the remaining cash should be retained for company uses, then used to repay any shareholder loans, and then for dividend payments. Public Joint Stock Companies are exempted from the Code (as they are subject to a specific Code of Governance). The Code is scheduled to be reviewed every two years. In practice, dividend policies are proposed by SOE boards and approved by the general shareholders' meeting.	N/A
	Switzerland	The Federal Council communicates its dividend expectations to individual SOEs in its portfolio through the quadrennial strategic objectives, and are based on each SOE's expected profitability and future investment needs. If dividend levels need to be lowered due to lower-than-expected SOE performance, annual consultations occur between the Federal Council and the concerned SOE. In practice, dividend levels are proposed by the board (based on the company's expected profitability and future investment needs), and are first approved by the Federal Council for ultimate decision by the general shareholders' meeting.	◆ ❖
	Türkiye	Articles 36 and 37 of Decree Law No. 233 provide for a minimum share of profits to be allocated as reserves by companies before the distribution of dividends. In particular, before profits are paid out as dividends, state economic enterprises (SEEs) are required to allocate 20% of their annual profits as first capital reserve until they reach the entire amount of their nominal capital. After allocating the ordinary capital reserve and the amount for the taxes, duties and other legal liabilities, SEEs and the establishments allocate 20% of the remaining profit as the second ordinary capital reserve until the amount reaches the	◆ ❖ ☉

	Country	Details on dividend policies and practices	Disclosure channels
		entire nominal capital. Upon reaching the level of whole nominal capital, allocation of reserve fund is kept at rate of 10%. Public Economic Institutions (PEIs) are required to allocate 10% of their profit as capital reserve fund. Dividends can be paid in installments determined by the Ministry of Treasury and Finance (MoTF) based on the cash flow projections of the company. The MoTF considers cash flows and other financial statements such as balance sheets and income statements of SOEs to determine dividend payments. When a SOE's debt level is considerably high, the MoTF can decide not to collect dividends for the related year. As such, in accordance with annual investment and financing programs, dividends are not collected from SOEs which undertake substantial amounts of investment.	
	<b>United Kingdom</b>	There is no standard dividend policy for government owned assets given the degree of privatization in the UK. For listed companies in which the government has a majority stake (e.g. NatWest up until 2022) or a golden share (e.g. OneWeb), dividend payments are at the discretion of the board. Arm's Length Bodies (ALBs) with a commercial focus which receive Grant in Aid Funding (e.g. UK Asset Resolution), under Managing Public Money (MPM) rules, are generally required to return any excess cash at the end of each year. Public Corporations (e.g. Ordnance Survey) should agree on an appropriate dividend policy with their shareholding departments. The department may choose not to recover the full rate of return (as agreed with HM Treasury) as a dividend (to allow for reinvestment of its profits by the PC). However, the eventual cost of this under recovery should be borne by the department, as such budgets should be set at Spending Reviews on the expectation that the full agreed rate of return will be achieved. The exception to this is Trading Funds (e.g. Royal Mint), which may keep unspent funds from one year to the next without having to surrender surpluses to the Exchequer at the end of each year. These bodies' boards are responsible for declaring a dividend as appropriate.	◆
<b>Optimal capital structure</b>	<b>Australia</b>	The "Commonwealth Government Business Enterprises – Governance and Oversight Guidelines 2018" (GBE Guidelines) govern GBEs – alongside enabling legislation (where applicable) and company constitutions (where applicable). The GBE Guidelines provide guidance on the approach to financial governance. All GBEs are expected to add to shareholder value in their operations. Accordingly, and to work towards a principal financial target and dividend policy that is based on the recommendations of the board and agreed with Shareholder Ministers, the dividend policy is to have regard to the maintenance of, or progress toward, the GBE's optimal capital structure, profitability of the enterprise, and the level of agreed future capital expenditure. The principal financial target is to be set on the basis that each GBE is expected to earn commercial returns at least sufficient to justify the long-term retention of assets in the business, and to pay commercial dividends from those returns. Consideration of dividend policies for GBEs form part of the annual Corporate Plan preparation process (the requirements for which are set out in the Public Governance, Performance and Accountability (PGPA) Act 2013 and PGPA Rule).	◆ ◎
	<b>New Zealand</b>	The level of estimated dividends (and forecast pay-out ratio) is set by the board of each company individually after considering shareholding Ministers' comments through the business planning process. The dividend policy is driven by each company's desired capital structure, profitability, and the level of future capital expenditure as outlined in the company's business plan and other key business planning documents such as Statement of Corporate Intent. An appropriate dividend policy should relate to a proportion of a financial metric that is suitable for each company, either operating or free cash flow, adjusted or underlying net profit after tax, or earnings. The dividend policy should also be linked to the company's desired medium-term sustainable financial structure, for example the desired credit rating. The dividend policy should also aim to maintain consistency in the dollar value of dividend payments from year to year, and preferably with increases over time. The proposed dividend pay-out ratio and estimated dividend payment should be included in the business plan for each year covered by the plan. Ordinary dividends may be paid as an interim dividend and a final dividend. Special dividends may be paid as the board sees fit. Interim dividends are paid as soon as possible after the half-yearly report, and final dividends as soon as possible after the annual accounts are finalised.	◆ ❖ ◎
	<b>Sweden</b>	The state ownership policy is set by government. It sets out the general criteria for setting financial and non-financial targets including dividend policies. Dividend policies are then developed individually for each SOEs. Each board then annually proposes dividend pay-outs according to the individual policies. SOEs are benchmarked against listed peers for profitability and capital structures. Long-term investment plans are taken into account.	◆ ❖
<b>Explicit minimum</b>	<b>Brazil</b>	According to article 8 of Law no. 13,303 of 30 June 2016 and article 13 of Decree no. 8,945 of 27 December 2016, public companies and government-controlled companies are required to elaborate a dividend policy "in the light of the public interest that justified the creation of the public company or	◆ ❖ ◎

