

State-Owned Enterprises and Sustainability

Leading by Example



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LEADING BY EXAMPLE

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Foreword

In response to evolutions in the corporate governance of state-owned enterprises (SOEs), the OECD revised the OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines) in 2024. The revised Guidelines include a new Chapter VII on sustainability which recognises that governments as owners and SOEs themselves should lead by example and manage risks and opportunities in a way that contributes to sustainability, resilience and long-term value creation. For this to happen, policies and practices must be coherent with and enable national and international sustainability commitments.

Drawing on a collection of international experiences, this report provides practical guidance on implementing Chapter VII on sustainability of the SOE Guidelines. It builds on information provided voluntarily by OECD member and partner countries, as well as selected SOEs, and is complemented by desk research. The report primarily addresses the state as owner and SOEs engaged in economic activities where the state is a full or majority owner, but it offers insights relevant to all types of SOEs.

Following an overview of the evolving sustainability landscape of SOEs in Chapter 1, the report is structured around the four main pillars of the SOE Guidelines' Chapter VII:

- Chapters 2 and 3 examine the role and responsibilities of the state as an owner and of SOE boards in integrating sustainability into their governance and decision making frameworks.
- Chapter 4 explores sustainability-related reporting and disclosure.
- Chapter 5 highlights key aspects related to responsible business conduct (RBC), with a focus on stakeholder engagement and integrity, which are relevant across all aspects of SOE governance.

The report offers case studies and “practical insights” aimed at supporting implementation by both state ownership entities and, where relevant, SOE boards.

This report was developed by the Capital Markets and Financial Institutions Division of the OECD Directorate for Financial and Enterprise Affairs. It was prepared by Arijete Idrizi, Karoline Irmscher and Alison McMeekin, with inputs from Nina Chitaia, under the supervision of Sara Sultan, Head of the State-Owned Enterprise Unit, and Serdar Çelik, Head of Division. Inputs were provided by the Division's Sustainable Finance Team, and by the OECD's Centre for Responsible Business Conduct and Environment Directorate.

Delegates of the OECD Working Party on State Ownership and Privatisation Practices provided valuable information and insights on their practices.

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Abbreviations and acronyms

ACI	Anti-corruption and Integrity
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSR	Corporate Social Responsibility
CSRD	EU Corporate Sustainability Reporting Directive
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
ETS	Emissions Trading System
EU	European Union
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
GSM	General Shareholder Meeting
IAASB	International Auditing and Assurance Standards Board
ILO	International Labor Organization
IFRS	International Financial Reporting Standards
MNE	Multinational Enterprise
NCP	National Contact Point
NDC	Nationally Determined Contributions
NFRD	Non-Financial Reporting Directive
PPO	Public Policy Objective
PPP	Public Private Partnership
PSO	Public Service Obligation
RBC	Responsible Business Conduct
SASB	Sustainability Accounting Standards Board
SBTI	Science-Based Targets Initiative
SDGs	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
SPP	Sustainable Public Procurement
TCFD	Task Force for Climate-related Financial Disclosures
UNEP	United Nations Environment Programme
UNGPs	United Nations Guiding Principles on Business and Human Rights
WBCSD	World Business Council for Sustainable Development

Executive summary

State-owned enterprises (SOEs) are major players in the global economy and key to advancing sustainability goals. In 2023, SOEs made up 126 of the world's 500 largest companies by revenue and accounted for 12% of global market capitalisation. Many of these enterprises operate in strategic sectors, such as energy, transport or heavy industry, that are vulnerable to environmental, social and governance-related risks, but they are also active in other areas critical to advancing sustainability, including finance and public utilities.

Given their scale and sectorial concentration, SOEs are faced with unique risks and opportunities to advance sustainability and responsible business conduct. They face a broad range of sustainability-related risks – from climate change and resource use to shifting regulatory expectations – which, if poorly managed, can strain public budgets, disrupt infrastructure and service delivery, and expose the state to reputational harm. At the same time, SOEs are well placed to lead by example on sustainability through responsible practices, innovation and strong governance.

In response, a growing number of countries recognise that governments as owners and SOEs themselves should lead by example and manage risks and opportunities in a way that contributes to sustainability, resilience and long-term value creation. To support these efforts, the OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines) were revised in 2024 to include a dedicated chapter on sustainability. This new chapter offers targeted recommendations, primarily for state ownership entities and, where relevant, SOE boards, to ensure coherence with and enable national and international sustainability commitments.

This report aims to support the implementation of the SOE Guidelines by exploring how governments are starting to put these recommendations into practice. Drawing on a collection of international experiences, it highlights steps taken to embed sustainability-related considerations into SOE policies and practices. The insights are organised around the four main pillars of the SOE Guidelines' sustainability chapter, namely the role of the state in setting ambitious and concrete sustainability expectations; the role of SOE boards in implementing such expectations; sustainability reporting and disclosure; and responsible business conduct.

The report's main findings demonstrate that:

- **State ownership entities can ensure coherence with and support the achievement of national sustainability objectives and commitments by setting concrete and ambitious expectations for SOEs.** In particular, four steps are identified to build a robust and accountable ownership framework that integrates sustainability considerations in a meaningful way. These include:
 - incorporating sustainability into state ownership policies and practices
 - setting concrete and ambitious sustainability-related expectations for SOEs
 - monitoring and assessing SOE performance against these expectations
 - ensuring transparent reporting and disclosure of sustainability outcomes.

- **Strong SOE board leadership is essential to develop and effectively embed sustainability into corporate strategies and operations.** Boards are accountable for long-term performance and should ensure that material sustainability risks and opportunities are addressed through the corporate strategy, management oversight and within the risk management and internal control system. This requires not only a clear mandate, but also a board composed of an appropriate mix of independent members, with diverse expertise and sustainability-relevant skills. Some countries have taken measures to include sustainability criteria in their SOE board nomination processes to support SOE boards shape corporate culture, hold management accountable, and translate sustainability commitments into action.
- **Effective sustainability reporting and disclosure enhances transparency and builds trust among investors,** business partners and stakeholders. Sustainability reporting and disclosure by SOEs has grown significantly, and the state can reinforce this trend by setting clear expectations on content (aligned with international standards), applicability, accessibility and independent assurance. State owners and SOEs should also monitor market developments such as mandatory disclosure requirements, convergence of global frameworks (e.g. IFRS) and increasing emphasis on interoperability.
- **To advance sustainability,** SOEs should embed responsible business conduct into their strategies and operations through stakeholder engagement and high standards of integrity. Stakeholder dialogue is particularly important for identifying material sustainability-related risks and opportunities, and for preventing or addressing negative impacts of SOE operations, including across supply chains. Given their role and proximity to the state, SOEs are also vulnerable to corruption and integrity-related risks, which can hinder the achievement of sustainability goals. To address these risks, state ownership entities and SOEs should take action to ensure high standards of integrity in the state-owned sector.

1

An overview of sustainability in the SOE sector

This chapter provides context for the report. It offers an overview of the evolving sustainability landscape for SOEs, including the size of the SOE sector and its strategic importance in advancing sustainability and responsible business conduct. It also outlines how sustainability is framed in the OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines). These elements establish a framework for understanding the chapters that follow, which examine how sustainability-related recommendations of the SOE Guidelines are being implemented.

Sustainability is a broad and evolving concept, for which there is currently no universally agreed definition. For the purpose of this report, sustainability can be viewed through a dual lens: one applicable at the state (macro) level and one applicable at the SOE (corporate) level. These two levels are closely interlinked: effective state stewardship creates the enabling conditions for corporate sustainability in SOEs, while the latter – due to their scale and strategic importance – can play a crucial role in achieving broader sustainability outcomes (Box 1.1).

Box 1.1. Sustainability: scope and approach

At the macro-level, current thinking on sustainability remains anchored in the Brundtland Report's definition of "sustainable development" according to which sustainability is about "meeting the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987^[1]).^{*} In this framework, sustainability is seen as a holistic concept encompassing environmental, economic and social goals aimed at ensuring long-term value creation for the economy and society in general. It is in this context that many countries have made commitments to transition to a sustainable, net-zero/low-carbon economy in line with the Paris Agreement and other international commitments.

In recent years, the term "just transition" has emerged to emphasise the need for governments to "transition towards greener, more resilient and climate-neutral economies in ways that are as fair and inclusive as possible, in particular towards those who stand to lose economically, be they countries, regions, industries, communities, workers or consumers" (ILO, n.d.^[2]; EBRD, n.d.^[3]). Companies, including SOEs, can play a critical role in driving this transition. Their actions can directly or indirectly impact employment, community resilience, and access to affordable services, making them key actors in enabling the just transition.

At the corporate level, "sustainability" entails integrating environmental, social and governance (ESG) considerations into a company's business strategy and operations. While the term often may overlap with corporate social responsibility (CSR) or responsible business conduct (RBC), it is a different concept. Sustainability is broader than CSR which typically refers to voluntary initiatives that are external to a company's core business strategy. RBC, on the other hand, refers to the expectation that enterprises avoid and address adverse impacts of their operations on people, the planet, and society, and contribute positively to sustainable development. It provides the operational and behavioural framework through which sustainability outcomes are pursued (OECD, 2023^[4]). Throughout this document, sustainability should be understood to also encompass RBC considerations.

Note: ^{*}In 1987, the World Commission on Environment and Development published a report entitled «Our Common Future» which included guiding principles for sustainable development. The document came to be known as the «Brundtland Report» after the Commission's chairwoman, Gro Harlem Brundtland (WCED, 1987^[1]).

Recognising the importance of sustainability for SOEs, a growing number of countries around the world already consider that SOEs can, and should, lead by example. This expectation aligns with the general assumption that the state exercises ownership of SOEs in the interest of citizens who constitute their ultimate shareholders. The state as owner is therefore expected to encourage and promote sustainable and responsible business practices of SOEs in a way that contributes to their sustainability, resilience and long-term value creation.

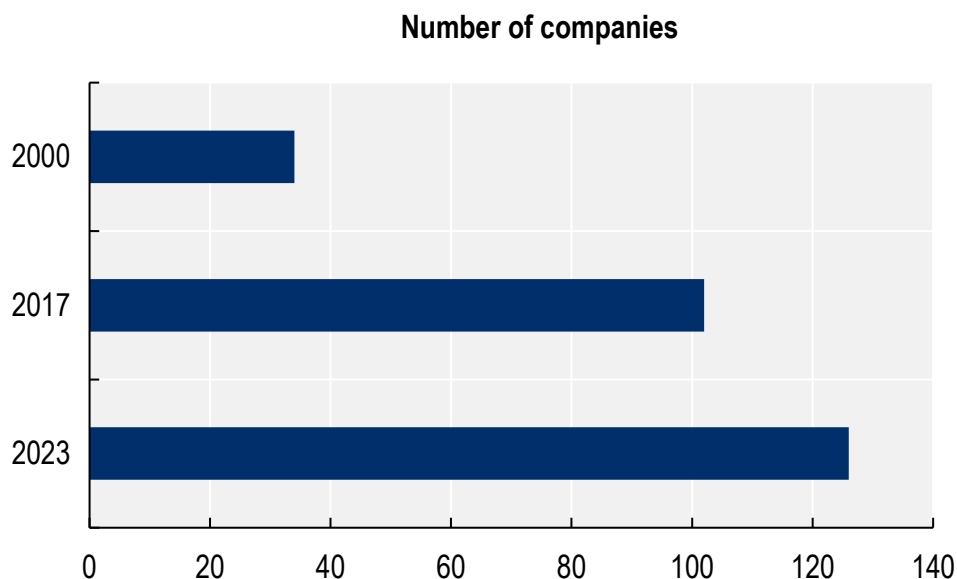
Before exploring how sustainability is translated into concrete expectations for SOEs, this chapter sets the context for the rest of the report by examining the size and strategic importance of the SOE sector in relation to sustainability (Section 1.1). It also outlines how sustainability is framed in the SOE Guidelines as revised in 2024 (Section 1.2).