	Country	Details on dividend policies and practices	Disclosure channels
share of net profit		government-controlled company". The policy is reviewed at a frequency decided by the board of directors. Further, according to the <b>Company Law no. 6.404/1976</b> , companies are subject to a minimum pay-out of 25% of their net income. While the minimum pay-out is established by law, SOE boards have discretion to propose a higher ratio, for approval by the general shareholders' meeting. Dividend levels are set based on projected cash flows and the company's debt-to-equity ratio. For banks, Basel III capital ratios are considered. SOEs can also pay exceptional dividends, by decision of the board of directors.	
	Bulgaria	According to article 14 of the Public Enterprise Act (effective from 2019), the share of profit to be distributed by central majority-owned SOEs as dividends to the state budget is determined by the Council of Ministers on an annual basis. The percentage may be the same for all enterprises or different for some, depending on specific circumstances. In practice, dividend levels are proposed by the board and relevant line ministry, and approved by the Council of Ministers.	❖ ⊙
	Cabo Verde	As most SOEs are loss-making or do not generate significant profit, most SOEs currently do not pay dividends. However, <b>article 252° of the Commercial Company Act</b> establishes shareholders' right to profits of the fiscal year. According to the article, unless otherwise stipulated in the articles of association or a resolution passed by a majority of three-fourths of the votes representing the company's capital, shareholders have the right to receive as a mandatory dividend, a portion equal to half of the distributable profit for the year. According to the Commercial Company Act, at least 50% of the profits should be distributed to the shareholders. Overall, the amount of the dividend is proposed by the SOE board and ownership entity, and approved by the Ministry of Finance.	◆ ❖ ⊙
	Croatia	According to <b>article 220 of the Company Law</b> and <b>article 55 of the Act on execution of the state budget</b> , the decision on the amount, manner and time limits for the payment of funds from companies of strategic and special interest to the Republic of Croatia into the State Budget is set by law on an annual basis. For 2022, see: <a href="https://narodne-novine.nn.hr/clanci/sluzbeni/2022_11_130_1962.html">https://narodne-novine.nn.hr/clanci/sluzbeni/2022_11_130_1962.html</a> Only projected cash flows are reportedly considered to set SOE dividends (in order to deduce whether SOEs are able to cover investments and repay loans), while the business cycle most relevant to the SOE's activities and SOE debt are reportedly not. Exceptional dividends are also not granted. Overall, the amount of dividend is proposed by the Ministry of Finance, and approved by the SOE board and the Prime Minister's Office, and set in law.	❖
	Egypt	The governing law of each SOE sets a percentage to be added to reserves, minimum/maximum distribution to employees, maximum distribution to the board. For <b>economic authorities</b> , their governing law set a different percentage of profits to be distributed to the Ministry of Finance. In many cases, it is often zero. Further, according to <b>the Companies Law No. 159 of 1981</b> : (i) a minimum of 5% of net profit is to be allocated to the legal reserve and cannot be distributed as dividends, and the General Assembly may stop setting aside this reserve if it reaches half of the capital, (ii) the employees of the company shall have a share in the profits to be distributed, to be determined by the General Assembly based on a proposal from the board, which shall not be less than (10%) of net profits and not more than the total annual wages, and (iii) the company's bylaws determine the remuneration of the board of directors, which should amount to a maximum of 10% of net profit after deducting depreciation and legal reserves, and distributing a profit of not less than 5% of the capital to the shareholders and employees. Likewise, according to the <b>Public Business Sector Law No. 203 of 1991 (amended by law 185/2020)</b> : (i) a minimum of 5% of net profit is to be added to the legal reserve (part of the equity but cannot be distributed dividends), and the General Assembly may stop setting aside this reserve if it reaches half of the capital, (ii) the employees of the company shall have a share in the profits to be distributed, to be determined by the General Assembly based on a proposal from the board, which shall not be less than 10% of net profits and not more than 12%, and (iii) the company's bylaws determine the remuneration of the board of directors, which should amount to a maximum of 5% in the case of a holding company, and 10% of net profit in the case of a subsidiary, after deducting depreciation and legal reserves and distributing a profit of not less than 5% of the capital to the shareholders and employees.	☒
	Israel	According to a <a href="#">circular</a> issued by the Government Companies Authority (GCA), SOEs are required to designate 50% of their net income as dividend to the state. This policy does not apply to SOEs that by law or other government restrictions are unable to designate profits as dividends to the state (e.g. non-profit	◆ ❖ ⊙