1.1. Sustainability in the SOE sector

State-owned enterprises account for a sizeable share of gross domestic product (GDP) and employment in some countries, including many emerging economies. They are also increasingly major players in capital markets. As of 2023, the public sector accounted for nearly 12% of global market capitalisation of listed companies, amounting to USD 11.7 trillion (OECD, 2024^[5]). SOEs also made up over a quarter of the world's 500 largest companies – a share that has steadily increased over the past two decades (Figure 1.1). Collectively, these SOEs employed 21 million people, held USD 53.5 trillion in assets, and generated over USD 12 trillion in revenue and USD 730 billion in profits (OECD, 2024^[5]). This underscores the state's leverage in shaping corporate sustainability outcomes.

Figure 1.1. Share of SOEs among Fortune Global 500 companies

The share of SOEs among the top 500 largest companies globally has nearly quadrupled over the past two decades.



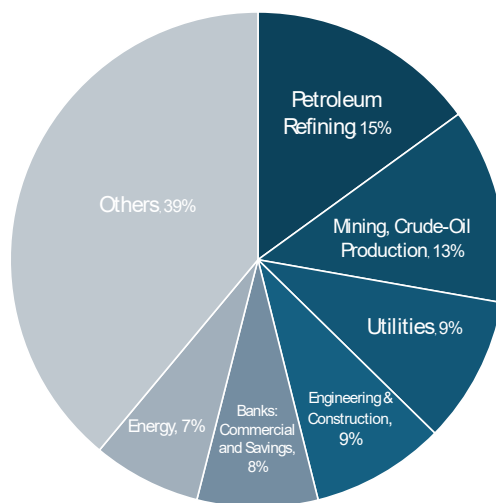
Note: Fortune lists the largest 500 companies globally by revenue.

Source: Fortune Global 500.

SOEs often operate in carbon-heavy and greenhouse gas (GHGs) intensive sectors such as petroleum refining, mining, crude-oil production, utilities, energy and construction, and distribution (Figure 1.2), especially in emerging markets (OECD, 2022^[6]).¹ The public sector is also an important shareholder in the 100 highest GHG-emitting listed companies, with 18% ownership globally (OECD, 2024^[7]).

Figure 1.2. Distribution of SOEs in Fortune 500 by industry

Nearly two-thirds of SOEs by revenue are in capital and GHG intensive sectors



Source: Fortune Global 500, 2023.

The prevalence of SOEs in these carbon-intensive sectors makes them important to the low carbon transition. Besides the risks associated with locking into a carbon-intensive development path, the predominance of SOEs in such sectors and related infrastructure investments also increases the risk of stranded assets.²

While many governments and SOEs continue to own and invest heavily in fossil fuels, SOEs also play an active role in the low-carbon transition. They are not only important direct investors in renewables and low-emission technologies, but also tend to adopt such technologies faster than their private-sector counterparts (Steffen, Karplus and Schmidt, 2022^[8]; Benoit et al., 2022^[9]). SOEs are also estimated to control about 75% of hydro and nuclear power capacity and are progressively becoming more prominent players in other clean energy sources. These technologies emit far less GHGs relative to fossil fuel-fired alternatives, helping to reduce emissions (Clark and Benoit, 2022^[10]; Prag, Rottgers and Scherrer, 2018^[11]).³

Beyond environmental considerations, SOEs are often key providers of public goods and services (e.g. energy, water, infrastructure). This means that their activities, governance and performance are generally of critical importance to broad segments of the population as well as to the operations of other parts of the business sector. In many countries, SOEs are also among the largest employers, placing them in a position of significant responsibility for ensuring sound working conditions, and promoting the health and well-being of their employees, in line with relevant international standards.⁴ These responsibilities are especially pertinent in sectors with elevated risks of occupational hazards (e.g. health and safety)⁵ and human rights violations (e.g. land rights violations), such as extractives (including mining, oil and gas) and infrastructure where SOEs are often predominant (United Nations, 2016^[12]; Schönsteiner and Krajewski, 2024^[13]).

Finally, OECD research has shown that SOEs may be particularly exposed to corruption and less likely to take mitigating actions in the face of known corruption risks than their private counterparts (OECD, 2018^[14]). While SOEs in oil and gas, mining, postal, energy, transportation and logistics sectors were found to be at higher risk, corruption can undermine efforts of SOEs in all sectors and can weaken their ability to address other sustainability-related risks, including those related to human rights and environmental protection.

Given the important role of SOEs in shaping national sustainability-related outcomes, it is important to establish sound corporate governance frameworks that can incentivise state owners and their SOEs to make decisions and manage risks and opportunities in a way that contributes to SOEs' sustainability and resilience and ensures long-term value creation.

1.2. The SOE Guidelines' approach to sustainability

The concept of sustainability, as applied to the SOE sector, broadly encompasses efforts to identify and mitigate risks, strengthen resilience to shocks, reduce negative externalities and contribute to long-term value creation. As noted earlier, SOEs have a key role to play in this area. Integrating sustainability-related considerations into their governance and operations has therefore become an increasing priority for policymakers.

Achieving this, however, requires a multi-layered approach. As policymakers and regulators, governments have a unique responsibility to shape the environment in which companies operate to steer a transition to a more sustainable and resilient economy. As owners, governments also have a unique role to play by setting concrete and ambitious sustainability-related expectations for SOEs, ensuring coherence with national and international goals, and providing SOEs with the tools and incentives needed to effectively manage evolving risks and opportunities. In parallel, SOEs themselves are expected to adopt and implement these expectations through sound governance, strategy and day-to-day operations.

To support these efforts, the SOE Guidelines were revised in 2024 and now include a dedicated Chapter VII on sustainability, ensuring coherence with the 2023 revision of the G20/OECD Principles of Corporate Governance, which also introduced a new chapter on sustainability. The SOE Guidelines' Chapter VII offers recommendations for both state ownership entities and SOE boards across four pillars (see Table 1.1):

- the role of the state as an owner
- the role and responsibilities of boards
- sustainability reporting and disclosure
- responsible business conduct and stakeholder engagement.

Drawing on a collection of international experiences and the revised SOE Guidelines, this report highlights concrete steps to translate these recommendations into practice. In doing so, it identifies emerging trends, provides illustrative examples – identified as case studies throughout the report – and offers practical insights to support the effective implementation of sustainability recommendations by both state owners and their SOEs.

Table 1.1. Summary of the four key pillars of the SOE Guidelines Chapter VII on sustainability

The corporate governance framework should provide incentives for state ownership entities and SOEs to make decisions and manage risks in a way that contributes to SOEs' sustainability and resilience, and ensures long-term value creation. Where the state has sustainability goals, the state as owner should set concrete and ambitious sustainability-related expectations for SOEs, including on the role of the board, disclosure and transparency and responsible business conduct. The ownership policy should fully recognise SOEs' responsibilities toward stakeholders.	
Role of the state as owner	Where the state has set sustainability goals, they should be integral to the state's ownership policy and practices. This includes: • Setting concrete and ambitious sustainability-related expectations for SOEs that align with the ownership policy and respect shareholder rights. • Communicating and clarifying these expectations through regular dialogue with SOE boards. • Regularly assessing, monitoring and reporting on SOEs' alignment with sustainability-related expectations and performance.
Role and responsibilities of boards	The state should expect SOE boards to adequately consider sustainability risks and opportunities in fulfilling their core functions. Key prerequisites include: • Boards should guide the development, implementation and disclosure of material sustainability-related objectives and targets within the corporate strategy. • SOEs should integrate sustainability into risk management and internal controls, including via risk-based due diligence. • Boards should consider sustainability matters when assessing and monitoring management performance.
Sustainability reporting and disclosure	The state should expect SOEs to meet appropriate sustainability reporting and disclosure requirements, ensuring consistent, comparable and reliable information. • Reporting should align with high-quality, internationally recognised standards to promote comparability across markets and jurisdictions. • A phased implementation of annual assurance attestations should be considered. These should be performed by independent, qualified service providers, following internationally recognised assurance standards.
Responsible business conduct and stakeholder engagement	The state, as an owner, should set high expectations for SOEs' observance of responsible business conduct (RBC) standards and ensure effective mechanisms for their implementation. It should fully recognise SOEs' responsibilities towards stakeholders and request regular reporting on SOEs' stakeholder relationships. These expectations should be publicly disclosed in a clear and transparent manner. • Governments, state ownership entities and SOEs should recognise and respect stakeholder rights established by law or mutual agreements. Where stakeholder rights are protected by law, employees and other stakeholders should have access to effective redress mechanisms that are affordable and timely. • SOEs should develop and promote meaningful stakeholder engagement, especially with individuals or groups affected by the enterprise's activities, to advance sustainability and ensure a just transition. • Mechanisms for employee participation should be allowed to develop. Where stakeholders participate in corporate governance, they should have timely access to relevant, sufficient and reliable information. • State ownership entities and SOEs should take measures to uphold high standards of integrity, and prevent the use of SOEs for political finance, patronage, or personal or related-party enrichment.

Source: OECD (2024^[15]), *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, https://www.oecd.org/en/publications/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2024_18a24f43-en.html

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- United Nations (2016), *Report of the Working Group on the issue of human rights and transnational corporations and other business enterprises*. [12]
- WCED (1987), *Our Common Future: Report of the World Commission on Environment and Development*, United Nations General Assembly, Geneva. [1]

Notes

¹ In 2019, SOEs emitted an estimated 6.2 gigatons of carbon dioxide equivalent (GtCO₂e) in direct (scope 1) emissions – that is, more than the entire European Union, United States or any single country except the People’s Republic of China. However, the true scale of SOE-related emissions is likely to be substantially higher, particularly when accounting for national oil companies and iron and steel manufacturers that do not currently report their emissions (CGEP, 2022^[16]).

² Stranded assets are generally defined as “assets that are unable to recover their investment cost as intended, with a loss of value for investors” (OECD, 2015^[17]).

³ The state itself is said to own an estimated 60% of generation capacities in renewables, hydropower and nuclear power (OECD, 2022^[18]).

⁴ Relevant standards are set in leading instruments such as the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, the ILO Declaration on Fundamental Principles and Rights at Work, as well as the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

⁵ These sectors frequently rely on contractor and sub-contractor labour arrangements, which can discourage employee participation in safety training and adherence to worksite safety systems. This may ultimately limit the workforce’s performance and health outcomes (Alkaissy, 2022^[19]).