	Country	Details on dividend policies and practices	Disclosure channels
		companies). The SOEs that designate less than 50% from their annual net profits as dividend are required to explain it, and this deviation must be approved by the GCA (as required by law). While the GCA can set different ratios depending on the type of SOEs, all Israeli SOEs currently abide by the same dividend policy. According to the Companies Law, the board of directors must examine two important indicators when designating profits as dividend to the state: the SOE's retained earnings, and its ability to pay its debts in the future. The GCA circular indicates that the GCA can ask additional dividend from the SOE's retained earnings. Furthermore, the government can decide to ask extra dividend from the SOEs and appoint the GCA to execute its decision.	
	Kazakhstan	State bodies exercising the rights to own and use the state block of shares (stakes in the authorized capital) of a joint-stock company (limited liability partnership), when holding annual general meetings of shareholders (participants) in the manner prescribed by the legislation of the Republic of Kazakhstan, take measures to direct part of the net income of a joint-stock company (limited liability partnership) for the payment of dividends (income) in the amount established as a percentage by the Government of the Republic of Kazakhstan. The amount of dividends (income) of joint-stock companies, limited liability partnerships, state blocks of shares (stakes in the authorized capital), which are in communal ownership, are established by the local executive body.	◆
	Latvia	According to the <b>Law on Governance of Capital Shares of a Public Person and Capital Companies</b> and <b>Regulation of the Cabinet of Ministers no. 72 of 25 January 2022</b> , dividend levels are set by law on an annual basis. In 2021, companies that are fully-owned or under a decisive influence of the state were required to pay-out a minimum of 64% of the profit of the reporting year.	◆ ❖ ☉
	India	In 2016, the Department of Investment and Public Asset Management (DIPAM) adopted <a href="#">Guidelines on Capital Restructuring of Central Public Sector Enterprises (CPSEs)</a> , requiring CPSEs to pay a minimum annual dividend of 30% of PAT or 5% of the net-worth, whichever is higher subject to the maximum dividend permitted under the extant legal provisions. Further, according to the Guidelines, CPSEs having net-worth of at least Rs. 2000 crore and cash & bank balance of over Rs. 1000 crore shall exercise the option to buy back its shares, and shall issue bonus shares if their defined reserves and surplus is equal to or more than 10 times of its paid up equity share capital. Overall, the amount of dividend to be distribute to the state budget is proposed by the SOE board, and approved by the general shareholders' meeting.	◆ ❖
	Peru	Most SOEs are required by law to transfer all their profits to the holding company (FONAFE). Exceptions are Electroperu, which is required to transfer 86% of its profits to the Consolidated Provisional Reserve Fund (Fondo Consolidado de Reservas Provisionales), the actuarial public pension fund that is the legal owner of the shares of the company and the remaining 14% to FONAFE, and Banco Nación, which transfers its profits directly to the Treasury. The board and management of FONAFE decide on the allocation of the combined profits between dividends to the Treasury and reinvestments in some of the enterprises, in line with the government's investment priorities and the SOEs' record in carrying out investment plans.	N/A
	Romania	According to applicable laws and regulation, state-owned ports and inland waterways operators are required to pay-out a <i>maximum</i> of 25% of their profits as dividends, while other majority-owned companies are subject to a <i>minimum</i> pay-out of 50% (with the exception of fully or majority-owned credit institutions). For the latter category, it is worth notice that the policy introduced in 2001 was revised in 2017, and now provides for "other reserves" to be distributed as dividends (for companies) or payments to the state budget (for statutory corporations), if they have not been used for investments and are included in the company's liquid assets. This decision was based on the government's findings that reserves of majority-owned SOEs were not used by companies, with surpluses reflected in their liquid assets.	◆ ❖
	Serbia	According to article 58 of the Law on Public Enterprises, the annual budget law prescribes dividend policies for majority-owned SOEs. A revised law on Ownership of Companies Owned by the Republic of Serbia was passed in 2023 with implementation envisaged in September 2024. Under this law, the legal form of public enterprises will change from limited liability companies to joint stock companies. This new law is not expected to amend the provisions in the budget law related to dividend payments by SOEs.	◆
	Uzbekistan	Dividend policies and levels for majority-owned SOEs and their subsidiaries (with >50% of state shareholding) are set by the budget law on an annual basis, but actual amounts can be changed by the authority of the Ministry of Economy and Finance.	◆ ❖

	Country	Details on dividend policies and practices	Disclosure channels
No guidelines or targets	Austria	SOE boards propose annual dividend levels for discussion by the annual general meeting. According to section 4.2.6 of the <a href="#">2021 Manual on Equity Interest Management of the Federal Republic of Austria</a> , on “Linking the results of the companies with the federal budget”, the dividends and disposal coverage as well as the valuations of the federal companies are coordinated with the federal budget.	◆ ❖
	Azerbaijan	For SOEs in the AIH’s enterprise portfolio, AIH approves the individual dividend policy of the SOE in its capacity as representative of the state as shareholder in the SOE’s general meeting of shareholders, in coordination with the President of the Republic of Azerbaijan. AIH, in its role as state shareholder in the SOE’s general meeting of shareholders, also approves decisions on the distribution of dividends and interim dividends for the SOEs in its enterprise portfolio. Outside the context of AIH, the civil code of Azerbaijan prescribes that decisions on dividend distribution and dividend policies (in cases when it is not specified in a company’s charter), shall be made by the supervisory board of the company or, if this corporate body is not installed, by the general meeting of shareholders upon the suggestion of the management board.	◆
	Bhutan	The 2008 Royal Charter establishing the state holding company (Druk Holding and Investment – DHI) states that the Ministry of Finance and DHI shall mutually agree upon the total amount of dividend to be provided and transferred to the Ministry of Finance.	◆ ❖
	Cameroon	The distribution of dividends by SOEs is governed by the OHADA uniform act on company law (Art. 143), which stipulates that retained earnings can be distributed in full but is silent about the method for calculating the proposed dividend.	N/A
	Chile	There is no fixed dividend policy in place and dividend levels are not decided on the basis of maintaining a specific capital structure. In practice, SOE boards propose an annual dividend policy either directly to the Ministry of Finance or to the SEP (for companies in its portfolio) at the annual shareholders meeting and they determine, in each case, if the proposition is accepted or modified. Annual dividend levels are decided taking into account SOEs’ financial performance and future capital needs. For companies under the portfolio of the SEP, in practice SOEs are generally expected to distribute 100% of net income to the state in the form of dividends.	◆ ❖
	Colombia	The country does not have a dividend policy mandated by law, however there is a system to monitor the financial performance of the portfolio of SOE’s so by the beginning of the next fiscal year, the ownership entity (GDS) can inform the company the dividend policy in the General Assembly. This procedure reportedly allows to have an in depth understanding of the financial position of individual SOEs, and avoid setting general standards that may not apply to the entire SOE portfolio. The procedure is as follows: (i) GDS defines financial, strategic, operational, or public policy objectives for individual companies, based in which SOEs prepare annual strategic plans that may include additional objectives considering future investment projects and risks and contingencies that may impact the business, (ii) the implementation of these annual strategic plans is monitored by GDS on a quarterly basis through disclosed financial information compliant with IFRS (via the Treasury’s Comprehensive Management and Monitoring System for Companies of the State – SIGUEME). Finally, (iii) the annual disclosure of the SOE’s performance is presented before the Asset Committee of the Ministry of Finance, which approves the dividend distribution of each company before the General Assembly. In practice, dividend levels are proposed by the SOE board and ownership entity, and approved by the Ministry of Finance.	❖
	Costa Rica	While SOEs are generally not expected to make profits and pay dividends, some SOEs however are required by law to make specific transfers (based on their annual earnings) to certain government institutions and social programs. These “cargas parafiscales” are deducted after EBITDA as shown in the Financial Statements.	◆ ❖
	Côte d’Ivoire	The law governing SOEs (Law no. 2020-626) mandates that a portion of surplus dividends distributed by SOEs are directed for the development of small and medium-sized enterprises.	N/A
	Djibouti	For SOEs subject to the companies law, dividend levels are set by the general shareholders’ meeting after the approval of annual financial statements. In practice, dividend levels are proposed by SOE boards and approved by the general meeting of shareholders.	☒
	Georgia	There is a special Government Decree No. 174, dated 12 April 2011 that sets rules and procedures for approval of dividend amounts for SOEs in Georgia.	Fiscal risks

	Country	Details on dividend policies and practices	Disclosure channels
		The decision on specific amounts is made by a special commission that meets ad hoc to approve the amount of the dividends proposed by relevant ownership agency. The commission consists of representatives of the Ministry of Finance, MOESD and other involved agencies. The Decree No. 174 cannot be considered a dividend policy, as it sets review and approval rules for proposed dividends, but not the approach or method of dividend calculation or distribution. The Comprehensive SOE Reform Strategy 2023-2026 envisages development and adoption of a dividend policy in the near future. In practice, at present, dividend levels are proposed by the ownership entity and approved by the special dividend commission.	statements
	<b>Ghana</b>	The owner's dividend expectations are included annually in performance contracts signed between the ownership entity (SIGA) and SOEs. Dividend pay-out ratios are proposed by the MoF and SIGA based on the business cycle most relevant to SOEs' activities, projected cash flows and debt-to-equity ratios, taking into account the following factors: future capital expenditure requirements of the SOE, financial soundness of the SOE, profitability, industry benchmarks.	N/A
	<b>Italy</b>	There is no overall guiding principle regarding dividend levels; dividends are negotiated annually between the SOE and the Ministry of Finance and are determined based on state budgetary needs and SOE profitability.	◆
	<b>Kenya</b>	SOE boards are required to set their own policy and submit it to the Treasury for approval. The requirement for setting and submitting dividend policy for national treasury approval is embedded in the Annual Circular for Guidelines for Preparation of Annual Budgets. Of note, the Treasury and GOK (ownership entity) are currently jointly developing a guideline on dividends for State Corporations (i.e. commercial SOEs). At present, the Treasury does not approve the amount of dividend to be distributed, as dividend policies are set at the discretion of SOE boards, based on projected cash flows, taking into account: the company's financial performance, liquidity position, investment plans, lender's covenants, registration and legal restrictions. Dividends are proposed by the board and approved by the general shareholders' meeting.	❖
	<b>Morocco</b>	A reform action plan that would include a dividend policy is currently under development.	N/A
	<b>Slovak Republic</b>	SOE boards propose annual dividend levels for decision by the annual general meeting.	◆ ❖

Note: For details on ownership arrangements, see Annex B below.

“◆” = government financial statements

“❖” = annual aggregate report on SOEs

“⊙” = other

“☒” = not disclosed

Source: Questionnaire responses, supplemented by desk research.

## Annex B. Overview of ownership arrangements in surveyed jurisdictions

Table A B.1. Ownership arrangements and size of SOE portfolios in surveyed jurisdictions