2 The role of the state in advancing sustainability in SOEs

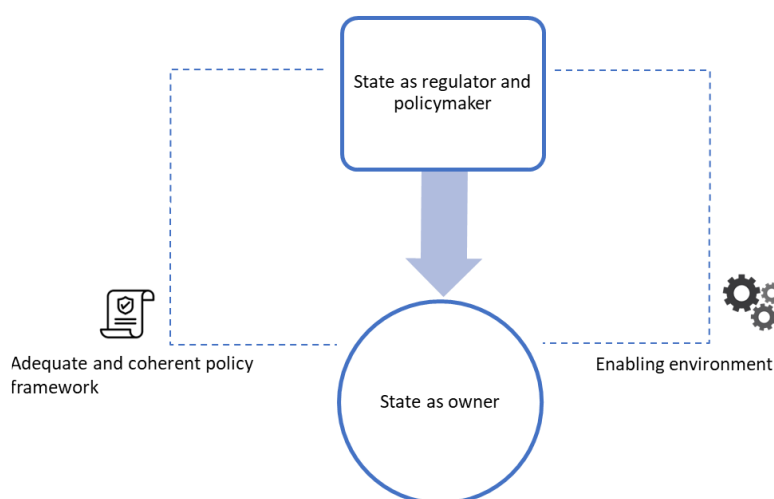
This chapter explores the role of the state as policymaker, regulator and owner in creating an enabling environment for SOEs to lead by example on sustainability. Following a review of the state's regulatory and policy-making functions, the chapter looks at how the state as owner and shareholder can systematically integrate sustainability into its ownership policies and practices. It presents a four-step framework for doing so, namely: 1) embedding sustainability into ownership policies; 2) setting clear expectations; 3) monitoring SOE performance; and 4) reporting on outcomes. Drawing on country practices, the chapter provides illustrative examples and practical insights to highlight emerging approaches and lessons learned.

The state has a critical role to play in fostering sustainable practices among SOEs, both through its responsibility for setting the policy and regulatory framework and through its role as owner and shareholder. As a policymaker and regulator, the state is responsible for establishing the legal and institutional framework underpinning sustainable practices and policies. This includes providing an enabling environment for companies – whether state-owned or private – to make decisions and manage risks and opportunities.

In parallel, where the state has set sustainability goals, it can, as an owner and shareholder of SOEs, influence SOEs' governance and performance by setting concrete and ambitious sustainability-related expectations. These expectations should align and be coherent with national sustainability goals and encourage SOEs to lead by example. In sectors where SOEs dominate, their alignment with national sustainability priorities can have a transformative effect (Figure 2.1).

While this report focuses primarily on the role of the state as owner, this chapter begins with a brief overview of the state's regulatory and policy-making functions, which provide the broader environment in which SOEs operate (Section 2.1). The chapter then explores how the state, as owner and shareholder, can integrate sustainability into its ownership policy and practices (Section 2.2).

Figure 2.1. The role of the state in advancing sustainability



Note: The “state” is used here as an encompassing term, referring to the group of institutions, agencies and other government stakeholders that play a role in shaping, implementing and ensuring coherence in the area of sustainability. Different roles can, and sometimes must, be exercised by different institutions to ensure a proper separation of responsibilities; however the end-goal should be to ensure that decisions are taken on a whole-of-government basis to ensure coherence in outcomes.

2.1. The role of the state as regulator and policymaker

Governments use a wide range of legal and regulatory tools as incentives for companies, including SOEs, to move towards more sustainable practices. These tools aim to address environmental and social externalities, improve transparency, and incentivise the transition to low-carbon and inclusive economies. To better understand their implications for state ownership and the governance of SOEs, this section highlights:

- key sustainability-related regulations and policy frameworks relevant for SOEs.
- SOE-specific considerations for policy effectiveness.

- the importance of ensuring policy coherence at the whole-of-government level.

2.1.1. Key sustainability-related regulations and policy frameworks

Table 2.1 provides a non-exhaustive list of sustainability-related laws, regulations and policies that are most relevant for SOEs, either because they directly apply to them or because they shape the regulatory environment in which SOEs operate.

Table 2.1. Types of sustainability policies, laws and regulations

Thematic area	Type
Climate and environmental regulations	• Carbon pricing schemes (e.g. emissions trading systems, carbon taxes) • Decarbonisation mandates (e.g. emissions limits or phase-out dates for fossil fuels) • Renewable energy targets and quotas • Green public procurement policies • Environmental impact assessment (EIA) and permitting rules • Circular economy (e.g. Finland, France)
Sustainability reporting and disclosure (see Chapter 4 for more information)	• Mandatory sustainability reporting laws (e.g. EU CSRD) • Climate-related financial disclosure requirements (e.g. TCFD-aligned rules) • Taxonomy regulations (e.g. EU Sustainable Finance Taxonomy)
Labour and social policy frameworks	• National labour laws and wage regulations • Occupational health and safety legislation • Gender equality and diversity mandates in the workplace • Stakeholder dialogue and collective bargaining rights • Just transition plans or frameworks (especially in high-carbon sectors)
Responsible business conduct	• Mandatory human rights and environmental due diligence laws (e.g. Norway, Switzerland*)
Anti-corruption and integrity framework	• Public procurement and anti-corruption laws • Transparency and whistleblower protection laws • Beneficial ownership disclosure requirements • Sector-specific integrity frameworks (e.g. in oil, gas, mining or transport)

Note: *In Switzerland, the 2021 Ordinance on Due Diligence and Transparency focuses on minerals and metals from conflict-affected areas and child labour (Swiss Confederation, 2024^[1]).

Source: OECD own compilation, 2025.

The government may also devise cross-cutting sustainability strategies and action plans at the national level. These include national sustainable development strategies, green industrial policy plans or “just transition” strategies that may involve or give a prominent role to SOEs. While such strategies provide high-level direction, they are increasingly accompanied by binding regulations that translate sustainability goals into concrete obligations.

For example, several governments have adopted sustainable procurement policies for public sector purchases (e.g. **Colombia, New Zealand**). These policies may be particularly helpful to influence business practices and shift markets toward more sustainable outcomes. Indeed, as one of the largest consumers of good and services, governments have a unique ability to directly influence sustainability-related outcomes through procurement contracts. Most European countries include sustainability-related criteria into their public procurement processes, as part of the EU framework for green and sustainable public procurement.¹ Such measures do not directly target SOEs, although they may be applicable to SOEs’ own procurement practices when fulfilling a government purpose and to SOEs as bidders (OECD, 2022^[2]).

Within the **European Union**, these national efforts are being further supported and harmonised under the broader policy umbrella of the **European Green Deal**. The EU’s climate and sustainability strategy has translated into a wide-ranging legislative package which includes binding sustainability targets and

regulatory measures for member states (Box 2.1). These include sector-specific and market-wide measures which impact SOEs and private-sector companies alike (OECD, 2022^[2]).

Box 2.1. The European Union's sustainability framework

Over the last few years, the European Commission has adopted an ambitious policy programme to deliver on the UN's Sustainable Development Goals (SDGs). It consists of several important initiatives, directives and regulations bearing on corporate sustainability matters, including:

- **The European Green Deal (2019):** a strategic roadmap to accelerate the EU's transition to climate neutrality by 2050, including a target to reduce emissions by at least 55% by 2030 (compared to 1990 levels). It sets a legislative framework for all member states to take certain actions such as moving to a circular economy, reversing biodiversity loss and cutting pollution. It also outlines investment needs for meeting related objectives and provides mechanisms for addressing the social and economic effects of the transition towards a climate neutral economy ("just transition mechanism").
- **The EU Taxonomy (2020):** a framework for green classification of economic activities for investment purposes. It is designed to improve transparency, minimise the risk of "greenwashing", and support market participants to compare companies and investment portfolios.
- **The "Fit for 55" package (2023):** a major revision of EU climate and energy legislation aimed at meeting 2030 emissions reduction targets. Measures aim at reducing reliance on fossil fuels, and expanding the use of renewable energy.
- **The Corporate Sustainability Reporting Directive (CSRD, 2023):** expands sustainability reporting obligations for large EU and non-EU companies with significant EU business, with first reports due in 2025. Companies must disclose sustainability information in line with the new European Sustainability Reporting Standards (ESRS), which set higher sustainability reporting requirements than the previous Non-Financial Reporting Directive (NFRD).
- **The Corporate Sustainability Due Diligence Directive (CSDDD, 2024):** establishes obligations for large companies to identify, prevent and mitigate adverse human rights and environmental impacts in their operations and value chains. It also introduces civil liability and enforcement mechanisms to strengthen corporate accountability.

Source: European Commission (n.d.^[3]) *EU taxonomy for sustainable activities*, https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en; European Commission (2025^[4]) *Questions and answers on simplification omnibus I and II*, https://ec.europa.eu/commission/presscorner/detail/bg/ganda_25_615.

2.1.2. SOE-specific considerations for policy effectiveness

While many sustainability-related policy instruments are designed to apply universally to all market participants, certain may be less effective when applied to SOEs. For example, price-based mechanisms, such as carbon taxes or emissions trading schemes, are widely used to address negative externalities and correct market failures (see Box 2.2). These adjustments typically assume that market actors will respond rationally to price signals by adjusting their behaviour accordingly.

Box 2.2. Main decarbonisation market policies and instruments applicable to SOEs

Current market policies tend to focus on carbon pricing, which essentially aim at tying the external cost of GHG emissions (e.g. damage to health, resources or infrastructure) to their sources through a price – usually in the form of a price linked to the carbon dioxide (CO₂) emitted.

Main carbon pricing mechanisms include:

- **Carbon taxes:** aim at rendering low and zero carbon energy more competitive compared to alternatives. By increasing the price of high-carbon energy, carbon prices reduce demand for carbon-intensive fuels, as they encourage emitters to find ways for emission reduction. Moreover, a strong commitment to carbon prices creates certainty for investors in the use of zero and low-carbon technologies, and the development of new ones. While climate-related taxes are on the rise, the overall progress in imposing carbon pricing remains modest.
- **Emissions trading systems (ETS):** refers to systems where emitters can trade emission units to meet their emission targets. A number of jurisdictions have started introducing ETS to reduce carbon consumption. Most notably, the EU ETS was introduced in 2005 and operates in all reporting EU jurisdictions, as well as **Iceland, Liechtenstein and Norway**. Similar instruments have also been developed in other countries.

There are other carbon pricing instruments, such as carbon offsetting and carbon crediting mechanisms. Certain studies indicate that in the absence of such mechanisms, companies wanting to align their operations and strategies with sustainability expectations could benefit from implementing an internal carbon pricing mechanism (“**shadow carbon pricing**”) to help them meet both the broad goals of the state as their shareholder and their own financial objectives, and to anticipate the emergence of effective carbon pricing mechanisms.

A harmonised climate policy architecture should ensure that carbon pricing is implemented in tandem with the removal or **phasing out of inefficient fossil fuel subsidies**.

Source: OECD, 2022, *Climate Change and Corporate Governance*, Corporate Governance, OECD Publishing, Paris, <https://doi.org/10.1787/272d85c3-en>; OECD, (2022^[2]) *Climate Change and Low-carbon Transition Policies in State-owned Enterprises*, OECD Publishing, <https://doi.org/10.1787/e3f7346c-en>; Blanchard, O., C. Gollier and J. Tirole (2023^[5]) *The Portfolio of Economic Policies Needed to Fight Climate Change*, Annual Review of Economics, <https://www.annualreviews.org/doi/pdf/10.1146/annurev-economics-051520-015113> (accessed on 20 September 2023); Lin, J., (2022^[6]) *China's State-Owned Enterprises Hold Keys to Carbon Neutrality*, <https://www.alliancebernstein.com/corporate/en/insights/esg-in-action/esg-in-action-chinas-state-owned-enterprises-hold-keys-to-carbon-neutrality.html> (accessed on 20 September 2023); Benoit, P. (2020^[7]) *Engaging State-Owned Enterprises in Climate Action: Workshop Report*, Center on Global Energy Policy, <https://www.energypolicy.columbia.edu/publications/engaging-state-owned-enterprises-climate-action> (accessed on 20 September 2023).