Country	Ownership model	Number of commercial SOEs with at least 50% of state shareholding	Details on ownership arrangements
Australia	Dual	9	The Commonwealth's ownership interest is generally represented by two 'Shareholder Ministers' (with ASC being the exception, with only the Finance Minister as the sole Shareholder Minister). The Shareholder Ministers are the Responsible Minister (that is, the Minister responsible for the portfolio in which the GBE falls from a 'policy' perspective) and the Finance Minister. For each GBE, the responsible Commonwealth Shareholder Minister/s are: <b>ASC Pty Ltd</b> – the Minister for Finance; <b>Australian Naval Infrastructure Pty Ltd</b> – the Minister for Finance and the Minister for Defence; <b>Australian Rail Track Corporation Limited</b> – the Minister for Finance and the Minister for Infrastructure, Transport, Regional Development and Local Government; <b>Defence Housing Australia</b> – the Minister for Finance and the Assistant Minister for Defence; <b>National Intermodal Company Limited</b> – the Minister for Finance and the Minister for Infrastructure, Transport, Regional Development and Local Government; <b>NBN Co Limited</b> – the Minister for Finance and the Minister for Communications; <b>Australian Postal Corporation</b> – the Minister for Finance and the Minister for Communications; <b>Snowy Hydro Limited</b> – the Minister for Finance and the Minister Climate Change and Energy; <b>Western Sydney Airport Company Limited</b> – the Minister for Finance and the Minister for Infrastructure, Transport, Regional Development and Local Government.
Austria	Centralised (subset of portfolio)	18 (managed by the Ministry of Finance)	Various Austrian Federal Ministries each manage the state's interests and ownership rights in a sub-set of SOEs. As far as SOEs pertaining to the Ministry of Finance are concerned, the Österreichische Beteiligungs AG (ÖBAG) was established as an independent holding company to exercise the state's interests and ownership rights in certain SOEs.
Azerbaijan	Twin-track / Dual	17 (managed by AIH)	Azerbaijan Investment Holding was established in 2020 with the primary objectives of optimising the management structure of its portfolio companies, increasing the transparency and economic efficiency of their investment programs, ensuring their competitiveness, improving their financial health and stability, whilst gathering the most significant companies of Azerbaijan under its umbrella. With respect to most SOEs within its portfolio regarding the distribution of dividends, Azerbaijan Investment Holding exercises its role as state shareholder in the SOEs' general meeting of shareholders in coordination with the President, and with respect to banks within its portfolio, the consent of the President is required to issue a decision on dividends.



Country	Ownership model	Number of commercial SOEs with at least 50% of state shareholding	Details on ownership arrangements
Brazil	Twin-track / Dual	45	The governance structure of Brazilian SOEs consists of a tripartite model composed by the Ministry of Finance, through the National Treasury Secretariat and the Federal Revenue Attorney General's Office (PGFN); the Ministry of Management – MGI, by the Secretariat of Coordination and Governance of the State-Owned Enterprises (SEST); as well as each company's supervisory (line) ministry.
Bhutan	Twin-track / Dual	39	The Ministry of Finance (MoF) has direct oversight of SOEs with non-commercial mandates and Druk Holding and Investment (DHI). DHI is a state-owned holding company managing SOEs with commercial mandates.
Bulgaria	Coordination agency	311	State enterprise ownership in Bulgaria has been traditionally decentralized, with SOEs being managed and controlled by the relevant line ministries according to their sectoral responsibilities. Ownership rights are assigned to the Council of Ministers and line ministries. In practice, until 2019, only line ministries were involved in the management and performance of individual enterprises, with no coordination between the different institutions responsible for SOE ownership. From 2019 onward, Bulgaria has followed a coordination model with the Public Enterprise and Control Agency performing centralized oversight and coordination of SOEs' reporting, while the main policy functions and decision-making remain with line ministries.
Cabo Verde	Centralised	27	An equivalent to a General Directorate, the State Commercial Sector Oversight Unit (UASE) was established in 2016 within the Ministry of Finance and Business Development (MFFE), with a mandate to support the MFFE in exercising the State's shareholder function and manage the State Commercial Sector, including: (a) the supervision of SOEs; (b) the leadership, coordination and monitoring of privatizations, public private partnerships (PPPs) and concessions; and (c) the oversight of regulatory agencies. The unit was created by the Decree-Law n°57/2016 of 9 November 2016, amended by the Decree-Law n°76/2021 of 2 November 2016, from the merger of the Privatizations and PPP Unit (Unidade de Privatizações e Parcerias Público-Privadas – UPPP) and the State Participation Service Department (Direção de Serviço das Participadas do Estado – DSPE).
Cameroon	Hybrid	100	Ownership is managed by the Ministry of Finance through two separate agencies, plus the respective line ministries. Ownership functions are dispersed.
Chile	Centralised	8	SOE's ownership entity is Sistema de Empresas – SEP, which corresponds to a committee of Corfo (Corporación de Fomento de la Producción, by its Spanish name), a public entity that relates to the government through the Ministry of Economy. However, in most of the SOEs, DIPRES – which is a department of the Ministry of Finance – is the public entity that determines the guidelines for dividend policies and practices.
Colombia	Centralised	33	In compliance with the objectives set forth in the Public Policy Document CONPES 3851 of 2015 "State Ownership Policy" and the provisions of Decree 2385 of 2015, the GDS was created within the Ministry of Finance and Public Credit to centralise the functions of the State as shareholder. It is through the GDS that the state-owned enterprises disclose information relevant to assess if the company complies with the guidelines established in another policy document CONPES 3927 of 2018 "Management Strategy for Companies and Shareholdings of the Nation". This policy mentions that the National Government seeks the optimization of its portfolio towards the generation of greater economic and social value, while complying with their public policy objectives. The document defines clear criteria and parameters to identify the companies and shareholdings of the Nation as strategic.
Costa Rica	Coordination agency	13 <sup>1</sup>	The ownership entity is the Presidential Advisory Unit (PAU) ( <i>Unidad Asesora para la Dirección y Coordinación de la Propiedad Accionaria del Estado y de la Gestión de las Instituciones Autónomas</i> ). It depends directly from the Presidency and the Secretary of the Board of Ministers leads the ownership entity, which is located in the President's Main Office Headquarters.
Côte d'Ivoire	Centralised	47	Ownership is managed by the General Directorate of State Portfolio (Ministry of State Real Estate and SOEs).

Country	Ownership model	Number of commercial SOEs with at least 50% of state shareholding	Details on ownership arrangements
Croatia	Decentralised (subset of portfolio)	32 (with 8 SOE of "special interest")	According to a draft of the Law on amendments to the Law on the organization and scope of state administration bodies, which was adopted in February 2023, all mandates and tasks related to SOEs of the Ministry of Physical planning, Construction and State Assets were transferred to the Ministry of Finance.
Djibouti	Centralised	33	The executive secretariat in charge of the SOE portfolio (SEPE) within the Ministry of Finance was established in 2021 (by Law No. 134/AN/21/8ème L of 30/12/2021 and Decree No. 2022-195/PR/MEFI of 31/07/22). It exercises ownership rights on behalf of the Ministry of Finance.
Egypt	Decentralised	442	Egypt has a hybrid state ownership model combining centralized ownership for some companies exercised through the establishment of state-owned holding companies, with decentralized ownership of SOEs in other cases. For companies governed under Law no. 203/91, the Ministry of Public Business Sector exercises the ownership function for the majority of commercial SOEs, while the rest of SOEs which are subject to this law still report to different line ministries. For SOEs not governed under Law no. 203/91, the Ministry of Finance (the legal owner of the assets) has delegated most ownership functions to line ministries. Beyond the corporatized SOEs, there are more than 50 unincorporated off-budget entities called Economic Authorities (EAs) established by other special laws, presidential or Prime Ministerial decrees. A large part of the Economic Authorities should be considered as SOEs, as should many military owned entities as they operate in markets for goods or services that could be provided by private companies. Accordingly, SOEs' ownership arrangements were divided between 22 ministries, the Prime Minister, Central Bank of Egypt and the President.
Estonia	Twin-track / Dual	27	The State Assets Department of the Ministry of Finance is the coordinating body for SOEs.
Finland	Centralised	36	The Ownership Steering Department within the Prime Minister's office exercises the ownership function over SOEs. Of note, going forward, ownership arrangements are foreseen to change with a split of responsibilities between OSD and line ministries over the SOE portfolio.
Georgia	Decentralised	316	Currently, the ownership is decentralized among line ministries, the National Agency for State Property (under the Ministry of Economy and Sustainable Development (MOESD)) and the Partnership Fund (JSC Partnership Fund is a state-owned investment fund, established in 2011.) A new Comprehensive SOE Reform Strategy 2023-2026 was adopted in December 2022 that calls for a dual ownership model to be established.
Ghana	Centralised	47	The SOE portfolio comprises 47 Joint Venture Companies (JVC) with four having over 50% state ownership and 53 SOEs consisting of 36 commercial entities, 7 Special Purpose Vehicle (SPV) and 10 Dual Entities (commercial/public policy). The ownership entity is the State Interest and Governance Authority (SIGA), Incorporated by an Act of Parliament, Office of the Minister of Public Enterprises.
India	N/A	248	N/A.
Israel	Centralised	93	The Government Companies Authority (GCA) of the Ministry of Finance exercises ownership over SOEs.
Italy	Centralised	35	In accordance with article no. 9 of the Legislative Decree no. 175 of 19 August 2016 (Consolidated Law on State-Owned Enterprises), the shareholder's rights over SOEs are exercised by the Treasury Department within the Ministry of the Economy and Finance.
Kazakhstan	Decentralised	159	The key state bodies that manage state-owned enterprises are: the Government, the State Property and Privatization Committee of the Ministry of Finance (SPPC), the Ministry of National Economy of the Republic of Kazakhstan (MNE), the Ministry of Finance (MOF), and the authorised bodies of the relevant industries: the Ministry of Health of the Republic of Kazakhstan, Ministry of Foreign Affairs of the Republic of Kazakhstan, Ministry of

Country	Ownership model	Number of commercial SOEs with at least 50% of state shareholding	Details on ownership arrangements
			Information and Social Development of the Republic of Kazakhstan, Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan, Ministry of Culture and Sports of the Republic of Kazakhstan, Ministry of Education of the Republic of Kazakhstan, Ministry of Science and Higher Education of the Republic of Kazakhstan, Ministry of Agriculture of the Republic of Kazakhstan, Ministry of Trade and Integration Republic of Kazakhstan, Ministry of Digital Development, Innovation and Aerospace Industry of the Republic of Kazakhstan, Ministry of Ecology, Geology and Natural Resources of the Republic of Kazakhstan, etc. Line ministries receive the rights to own and use the shares of organizations, while the right of disposal remains with the SPPC. SPPC has branches in the regions, as well as its subordinate organizations, and maintains a register of state assets (state property). State bodies are created in the form of state institutions and are fully supported by the budget.
Kenya	N/A	44	N/A
Korea	Centralised	N/A	The Ministry of Economy and Finance (MOEF) takes responsibilities for the ownership of SOEs under the Act on the Management of Public Institutions. Public Institutions Policy Bureau of the MOEF is in charge of SOE-related policies.
Latvia	Coordination agency	69	The Cross-sectoral Coordination Centre (CSCC) coordinates the corporate governance of state-owned enterprises – leaving the shareholder rights in the hands of sectoral ministries.
Lithuania	Coordination agency	47	The Governance Coordination Centre is the analytical centre founded by the Government, which seeks to ensure consistent and professional governance of state-owned enterprises (SOEs). In particular, it (i) assists line ministries in establishing objectives of SOES, (ii) monitors the performance and implementation requirements by legal acts of SOEs, (iii) facilitates information disclosure through annual aggregate report, (iv) coordinates target setting and SOE strategic planning practices by providing recommendations and inputs to all SOEs and their respective ownership entities, and (v) provides the Ministry of Economy with insights on policy implementation and areas of potential improvement.
Morocco	Centralised	311	Ownership agency created by Law 82-20 in July 2021 and operational since July 2022: Agence Nationale de Gestion Stratégique des Participations de l'Etat (ANGSPE). The board is chaired by the Deputy Minister of Finance.
Netherlands	Centralised (subset of portfolio)	16 <sup>2</sup>	Either the Ministry of Finance or a line ministry acts as shareholder of the SOE.
New Zealand	Centralised	19	Shareholding Ministers on behalf of the Crown (New Zealand government) exercise ownership rights over SOEs in their respective portfolios. The New Zealand Treasury, which is a government department, provides advice to shareholding Ministers on the performance of the Crown's commercial entities.
Norway	Centralised	15	The ownership department of the Ministry of Trade, Industry and Fisheries manages the ownership in several of the SOEs and oversees the dividend expectation process across the Ministry's commercial SOE portfolio.
Oman	Twin-track / Dual	Approx. 200	Almost all SOEs are managed by the Oman Investment Authority (OIA), which also serves as the country's Sovereign Wealth Fund. OIA operates the SWF and the SOE portfolio (called the National Development Fund). The Exception is Energy Development Oman, a closed JSC which owns Oil concessions and developments, and which is owned directly by the Government of Oman.
Peru	Centralised	36	FONAFE (Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado) is the holding company established to manage the state's interest