However, research is so far inconclusive as to whether such market-wide interventions are effective in the case of SOEs. Some studies suggest that such approaches may have limited impact on SOEs' behaviour due to the overall absence of competition where SOEs exhibit high market concentration, the existence of non-financial objectives and their dependence on government subsidies amongst other aspects (Benoit et al., 2022^[8]).² A more recent study found that cap-and-trade schemes can still produce positive outcomes by resolving co-ordination challenges across government entities (mostly due to conflicting incentives) as they create political pressures on governments to ensure SOEs reduce emissions (Loughborough University, 2024^[9]).

Beyond decarbonisation, SOEs may respond differently than private-sector firms to sustainability-related regulations and policies, including in areas such as corporate governance, anti-corruption, human rights due diligence and disclosure. These differences often stem from SOEs' specific characteristics and

governance, including dual mandates, softer budget constraints and varying degrees of political oversight (OECD, 2020^[10]).

Taken together, these insights highlight the importance of considering institutional realities when designing and applying sustainability policy instruments to SOEs. A better understanding of what drives SOE behaviour – and how this differs from that of private firms – is essential for improving their effectiveness.

2.1.3. Ensuring policy coherence at the whole-of-government level

A clear and coherent legal and regulatory framework is generally considered the first step towards effective implementation of sustainability objectives. However, ensuring policy coherence at the whole-of-government level is often complex as it requires balancing competing priorities, navigating trade-offs and co-ordinating across institutions and sectors.

In many jurisdictions, public sector practices – including those involving SOEs – do not always align with stated sustainability commitments. For example, while some governments have endorsed ambitious environmental goals, the public sector continues investing in high-carbon infrastructure or providing fossil fuel subsidies (IISD, 2018^[11]; World Bank, 2022^[12]). In 2019, the public sector accounted for 38% of global energy investments – of which a sizeable share was channelled through SOEs or state-owned financial institutions – directed to support fossil fuel generation (OECD, 2022^[2]). These inconsistencies point to the importance of improving coherence between the state's ownership policy and practices and longer-term environmental or social commitments.

Certain sustainability-related measures – such as fossil fuel taxes or emissions pricing – may disproportionately affect marginalised or vulnerable groups (e.g. lower-income households, workers in high-emission sectors). To mitigate these risks, governments need integrated policy approaches that include complementary measures, such as social protections, skills retraining, and targeted support for affected communities.

Examples from international experiences illustrate different approaches to achieving a more coherent and just transition (SEI et al., 2021^[13]):

- **Spain's** Just Transition Strategy (2019-2027) provides early retirement and retraining for coal miners along with environmental restoration measures.
- **Greece's** Just Transition Development Plan includes income-support, social protection and labour reskilling for coal-dependent regions.
- **Canada** has directed significant public investment towards skills development and economic diversification, to support affected workers and communities.

With the appropriate policy mix, governments can create incentives that advance sustainability goals while avoiding regressive impacts. This requires a whole-of-government approach and co-ordination across institutions, including SOEs, when implementing public policies.

To support these efforts, the OECD has developed recommendations that support an integrated approach to policymaking. These include the OECD Recommendation on Policy Coherence for Sustainable Development and the OECD Recommendation on the Role of Government in Promoting Responsible Business Conduct, which also align with other international standards such as the International Labour Organization's Guidelines for a Just Transition (ILO, 2015^[14]). In line with these instruments, the state's ownership policies should promote coherence with broader national and international sustainability-related commitments.

2.2. The role of the state as owner and shareholder

Where the state has set sustainability goals, state shareholders should expect SOEs to lead by example. This means aligning and, if relevant, going beyond regulatory requirements to ensure that SOEs pursue long-term value creation, consistent with the principle that the state exercises ownership in the interest of the general public. In line with the SOE Guidelines, the state (through relevant ownership entities) should therefore promote sustainability through clear policies and expectations and integrate responsible practices into SOE governance.³ Such policies and practices should, at minima, align with national sustainability goals, although they may even encourage SOEs to go beyond and lead by example.

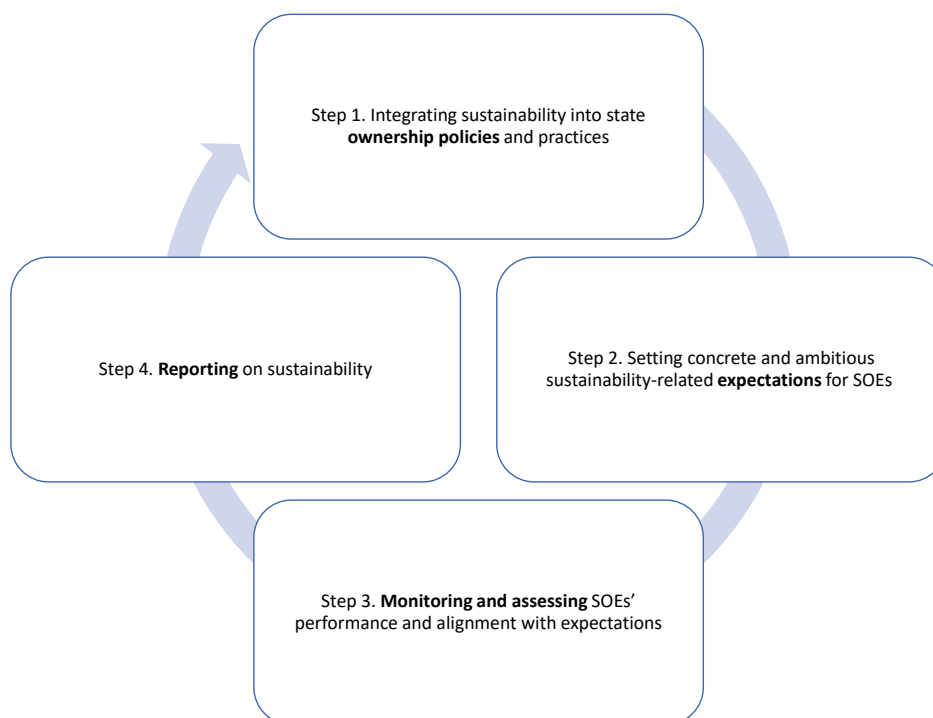
*Where the state has set sustainability goals, they should be integral to the state's ownership policy and practices (**Guideline VII.A**).*

This section outlines a four-step process the state can follow to integrate sustainability goals within ownership policies and practices (Figure 2.2). This includes:

1. integrating sustainability considerations into state ownership policies and practices
2. setting concrete and ambitious expectations for SOEs and supporting their implementation
3. monitoring and assessing SOE performance with expectations
4. reporting on sustainability.

These steps are part of an iterative process as the key findings of the monitoring and assessment process can serve to inform regular updates to existing policies and practices governing state ownership.

Figure 2.2. A four-step process to integrate sustainability in the ownership framework



2.2.1. Step 1: Integrating sustainability into state ownership policies and practices

To ensure policy coherence, an important first step is for the state to integrate sustainability considerations in 1) its ownership policy or relevant policies applicable to SOEs; and 2) its ownership practices.

To ensure policy coherence, the state's ownership policy and practices should be aligned with broader national objectives on sustainable development, including international commitments (Guideline VII.A.1).

Integrating sustainability into the state ownership policy

As recognised in the SOE Guidelines, the ownership policy can play a key role in promoting sustainability by clearly setting expectations for SOEs and linking these to the state's rationale for ownership (see Box 2.3 for case studies). It provides a tool to convey long-term sustainability objectives to SOEs, the market and the general public, ensuring a shared understanding of the state's goals in this area (OECD, 2022^[2]).

To support integration, the state owner should ensure that ownership policies are aligned with relevant national laws, regulations, policies or strategies, as well as international commitments to which it is party. This includes identifying relevant targets such as those embedded in climate or human rights frameworks, and reflecting them in the state's expectations of SOEs. Priority should be given to binding national and international instruments, although voluntary standards also provide useful guidance.⁴

Several countries demonstrate good practices in this area:

- **Finland, Norway and Sweden** explicitly reference international frameworks in their ownership policies, such as the OECD SOE Guidelines and Guidelines for Multinational Enterprises on Responsible Business Conduct (MNE Guidelines), the UN's 2030 Agenda and SDGs, the UN Guiding Principles on Business and Human Rights, the Ten Principles of the UN Global Compact, and the ILO MNE Declaration. Some countries also reference more specific or sectorial initiatives, such as the Extractive Industries Transparency Initiative (EITI) (OECD, 2022^[2]).

The SOE Guidelines also recommend that the development of ownership policies should involve consultation with relevant government bodies and stakeholders to ensure policy coherence and legitimacy (OECD, 2024^[15]). For example:

- **Sweden's** ownership entity consults with relevant government departments, such as the Ministry of Environment, when developing its ownership policy.
- **Finland's** ownership entity engages relevant stakeholders, such as environmental NGOs, when developing sustainability-related aspects of the state ownership policy.

Where ownership is decentralised, strong co-ordination mechanisms between entities with oversight responsibilities and other relevant government departments can help to ensure that SOEs are not subject to competing or contradictory mandates. In such cases, standardised templates, such as **Switzerland's** model template for setting key performance targets (including sustainability-related targets), can ensure a consistent approach across the SOE portfolio.⁵ In the absence of a state ownership policy, sustainability expectations or requirements for SOEs can also be set through other SOE-specific policies; individual expectations or mandates for SOEs; and general laws or regulations applicable to all market participants (see Table 2.2).

Box 2.3. Case studies - selected examples of the integration of sustainability into state ownership policies

Finland's state ownership policy was updated in 2024. Similar to its previous version (2020), it explicitly states that state ownership may be used to advance sustainable development goals. The policy includes a chapter dedicated to the issue of sustainability, which clarifies the state expectations in this area. More particularly, SOEs are required to: i) integrate CSR standards into their business operations; ii) recognise the impact of their operations on the environment; iii) align with the government's objective to become carbon neutral by 2035; iv) consider human rights issues in their activities and across their supply chains; v) avoid aggressive tax planning; and vi) inform shareholders about important sustainability-related issues (Finnish Government, 2024^[16]).

In **Sweden**, the government updated its State Ownership Policy in 2025 which defines high-level expectations of the Swedish Government for SOEs. More specifically, SOEs are expected to: i) "act in an exemplary way that safeguards public trust"; ii) "generate sustainable value creation"; iii) "have long-term ambitions and good transitioning capacity"; and iv) act transparently in relation to their stakeholders. The state ownership policy further highlights specific requirements related to the role of SOEs, including setting strategic targets for sustainable value creation and conducting an open and constructive dialogue with stakeholders amongst other aspects (Government Offices of Sweden, 2025^[17]).

In **Thailand**, the state ownership policy, as embodied in the Principles and Guidelines on Corporate Governance for State-owned Enterprises B.E. 2562 (2019), establishes sustainability-related expectations for SOEs. These include RBC requirements as well as expectations for SOE boards to develop policies and operational plans that prioritise sustainable operations and innovations, amongst other aspects. SOEs are also expected to align with the Thai five-year Development Plan which sets forth requirements for SOEs to engage in the circular economy, minimise GHG emissions by 20-25% by 2030, and develop a Business Continuity Management Plan to ensure resilience against natural disasters and climate change, amongst other aspects.

Norway updated its state ownership policy, called Report to the Storting (White Paper on Ownership Policy no.6) in October 2022 to adapt "to the opportunities and challenges of this decade, with a view to generate increased value creation throughout Norway and to maintain sound and sustainable management of state ownership." With a strong emphasis on Norway's ambition to transition to a low-carbon economy by 2050, the ownership policy identifies different ways through which the SOE sector can contribute to sustainable development. In addition, the heightened sustainability orientation of the policy is also reflected in the state's goals as an owner. For commercial companies the state's goal is "the highest possible return over time in a sustainable manner", and for companies that do not primarily operate in competition with others, the goal is "sustainable and the most efficient possible attainment of public policy goals" (The Royal Ministry of Trade, 2022^[18]).

Ireland adopted a Climate Action Plan in 2019 (CAP 19) which sets out the first ambitious emission reduction targets for the public sector. More concrete requirements for SOEs were introduced in 2021, through the adoption of the Climate Action and Low Carbon Development Act 2021 and the related Climate Action Plan 2021 (CAP 21). Both recognise that SOEs "are already playing a significant role in the decarbonisation of Irish society." In July 2022, a Climate Action Framework for the commercial semi-state sector was approved by the government and has subsequently been adopted by all Irish SOEs. The framework provides a means for SOEs to demonstrate how they are meeting their obligations under the Climate Action and Low Carbon Development Act (Government of Ireland, 2021^[19]).

Table 2.2. How climate-related policies are translated for SOEs in selected countries

	Country	Selected example(s)
Ownership policy	See Box 2.3 for country examples	
Other SOE-specific policy	Colombia, Estonia, France, Germany, Netherlands	France's central SOE ownership agency, the <i>Agence des Participations de l'État</i> (APE), has adopted a Corporate Social Responsibility (CSR) Charter aimed at clarifying the state's sustainability-related expectations, including decarbonisation targets for the APE's portfolio companies, in line with national commitments under the Paris agreement. In Colombia, the Ministry of Finance has developed a Stewardship Code that includes sustainability-related expectations for SOEs, including the requirement to incorporate Environmental, Social and Governance (ESG) indicators into their strategic plans (and to report on them) and to develop stakeholder participation, ensuring access to relevant information.
Individual expectations or mandates	Costa Rica, Finland, Germany, Greece, Hungary, Latvia, Lithuania, Switzerland, Thailand, United Kingdom, United States	Letters of expectations are issued on an annual basis in Costa Rica. They include RBC expectations, encouraging SOE to carry out risk-based due diligence to identify, prevent and mitigate the adverse impacts that their activities may have on human rights. In Switzerland, sustainability objectives are set for individual SOEs for four years via an intergovernmental consultation process, followed by a discussion and approval at the Federal Council.
General laws, policies or regulations to all market participants	Australia, Estonia, Finland, France, Germany, Hungary, Ireland, Latvia, Lithuania, Netherlands, Norway, Sweden, Switzerland, Thailand, United Kingdom	Germany adopted a Sustainability Code applicable to all companies whether public or private. It is a cross-industry transparency standard outlining the minimum requirements for reporting on non-financial performance of companies. It can be used by companies and organisations of any size and legal form. It was developed in 2011 through a stakeholder process by the German Council for Sustainable Development, which works on behalf of the German government. In addition, other expectations are applicable to SOEs under the Principles of Good Corporate Governance and Active Management of Federal Holdings. In France, the Climate and Resilience Law (<i>Loi Climat et Résilience</i>) adopted in 2021, was introduced to help meet the country's climate targets and support the transition towards a more sustainable and resilient economy. It reinforced climate-related disclosure obligations for companies particularly in public procurement, advertising, and corporate governance before the EU CSRD was transposed into national law in 2023. Among other measures, the law requires the disclosure of the carbon impact of certain business activities and investment decisions.

Source: OECD, (2024^[20]), Ownership and Governance of State-Owned Enterprises, https://www.oecd.org/en/publications/ownership-and-governance-of-state-owned-enterprises-2024_395c9956-en.html

Ultimately, clear, practical and achievable sustainability expectations set by the state and guided by the ownership policy can support the alignment of SOEs' strategy with long-term national priorities. In **France**, for example, the state's central ownership agency (APE) has issued a CSR Charter (Table 2.2) requiring SOEs to align their corporate strategies with sustainability goals. The example of EDF (see Box 2.4) demonstrates that this approach can lead to a significant shift in the company's strategic direction, without requiring the state to interfere in its operational autonomy (see also Section 2.2.2 "Step 2" for more details on setting sustainability expectations for SOEs).

Box 2.4. Case study - Aligning EDF's corporate strategy with high-level sustainability expectations

Électricité de France (EDF) is France's integrated electricity provider. It generates electricity, carries out electricity transmission and distribution services, and engages in supply optimisation and trading. It is fully-owned by the French state through the *Agence des Participations de l'État* (APE), and is involved in actioning France's gas independence plans and renewable energy transition.

As a shareholder, APE sets clear sustainability expectations for its portfolio companies through its "CSR Charter". EDF has embedded APE's expectations at the core of its corporate purpose ("*raison d'être*") and long-term strategy, which commit "to build a net zero energy future with electricity and innovative solutions and services, to help save the planet and drive well-being and economic development." This supports the implementation of its transition plan, which is to achieve carbon neutrality before 2050.

In addition, EDF has also committed to scaling up investments in renewable energy (including nuclear energy) and innovative low-carbon technologies, ensuring a sustainable transition of the French energy sector. EDF also adheres to the APE's CSR Charter by promoting workforce diversity and human rights in supply chains.

Source: EDF (n.d.^[21]) *La raison d'être du groupe EDF*, <https://www.edf.fr/groupe-edf/raison-d-etre>; APE (2021^[22]) *La responsabilité sociale et environnementale des entreprises*, Ministère de l'Économie des Finances et de la Souveraineté industrielle et numérique, <https://www.economie.gouv.fr/agence-participations-etat/charte-sous-traitance>

Integrating sustainability into state ownership practices

To act as an active and informed owner, the state should integrate sustainability considerations into its ownership practices. This includes: 1) embedding sustainability into ownership strategies; 2) assessing environmental, social and governance (ESG) risks at the portfolio level and their materiality; and 3) building institutional capacity and co-ordination to enable better decision making and performance monitoring (see also Section 2.2.3 "Step 3").

Embedding sustainability into ownership strategies

Ownership entities can embed sustainability expectations into long-term shareholder or investment strategies. These strategies should articulate clear action plans and identify timelines and long-term outcomes to reach their stated goals. In some cases, scenario planning can help to guide decision making with alternative assumptions. For example, **Austria's** ÖBAG includes sustainability considerations into its investment strategies and has conducted a comprehensive materiality assessment to guide portfolio-level decision making.

In certain cases, state ownership entities have developed specific sustainability strategies. **Greece's** Growthfund, for example, has adopted a three-pronged sustainability strategy focused on transparency, stewardship and operational excellence to ensure sustainability integration across its SOE portfolio (Box 2.5).

Box 2.5. Case study - Greece's Growthfund sustainability strategy

Growthfund is Greece's national fund responsible for overseeing a portfolio of state-owned enterprises operating across diverse sectors. With a mandate to serve the public interest, Growthfund seeks to create long-term value by actively supporting its SOEs in advancing their sustainability performance (referred to as "ESG performance") through a dedicated sustainability strategy and targeted tools and resources.

Growthfund's sustainability strategy builds on three key pillars: 1) transparent reporting; 2) SOE stewardship; and 3) overarching principles for operational excellence. To support SOE stewardship, Growthfund has taken three main actions:

- *Expectations documents*: addressed to SOEs' management teams highlighting priority sustainability expectations, such as organisational preparedness and proactive engagement.
- *Education and awareness building*: launched an online education platform called "Sustainability Academy" which develops sustainability skills and expertise amongst SOE personnel.
- *ESG data template and reporting handbook*: provides its SOEs with ESG data templates to ensure consistent and regular collection of ESG data. A dedicated reporting handbook further educates SOE personnel on ESG reporting requirements.

Source: Growthfund, (2022^[23]) *Environmental Social & Governance (ESG) Policy*, https://growthfund.gr/wp-content/uploads/2023/08/D13_ESG-Policy_en.pdf.

Assessing risk and materiality

An essential part of sustainable ownership practices is identifying and managing ESG-related risks and opportunities at the portfolio level. As noted earlier, SOEs often operate in sectors exposed to heightened risks – including environmental-, social- (e.g. human rights) and governance-related (e.g. corruption). Unmanaged, these risks can affect long-term value creation, increase fiscal exposure and lead to stranded assets or reputational liabilities. This is particularly relevant in the case of SOEs where the state may face financial consequences – such as reduced or volatile dividends, unsustainable debt levels (particularly if state-guaranteed), or transition risks associated with high-carbon stranded assets.⁶ Beyond risk management at ownership level, SOEs should also conduct due diligence at a corporate level (as elaborated in Chapter 3).

International practice offers useful models for implementing materiality assessments and risk identification tools, as well as for their management:

- In **Norway**, the centralised ownership entity conducts portfolio-wide assessments of climate-related risks (Box 2.6).
- **Austria's** ÖBAG has conducted detailed materiality assessments based on international benchmarks and stakeholder consultations (Box 2.6).
- Other countries, such as **Finland**, the **Netherlands** and **Sweden**, have conducted assessments to identify material risks and opportunities across their SOE portfolios and evaluate their impact on SOE long-term value creation. In some cases, these assessments have also informed shareholder or board decisions on acquisitions, divestitures or restructuring – such as breaking up large SOEs into distinct entities focused on renewable versus high-carbon activities.
- **Finland** has developed tools based on key performance indicators to manage material sustainability risks and opportunities (see Box 2.7).

Box 2.6. Case studies - Identifying sustainability risks in Norway's and Austria's SOE portfolios

In 2017, **Norway's** centralised ownership entity, located within the Ministry of Trade, Industry and Fisheries, in collaboration with other ministries, commissioned an independent assessment of the state's exposure to climate-related risks through its partial or full ownership of 37 selected companies. The purpose of the assessment was to evaluate how these companies aligned with the government's expectations regarding climate and environment. The assessment focused on four areas: performance, transparency, risk and opportunity management, and emissions reduction. The assessment served as a capacity-building tool for the ownership entity, helping to identify both areas for improvement and examples of SOEs demonstrating leadership in sustainability.

In 2023, **Austria's** state holding company, ÖBAG, conducted a comprehensive materiality assessment to identify material sustainability issues across its SOE portfolio. The assessment comprised three key components:

1. a definition of material sustainability topics related to environmental, social and governance (ESG) considerations relevant to ÖBAG's operations
2. the conduct of a survey of stakeholders' expectations ("evidence-based survey")
3. the formulation of a sustainability strategy based on identified opportunities and strategic options.