Country	Ownership model	Number of commercial SOEs with at least 50% of state shareholding	Details on ownership arrangements
			in its SOEs.
<b>Romania</b>	Coordination agency	234	Until 2022, the Ministry of Finance carried out a coordination and monitoring role with regard to the financial performance of SOEs, as well as the implementation of corporate governance provisions (prescribed by Law no. 111/2016) by all public enterprises subjected to the law, as well as by their ownership entities. Further to the adoption of a revised Law on SOEs (no. 187/2023) in July 2023, the new Agency for Monitoring and Evaluation of Public Enterprise Performance (AMEPIP) established under the General Secretariat of the Government is now responsible for carrying out these functions.
<b>Serbia</b>	N/A	30	The Ministry of Economy, through its Department for Oversight and Control of Public Enterprises, is the central entity which manages ownership and oversight of SOEs. Commercial SOEs owned by the central government are subject to the requirements of Company Law and some of the provisions of the Law on Public Enterprises.
<b>Slovak Republic</b>	Decentralised	67	Line ministries act as shareholders over SOEs in their portfolios.
<b>Sweden</b>	Centralised	40	Government offices, Ministry of Finance, Department for SOEs. Head of department reports to Minister of Finance.
<b>Switzerland</b>	Twin-track / Dual	4 (subset of portfolio, managed by the line ministries and the Ministry of Finance)	The Federal Council acts as the “ultimate” owner of the SOEs. It is the supreme governing and executive authority of the Swiss Confederation, comprising seven members who are elected by the Parliament, in general every four years. The seven members belong to one of the four main parties, with the strongest base and the largest parliamentary group in the Parliament. Within the government there is a dual ownership model: The line ministries (i.e. Federal Department of the Environment, Transport, Energy and Communications DETEC and the Federal Department of Defence, Civil Protection and Sport DDPS) share the ownership function with the Federal Finance Administration FFA (office within the Federal Department of Finance FDF). Therefore, the SOE ownership entities are the DETEC and FFA or the DDPS and FFA, depending on the respective SOE.
<b>Türkiye</b>	Twin-track	19	The Directorate General of State-Owned Enterprises within the Ministry of Treasury and Finance is authorized with exercising the ownership functions on behalf of the state including by: deciding on the dividend distribution of the companies taking into consideration investment projects, and the state’s capital injection; setting targets on selected financial and institutional indicators for SOEs and monitor these indicators; proposing a candidate for the membership of the board for the approval of the President; establishing the relationship between SOEs and the Central Budget; preparing annual investment and financing programs of the SOEs and monitor the implementation and make necessary changes in the program if needed.
<b>United Kingdom</b>	Coordination agency	20+	UK Government Investments (UKGI) exercises ownership rights over SOEs.
<b>Uzbekistan</b>	Centralised	2072	In recent years, Uzbekistan has transitioned from a decentralized ownership model to a more centralized one. In the past, line ministries were responsible for SOE ownership, and the Center for Management of State Assets (CMSA) was responsible for SOE oversight. In 2019, the SAMA was established as a single state agency responsible for policy issuance and administration in the areas of state assets management, SOEs privatization and transformation, corporate governance implementation, and financial and economic performance monitoring. SAMA is accountable to both the President and the Prime Minister. Most SOEs must report to SAMA, which, by gradually taking over functions formerly exercised by line ministries, is mandated to act as SOEs’ shareholder, implement good corporate governance practices, appoint SOE board members, monitor financial performance, and develop and enforce key performance indicators. However, beginning in October 2020, the MoF carried out the main functions of shareholders with

Country	Ownership model	Number of commercial SOEs with at least 50% of state shareholding	Details on ownership arrangements
			respect to 32 large and strategic SOEs, but this function was moved to ASR from the newly consolidated Ministry of Economy and Finance at the beginning of 2023. It is also worth noting that in August 2023, the ownership of strategic SOEs was transferred back to the Ministry of Economy and Finance as per Presidential Decree no. 283.

Note: <sup>1</sup> In **Costa Rica**, all 13 SOEs are reportedly policy oriented. <sup>2</sup> In the **Netherlands**, it is worth noting that the state differentiates between centralized and decentralized SOEs. Centralized SOEs are held by the Ministry of Finance and decentralized SOEs are held by a line ministry. The current portfolio consists of 21 centralized SOEs and 20 decentralised SOEs. The current report focuses on the 21 centralized SOEs, of which 16 are owned by a shareholding of 50% or more.