For this purpose, ÖBAG reviewed international best practices and benchmarked them against its existing strategy and sustainability agenda. An initial "long list" of material topics was developed and subsequently narrowed down to a "short list" of ten priority issues through workshops and consultations with ÖBAG management and external stakeholders, including academic and scientific experts. The results of the materiality assessment were published in ÖBAG's report on business activities and sustainability for 2023.

Source: OECD, (2022^[2]), *Climate Change and Low-carbon Transition Policies in State-owned Enterprises*, <https://doi.org/10.1787/e3f7346c-en>; ÖBAG, (2024^[24]), *Priorisierung von Nachhaltigkeitsthemen mit Impact*, <https://oebag.gv.at/perspektive/priorisierung-von-nachhaltigkeitsthemen-mit-echtem-impact/>.

Box 2.7. Case study - The state owner's "Sustainability Programme" in Finland

As part of Finland's 2024 state ownership policy, the Ownership Steering Department has developed a programme defining the state's sustainability objectives for its SOE portfolio, currently comprising 71 SOEs. The programme's key objective is to improve sustainability in ownership steering in view of "growing and preserving shareholder value." However, it also serves as a tool for the state owner to monitor its expectations in this field.

The programme identifies six priority areas that are considered material for most Finnish SOEs:

1. Climate (green transition)
2. ESG-linked management remuneration
3. Responsible employment practices and diversity in the workforce
4. Biodiversity
5. Due diligence, including throughout the value chains
6. Human rights

SOEs alignment with these priority areas are monitored closely by the state owner. For each priority area, relevant objectives, sub-objectives and key performance indicators (KPIs) are identified to monitor implementation by SOEs and ownership steering effectiveness (see example below). Relevant KPIs are tracked in an existing reporting system which includes quarterly data reporting and annual reporting of sustainability-related targets in the SOEs' budget plans and strategy. Progress in implementing the programme is reported on an annual basis in the annual aggregate report prepared by the Department.

Table 2.3. Example of climate-related objectives

Objective	Sub-objective	Key Performance Indicators (KPIs)
Companies have measurable targets that are ambitious compared to peer companies in the same industry and an action plan for achieving them Companies have science-based targets (SBTs) or some other transition plan for reducing emissions	Increase in share of portfolio companies committed to SBTs for climate objectives	SBT commitments, % of portfolio Number of transition plans, % portfolio
Companies to take advantage of business opportunities offered by the green transition and report on it, in line with the taxonomy	Increase turnover and Capex in line with taxonomy	Portfolio turnover and Capex in line with taxonomy, EUR and % share
Decrease in total emissions (emission intensity) of the portfolio	Companies report on their emissions (scope 1,2,3)	Emission intensity tCO ₂ /MEUR
State recognises the climate risks and opportunity at the portfolio-level		Risks and opportunities recognised

Source: Government of Finland (2024^[25]) *State-owned sustainable growth: Government Resolution on Ownership Policy 2024*, <https://julkaisut.valtioneuvosto.fi/handle/10024/165658OSD>.

Institutional capacity and co-ordination

Effective implementation depends on institutional capacity and co-ordination mechanisms. To support these efforts, some ownership entities have established in-house teams with sustainability expertise (e.g. **Finland, Netherlands, Norway, Sweden**), while others, such as **Austria's** ÖBAG, have opted for a cross-cutting approach by embedding sustainability expertise in relevant departments. This integrated

model avoids isolating sustainability into a single unit and promotes whole-of-organisation consideration of sustainability issues.

Regardless of the ownership model, bodies in government with an ownership co-ordination function should consider regularly consulting relevant ministries or soliciting specific expertise on sustainability to inform decision making. This expertise can ensure accurate identification and interpretation of sustainability-related data collected from SOEs, and support the mainstreaming of sustainability-related considerations into state ownership practices and decision making.

Practical insights

To support alignment of ownership policies and practices with national sustainability goals, state owners may consider the following practices:

- **Communicate long-term sustainability-related commitments and goals.** Transparently communicate the state's long-term sustainability-related commitments and goals (e.g. on value creation, carbon neutrality) preferably through the state ownership policy.
- **Ensure alignment of SOE objectives with national commitments and goals.** Reference relevant objectives and targets to meet national commitments and goals (e.g. SDGs, Paris Agreement, OECD SOE Guidelines and OECD MNE Guidelines) in the state ownership policy.
- **Promote policy coherence.** Consult with relevant ministries, public institutions and stakeholders to ensure policy coherence. This includes encouraging whole-of-government co-operation and harmonisation, particularly in decentralised ownership frameworks.
- **Embed sustainability into ownership practices.** Integrate sustainability considerations into their own ownership practices (e.g. SOE-related strategies and investments, monitoring function) to align decision making with long-term value creation.
- **Perform portfolio-wide assessments.** Conduct portfolio-wide risk and materiality assessments to identify sustainability-related risks and opportunities and inform key shareholder decisions.
- **Develop in-house expertise.** Establish in-house or engage sustainability expertise to mainstream sustainability-related considerations into ownership practices, better monitor sustainability-related performance and inform decision making.
- **Standardise tools and metrics.** In decentralised ownership frameworks, develop common tools and frameworks, such as data templates, strategic target setting models, or key performance indicators to ensure consistency and avoid fragmentation of approaches across the SOE portfolio.

2.2.2. Step 2: Setting clear and ambitious expectations for SOEs and supporting their implementation

Once sustainability-related considerations are integrated into the state's ownership policies, the next step is to define and clearly communicate ambitious expectations for SOEs. These expectations should be aligned across the SOE portfolio and supported by mechanisms that promote effective implementation. This section outlines how ownership entities can:

1. define and communicate concrete and ambitious sustainability-related expectations
2. manage trade-offs through regular dialogue with SOEs
3. support implementation through targeted tools and mechanisms

4. ensure that sustainability objectives respect a level playing field.

Define and communicate concrete and ambitious expectations

As recommended by the SOE Guidelines, the state owner should articulate high-level sustainability expectations for SOEs, including on RBC, in a clear, consistent and ambitious manner (Guidelines VII.A.1 and VII.D). These expectations, ideally embedded in the ownership policy, set the tone for SOEs' strategic direction and decision making at the enterprise level.

*Where the state has set sustainability goals, they should be integral to the state's ownership policy and practices. This includes setting concrete and ambitious sustainability-related expectations for SOEs (**Guideline VII.A.1**) and communicating and clarifying the state's expectations through regular dialogue with the boards (**Guideline VII.A.2**).*

High-level expectations should apply across the entire SOE portfolio, while allowing for sector-specific tailoring, where relevant and material. Depending on the ownership model, these expectations can be set through:

- ownership policy and other strategic frameworks (see also above)
- letters of expectations or individual mandates for SOEs set through other means
- dialogue with SOEs' governing bodies, as certain sectors and/or individual enterprises may face specific challenges and risks due to the nature of their activities.

For instance, energy and transport SOEs may require detailed transition plans and GHG reduction targets, while SOEs in extractives or infrastructure may be expected to undertake enhanced environmental and human rights due diligence. The state owner should then consider tailoring its expectations depending on what is relevant and material to a particular enterprise or sector's operations and activities. Table 2.4 summarises common types of sustainability-related expectations for SOEs across key areas, such as strategy, governance and procurement – and illustrates how these are being implemented in practice by various countries.

Table 2.4. Sustainability-related expectations for SOEs

Policy area	State expectations for SOEs	Selected country examples/Notes
Overarching goals of state ownership	- Ensure long-term value creation - Lead by example	In Finland, SOEs are expected “to be at the forefront of sustainability because it can boost competitiveness and grow shareholder value”. In Sweden, SOEs are expected to “lead by example” with a view to ensure public trust.
Strategy development, target setting, reporting and disclosure	- Integrate sustainability into their business model and strategies - Develop specific targets and indicators on sustainability (and develop transition plans) - Report on sustainability and disclose such information in line with internationally recognised standards - Perform materiality assessment(s)	See Chapters 3 and 4 for details and examples.
Boards of directors and management	[The policy clarifies or establishes] SOE boards’ responsibility with regards to sustainability - Establish sustainability committees or integrate particular skill sets in board composition	Austria, Germany, Finland, France, Ireland, Latvia, Lithuania, Norway, Sweden. See Chapter 3 for more details and examples.
Internal control and risk management	- Report on their material sustainability risks and opportunities and explain how these are managed - Establish relevant procedures aimed at identifying, assessing, and managing risks, including on sustainability - Carry-out risk-based due diligence across the supply chain - Establish a whistleblower channel	Hungary, Ireland, Finland, Netherlands See Chapter 3 for more information. In Finland, SOEs must identify, prevent and mitigate human rights violations across their own operations and supply chains. This also means that SOEs’ staff must have access to a reliable channel for reporting any human rights violation in a confidential manner (i.e. whistleblowing channel or other equivalent arrangements). In Greece, the state holding Growthfund has implemented a comprehensive whistleblowing policy covering SOEs under its oversight, with secure reporting channels and personal data protections.
Public procurement	Integrate sustainability criteria in public procurement processes (as procurers)	Sweden requires SOEs to specify labour law requirements for suppliers for purchases exceeding a certain amount. In Ireland, SOEs are expected to engage with central purchasing bodies to use procurement frameworks that include relevant environmental considerations, where appropriate.
Responsible business conduct and stakeholder engagement	- Adhere to responsible business conduct in line with international standards as the OECD MNE Guidelines - Hold open and constructive dialogue with stakeholders, ensuring they have access to relevant information as well as to reliable channels of communication to bring any human and labour rights violations to the attention of corporate management (e.g. whistleblowing mechanism)	Costa Rica, Estonia, Finland, France, Netherlands, Norway, Sweden, Thailand See Chapter 5 for more information and examples.
Other	Consider sustainability in their investment decisions	Ireland, Netherlands
	Engage in the circular economy to minimise waste and encourage re-use policies	Finland, France, Ireland, Philippines, Thailand
	Act against biodiversity loss	Finland

Source: OECD own compilation based on cited countries’ state ownership policies.

High-level expectations should be communicated in a clear and concise manner. The SOE Guidelines also recommend that where the state is not the sole owner, it should share its expectations in a transparent manner through its state ownership policy and through the exercise of its shareholder rights. In doing so, the state should respect the rights and fair treatment of other shareholders.

Manage trade-offs through regular dialogue

To promote effective implementation, expectations should not only be clearly communicated but also supported through ongoing dialogue. According to a survey, in most OECD countries, shareholder dialogue is essential in ensuring mutual understanding between the ownership entity and the SOE board on high-level expectations (OECD, 2022^[2]). Regular interaction between the owners and SOE boards enables mutual understanding of evolving priorities, potential trade-offs and the implications at the national level (Guideline VII.A.2). As part of this dialogue, ownership entities should communicate expectations clearly and early, especially when new obligations arise, and facilitate mutual understanding of potential trade-offs when integrating sustainability-related considerations. For example, trade-offs might include foregoing short-term profitability versus long-term transition investments, or prioritising decarbonisation objectives as opposed to employment retention policies (OECD, 2022^[2]). In turn, such clarity can help SOE governing bodies translate expectations into meaningful strategies and targets at the corporate level.

Communicating and clarifying the state's expectations on sustainability through regular dialogue with the boards (Guideline VII.A.2).

The process is not necessarily top down. Where boards are already integrating sustainability into decision making, shareholder dialogue can play a complementary role, by aligning expectations, reinforcing accountability, supporting consistency across the portfolio, and providing a forum to address tensions and evolving priorities.

It is important to underline that board autonomy and independence should be respected to avoid duplicating governance responsibilities. Therefore, discussions should be conducted within a structured framework for communication between the state owner and the SOEs' highest governing body, and respect SOEs' full operational autonomy to achieve their defined objectives, as set out in the SOE Guidelines. Existing practices suggest that communication can take place through several channels as outlined in Table 2.5, including:

- general shareholder meetings
- regular shareholder dialogue
- ad hoc workshops and stakeholder consultations
- board level discussions on expectations

Table 2.5. Main channels for ongoing communication on high-level expectations

General Shareholder Meeting	Where the state is not the sole owner, it should influence corporate behaviour by exercising its shareholder rights. The general shareholder meeting offers the opportunity for the state owner to raise or clarify its expectations, especially where sustainability is particularly material. Together with other shareholders, it may propose a resolution requiring a change in corporate policy or in the composition of the board.
Regular shareholder dialogue	Regular shareholder dialogue meetings can be organised with SOEs to exchange on high-level expectations, including sustainability matters. For example, state ownership entities in Austria, Finland, Sweden, the Netherlands and Norway hold regular meetings (generally on a quarterly basis) with SOEs' supervisory boards and sometimes executive boards. In general, the ownership policy and any specific ownership expectations communicated to the SOE (for example through a letter of expectations) serves as a reference for sustainability-related discussions.
Ad hoc workshops and stakeholder consultations	Organisation of workshops, conferences or trainings for SOEs to inform and discuss emerging topics of relevance to sustainability (e.g. Finland, France, Norway, Sweden).
Board level discussions and expectations	Depending on the ownership framework in place, SOE boards may include state representatives which may be well placed to deliver and clarify the state's expectations and priorities on sustainability (e.g. France, Sweden).

Source: OECD interviews with cited countries, 2024.

Support implementation through targeted mechanisms

To translate expectations into action by SOE governing bodies, the state as owner could encourage their implementation, and more generally the take-up of good practices through targeted support mechanisms. These include:

- educational and training material, or specific guidance that may be helpful in ensuring a common understanding of state expectations on SOEs (see example in Box 2.8)
- technical assistance, including advisory support
- awards and other incentives

A list of targeted support mechanisms is provided under Table 2.6 which summarises selected country examples.

Table 2.6. Mechanisms supporting the implementation of sustainability expectations

Support mechanism	Sub-category	Description	Country examples
Educational trainings and material	Training events	Organisation of workshops or seminars by ownership entities (often with external partners) to raise awareness and build capabilities on topics such as sustainability reporting, stakeholder engagement, innovation, human rights, diversity, and emissions trading. Trainings may be tailored to sectoral needs or risk profiles.	Austria, Chile, Colombia, Croatia, Finland, France, Mexico, Netherlands, Norway, Slovak Republic, Sweden.
	Peer learning and networking	Facilitation of regular exchanges between SOE sustainability officers to share practices and strengthen professional networks. These may include dedicated seminars or thematic meetings.	Austria, Finland, France, Norway. For example, in Austria , the ownership entity invites SOE sustainability officers to attend seminars on sustainability issues. This has reportedly improved the visibility of sustainability officers' work within the boardroom.
	Guides and methodological tools	Development of thematic documents to support implementation of state expectations and promote good practices. Topics may include ESG assessment, human rights reporting, or climate transition. Some tools may be aimed more broadly at companies rather than SOEs specifically.	Indonesia, Japan, Korea, Netherlands, Sweden, Switzerland. For example, Indonesia has developed specific Guidelines on ESG assessment for SOEs. In Sweden , guidance has been developed on the role and responsibilities of SOE boards in the area of human rights.
Technical assistance	Provision of advisory services by the ownership entity to help SOEs implement sustainability initiatives and meet policy expectations.		In Peru , the ownership entity supports individual SOEs with developing their sustainability programme.
Awards and other incentives	Use of awards, rankings in annual reports, sustainability indexes, and public recognition to incentivise good sustainability performance and practices among SOEs. These may be part of national initiatives that include but are not limited to SOEs.		Austria, Belgium, Estonia, Finland, Latvia, Norway, Sweden. For example, Latvia's "Sustainability Index" and Estonia's "Responsible Business index" aim at ranking companies' performance on sustainability, including SOEs.

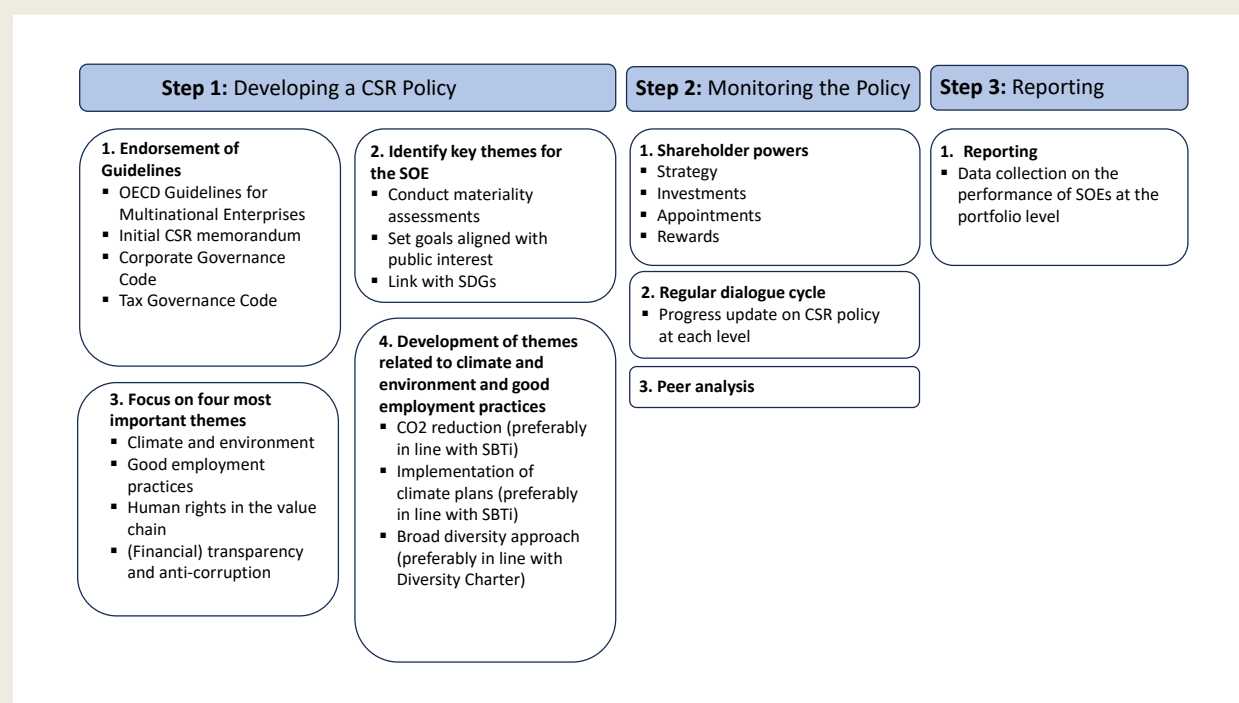
Source: ClimateWorks, (2023^[26]) *BPKP launches ESG assessment guidelines for Indonesian State-owned enterprises*, <https://www.climateworkscentre.org/news/bpkp-launches-esg-assessment-guidelines-for-indonesian-state-owned-enterprises/>, OECD, (2022^[2]) *Climate Change and Low-carbon Transition Policies in State-owned Enterprises*, <https://doi.org/10.1787/e3f7346c-en>, Government Offices of Sweden (2021^[27]), *Annual report for state-owned enterprises 2021*, <https://www.government.se/4a8226/contentassets/b31448c8f5154a3eae7489cfee1d8b8f/annual-report-for-state-owned-enterprises-2021-complete.pdf>, OECD, (2020^[28]). *OECD Business and Finance Outlook 2020: Sustainable and Resilient Finance*, https://www.oecd-ilibrary.org/finance-and-investment/oecd-business-and-finance-outlook-2020_eb61fd29-en

Box 2.8. Case study - A Sustainability Handbook for SOEs in the Netherlands

The Dutch government has developed a specific manual aimed at supporting the implementation of its SOE sustainability-related expectations, as set out in its state ownership policy of 2022.

Published in July 2023 (and revised in 2025), the handbook provides guidance to SOEs on the formulation, monitoring and reporting of sustainability (referred to as “CSR” in the document) objectives and policies. The handbook reiterates the Dutch state’s expectation for SOEs to “be ambitious and to set an example.” For this, the state assumes that they comply with relevant (inter)national standards and frameworks and are transparent about them, set their own targets and demonstrate that they are frontrunners in their sector.

Figure 2.3. Three steps for SOEs to align with state expectations on sustainability



Note: The Handbook also includes expectations for SOEs to implement mandatory EU laws and regulations such as the EU Taxonomy and Corporate Sustainability Reporting Directive.

Source: Ministry of Finance of the Netherlands, (2025^[29]), *CSR handbook*.

Maintain a level playing field

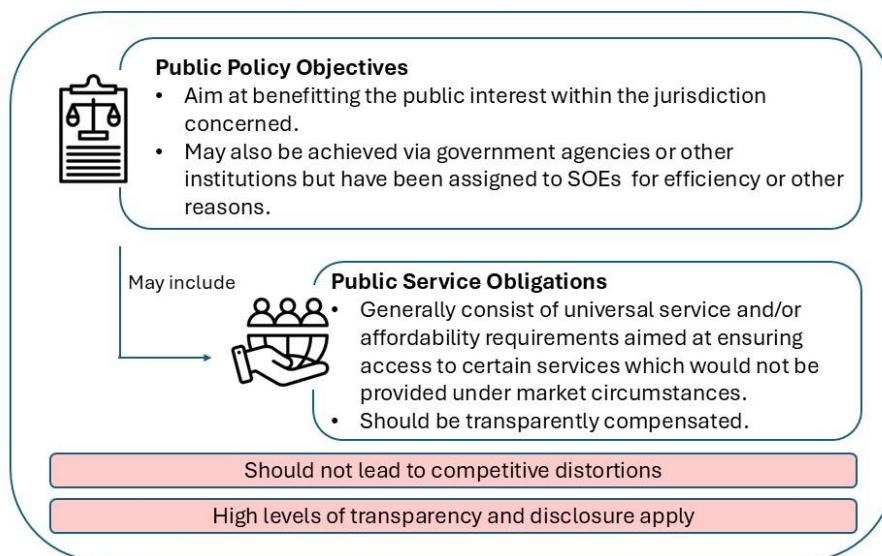
While setting sustainability-related expectations is an important lever for achieving public policy outcomes, state owners must take care to avoid distorting the competitive landscape. In line with the SOE Guidelines and as elaborated below, this includes ensuring that:

1. Public policy objectives (PPOs) and/or public service obligations (PSOs) are clearly defined, transparently disclosed, and where relevant costed and compensated.
2. Preferential treatment, such as subsidies or below market support to SOEs and by SOEs active in the marketplace, is avoided.