Source: Questionnaire responses, supplemented with desk research when applicable.

## Annex C. Overview of key concepts and practices for setting corporate dividends

### **The concept of dividends is longstanding and closely aligned with the concept of corporations.**

Dividends are the remuneration from a company to its shareholders. Decisions on the amount that a company distributes to shareholders as compared to the amount it retains and reinvests has long been a consideration for those running the company and of interest to investors and shareholders. Researchers have traced the concepts of sharing profits by paying dividends to early historical records of joint ventures and the antecedents of the modern corporation. For example, in the late seventeenth century, the British parliament passed laws to stipulate that dividends should be paid out of profits and not be so high as to risk making the company bankrupt (Baker, 2009<sup>[3]</sup>).

### **Investors take an interest in dividend policy as many expect a cash return for the funds invested.**

As mentioned, a dividend policy is the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders. Investors pay attention to dividend policies as a means of obtaining cash returns on equity holdings. Where the state owns or controls a significant shareholding in commercial enterprises, dividends can represent a key source of fiscal revenue. The ensuing paragraphs examine the evolution of differing theories on the relationship between dividends and maximization of company value.

**The impact of dividends on value maximization has long been debated in financial circles.** The Miller and Modigliani model of “*dividend irrelevance*” to company value is a well-known theory first posited in the 1960s. The theory holds that in a perfect capital market environment (i.e., a market without taxes, transaction costs, agency costs etc.), whether a company pays dividends or not is irrelevant if managers focus on making the best investment decisions for the company (Baker, 2009<sup>[3]</sup>). Another school of thought is that dividends are used by managers to signal the performance of their firms to shareholders or the *signaling theory* (L. Correia da Silva, M. Goergen, and L. Renneboog, 2004<sup>[6]</sup>). This model holds that managers have access to information that the market does not, therefore dividends can be viewed as signals to investors to communicate information and reduce information asymmetry. More recent models have cast doubt on the validity of the signaling theory.

### **There is evidence that a company’s share price typically moves in the same direction as the change in dividend pay-outs.**

In the *agency cost theory*<sup>14</sup> of dividends, if managers take decisions to pursue their own interests which may be in conflict with the maximization of shareholder value, distribution of dividends may help to resolve these conflicts as the pay-out results in fewer resources available for mismanagement (L. Correia da Silva, M. Goergen, and L. Renneboog, 2004<sup>[6]</sup>). The *free cash flow model* is based on the theory that the market reacts positively to increases in dividends as this means the potential for managers to misuse extra funds has reduced. Researchers have found evidence that a company’s share price typically moves in the same direction as the change in dividends (Baker, 2009<sup>[3]</sup>).

### **Current theories emphasize the relationships between company size, potential for growth and profitability as the drivers of dividend pay-outs.**

The *life-cycle theory* of dividends builds on the free

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<sup>14</sup> As Correia da Silva, Goergen and Renneboog (2004) observed, “the separation of ownership and control gives rise to an agency problem. The agent (manager) raises funds from the principal (investors)...[and] is presumed to be working in the interests of the investors... However, this relation creates considerable costs”.

cash flow model and holds that firms in the early growth stages reinvest earnings and tend to pay out dividends when the company “matures”. More recently, the *catering theory of dividends*, is based on managers catering to investor demand by paying dividends when investors prefer companies that pay dividends (or vice versa) (Baker, 2009<sup>[3]</sup>). Researchers also observed a higher concentration of dividend pay-outs among the largest, most profitable firms and concluded that this was consistent with the life-cycle theory's central premise that the distribution of free cash flow is the key driver of dividend policy (David J Denis, Igor Osobov, 2008<sup>[7]</sup>).

**Dividend policy varies according to the legal and institutional framework in a country as well as the ownership structure of companies.** Much of the academic literature or understanding of dividend policies is based on market-based corporate governance models of companies in the United States or United Kingdom. This model is characterized by a large capital market of publicly traded companies and institutional investors (such as mutual funds or pension funds) acting as agents for a number of shareholders (L. Correia da Silva, M. Goergen, and L. Renneboog, 2004<sup>[6]</sup>). In contrast, other jurisdictions such as Austria, France, Germany, Italy and Japan follow the “*blockholder-based*” model which is based on closer relationships between management, large shareholders, and creditors. In the blockholder model, large shareholders maintain equity holdings over a longer period and as a result can have more room to exert control or influence (L. Correia da Silva, M. Goergen, and L. Renneboog, 2004<sup>[6]</sup>). Researchers have shown that in practice, the main drivers of dividend policies are the preferences of investors, the demand for capital, ownership structure and the regulatory environment (Baker, 2009<sup>[3]</sup>).

**Many large companies follow a managed dividend policy.** Dividend policies can be broadly categorized into two main types: (i) *residual dividend policies* where the company pays dividends from earnings remaining after its investment needs have been met and after achieving its target capital structure, and (ii) *managed dividend policies* where management aims to achieve a specific pattern of cash distribution to shareholders over time. The academic literature suggest that firms generally do not follow the residual dividend policy, an approach that broadly assumes that investors prefer companies to retain and reinvest profits. Researchers found that many large companies apply what is referred to as a “smoothed dividend sequence” where the dividend pay-out (the ratio of dividend to earnings) is as strongly related to past dividends as to current earnings as this allows for a steady flow of returns (Baker, 2009<sup>[3]</sup>).

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