Public policy objectives or public service obligations

Where the state is the sole or majority shareholder, it may assign PPOs and/or PSOs to SOEs when they are best placed to achieve sustainability-related goals that serve the public interest. These may include accelerating the energy transition or delivering goods or services that the market would not provide efficiently or effectively (Figure 2.4). PPOs and PSOs may also be achieved via government institutions or private actors, but are often delegated to SOEs for efficiency reasons.

Figure 2.4. Difference between public policy objectives and public service obligations



Specifically, PSOs are assigned to SOEs to ensure the appropriate access to essential economic or social services, in a manner sufficient to fulfil the PSO under commercial considerations. Common examples of PSOs include:

- universal service and/or affordability requirements
- maintenance of public infrastructure.

Some mandates go beyond traditional PSOs to address sustainability goals. These may involve targeted state intervention particularly where market incentives are insufficient to generate the desired outcomes. This could be due to market failure, high upfront costs, or long investment horizons that dissuade private investment. For instance, SOEs may be tasked with:

- phasing out inefficient fossil fuel subsidies or shifting to low carbon alternatives (see Box 2.9).
- supporting research and development in strategic high-risk technologies that would not otherwise attract private investment.
- mainstreaming sustainability-related considerations in lending and investment (e.g. via state-owned banks and financial institutions).

To ensure a level playing field, the SOE Guidelines recommend ensuring that these public policy objectives respond to commercial imperatives, align with the SOE's main line of business, and be delivered under competitive market settings.

Box 2.9. Case study - Strategic efforts to accelerate the implementation of GHG emission targets in Indonesia

Indonesia has committed to reduce its GHG emissions by 32% by 2030 (or 43% with international support) and to achieve Net Zero emissions by 2060.

To meet these targets, Indonesia has set emissions reduction targets by sector and developed specific regulations and initiatives to encourage decarbonisation of its economy. These include:

- Presidential Regulation (PR) No. 22/2017 on National Energy Grand Plan which mandates the target of 23% New Renewable Energy (NRE) in the national energy mix by 2025 and 1% reduction in energy intensity per year
- development of a Green Electricity Supply Business Plan which prioritises NRE and its development in Indonesia
- a national mandatory biodiesel policy (Permen ESDM No. 12/2015)
- removal of fossil fuel subsidies
- encouragement of the development of an electric vehicles (EV) ecosystem (Perpres No. 55/2019)

The adoption of such regulations has led to the adoption of numerous initiatives which focus on

- reducing emissions
- building adjacent businesses (e.g. geothermal, bio-blending gasoil, integrated EV battery development)
- exploring “step-out” initiatives (e.g. wind and hydro energy development, carbon capture storage development)

A number of SOEs are expected by the Ministry of SOEs of Indonesia to lead these initiatives. Such expectations include:

- certain SOEs to play a role in the EV battery supply chain (Circular No. 565/2022)
- a voluntary carbon market pilot project for carbon trading
- nature-based solutions development (e.g. protection of peat forests)
- energy transition mechanisms (e.g. early retirement programme for coal-fired power plants)

Source: Ministry of SOEs of the Republic of Indonesia, (2022^[30]), *Climate Change and Low-Carbon Transition Policies in SOE*.

While such interventions may be justified in the public interest, there is no consensus on how interventionist the state should be. On the one hand, state-led mandates can help address market failures, accelerate high-risk innovation or achieve sustainability goals not met through purely market-based means. On the other hand, SOEs – particularly large incumbents – may crowd out private sector-led solutions or deter market entry. Conversely, where the state does not intervene, commercial actors – including SOEs – may overlook social returns, leading to underinvestment in long-term transitions, essential services or innovation (IFC, 2023^[31]).

State support measures

Care should be taken to ensure that PPOs are not achieved indirectly through state support measures which can distort competition, such as:

- below market pricing for inputs such as energy
- preferential financing via state-owned banks
- favourable procurement or investment terms (OECD, 2023^[32]).

An OECD study found that between 2010 and 2020, the top 25% of industrial firms benefiting the most from subsidised or cheap energy were 65% state-owned on average – suggesting that such support may confer a material advantage over private firms (OECD, 2024^[33]). SOEs may also act as providers of support, such as when state-owned banks finance other SOEs (or market actors) on concessional terms – such relationships should be based on purely commercial grounds.

Given this tension, the rationale for assigning PPOs or PSOs and any state support measures to or via SOEs to achieve sustainability goals must be carefully assessed. State owners might consider:

- whether state intervention via SOEs is likely to maximise long-term value for society in an efficient and sustainable manner
- whether new sustainability-related PSOs or PPOs constitute a fundamental change in an SOE's mission, in which case changes should be clearly justified and transparent
- ensuring any assigned obligations are clearly defined, publicly disclosed and – where applicable – transparently costed and compensated in line with Chapter III of the SOE Guidelines and the OECD Recommendation on Competitive Neutrality (OECD, 2021^[34]; 2024^[35])
- ensuring that state support measures do not harm competition.⁷

Practical insights

To set concrete and ambitious sustainability-related expectations for SOEs, state owners may consider the following practices:

- **Set expectations in a clear and transparent manner.** Expectations should be set out in a clear and transparent manner, preferably in the state ownership policy. Expectations should cover the entire SOE portfolio and contain both cross-cutting and sectorial considerations where relevant.
- **Communicate expectations clearly and early.** Use regular shareholder dialogue to support mutual understanding of potential trade-offs. Such communications should respect SOEs' board autonomy and independence.
- **Support implementation.** Encourage implementation of sustainability expectations through targeted support mechanisms (e.g. training, implementation guidance, technical assistance and awards).
- **Ensure transparency and a level playing field.** When the state tasks SOEs with sustainability-related PPOs or PSOs, care should be taken to ensure transparency and avoid market distortions. Alignment with related OECD recommendations, including on competitive neutrality, can help safeguard fair competition.

2.2.3. Step 3: Monitoring and assessing SOE performance with expectations

After setting clear expectations for SOEs (see Step 2), the next step is to actively monitor and evaluate how SOEs are meeting these expectations. This involves two complementary dimensions: compliance monitoring – checking that SOEs implement the required actions and adhere to policies in line with high-level expectations; and performance evaluation – assessing the actual sustainability outcomes and

impacts of SOE operations. Effective monitoring is crucial for the state to act as an informed and active owner, ensuring progress towards sustainability goals while respecting SOEs decision making bodies. It requires timely access to accurate and material financial and non-financial information and the integration of sustainability-related criteria into existing reporting and monitoring frameworks (or developing dedicated mechanisms if needed). In line with the SOE Guidelines, the ownership entity should regularly review SOE performance on sustainability and oversee their compliance with both high-level expectations and applicable legal and regulatory requirements. Ultimately, state ownership should be positioned to identify when intervention or support is needed and to adjust expectations based on observed performance trends.

*The state should monitor the implementation of general expectations for SOEs related to sustainability issues. To this effect, the state should adequately integrate sustainability-related expectations within the existing reporting system, to be able to regularly assess and monitor SOE performance and oversee their compliance with high-level expectations and applicable legal and regulatory requirements (Annotations to **Guideline VII.A.3**).*

Compliance monitoring of high-level expectations

Monitoring compliance is about verifying that SOEs follow the sustainability-related directives, standards and high-level expectations set by the state. This typically includes tracking whether SOEs have adopted the necessary strategies, governance arrangements and reporting practices to fulfil the state's sustainability objectives (for example, implementing climate action plans, human rights due diligence or diversity policies mandated by the owner). Responsibility for monitoring usually lies with the individual ownership entities responsible for their SOE portfolios or a central co-ordination entity, depending on the governance model. Common methods include requiring periodic reports or questionnaires from SOEs, conducting interviews with SOE boards and management, and leveraging digital reporting platforms to collect and analyse information. Examples of monitoring approaches include (see also Box 2.10):

- **Peru's** FONAFE monitors SOEs' compliance with its CSR and corporate governance guidelines through a digital performance monitoring platform which allows to monitor progress based on a standardised methodology. Through this framework, each SOE is invited to provide information and supporting evidence relative to FONAFE's guidelines on an annual basis. SOEs' performance is then ranked on a scale ranging from one (non-existent practices) to six (leading practices).
- **Norway's** ownership entity in the Ministry of Trade, Industry and Fisheries assesses SOEs' compliance with its high-level expectations through a structured reporting tool which covers: 1) material expectations the company must achieve; 2) how the company meets these expectations; 3) the direction of the company's work on these expectations; and 4) which expectations should be prioritised and followed-up by the ownership entity in the coming year.
- **Ireland's** New Economy and Recovery Authority (NewERA) performs biannual compliance checks against the "Framework for the Commercial Semi-State Sector (CSS) to address climate action objectives," using a standard questionnaire to track progress in key areas (e.g. emission reduction, green investment and climate-related disclosure).
- The **Netherlands** combines regular shareholder dialogue and targeted interviews with SOE boards to gather information. It is also developing a digital dashboard to improve real-time visibility of SOEs' sustainability performance.
- Several other countries (e.g. **Finland**, **France**) are moving towards automated monitoring systems (e.g. online monitoring dashboards and databases) to track SOE sustainability metrics more efficiently and in real time.

Box 2.10. Case studies - Compliance monitoring in selected countries

Ireland's New Economy and Recovery Authority (NewERA) performs ongoing compliance monitoring with the "Framework for the Commercial Semi-State Sector (CSS) to address climate action objectives" which was approved by the Irish Government in 2022 and subsequently adopted by all the CSS companies (i.e. SOEs). NewERA reports to relevant Departments on the implementation of the framework, which focuses on five main areas:

- governance of climate action objectives
- emissions measurement and reduction targets
- emissions measurement and valuation in investment appraisals
- circular economy and green public procurement
- climate-related disclosures in financial reporting by individual companies.

NewERA monitors implementation of these commitments on a biannual basis. For this, NewEra distributes twice a year a questionnaire to all CSSs which covers a range of topics within these five areas. The responses are collated and reported on an aggregate basis.

In the **Netherlands**, progress in meeting sustainability objectives is reviewed by the state owner through

- the general meeting of shareholders
- regular sustainability (CSR) interview cycle and tools.

As part of its shareholder powers, the state analyses whether sustainability expectations are appropriately reflected in each SOE's strategy, investments, board appointments and reward system (i.e. remuneration policy) in line with the state's expectations described in its RBC Guidelines.

In addition, regular discussions occur between the state and the board of individual SOEs. Underperforming SOEs are interviewed at least once at board level. During these discussions, an action plan is discussed to enable the SOE to make progress. Further discussions with the board can take place if the SOE fails to meet the objectives of its action plan.

The state may also use specific instruments to support its monitoring role. These include a cultural diversity barometer (gives insight into the cultural diversity of their workforce) and a peer analysis (aimed at giving information on SOE's position relative to their peers).*

Note: *The peer analysis is currently being developed.

Source: Ministry of Finance of the Netherlands, (2025^[29]), CSR handbook; OECD (2024^[36]) *Competitive Neutrality Toolkit: Promoting a Level Playing Field*, <https://doi.org/10.1787/3247ba44-en>; NewEra (2022^[37]), *Climate Action Plan 2021 Action 55: Framework for the Commercial Semi-State Sector to address climate action objectives*.

Ensuring consistency in monitoring is particularly important in a decentralised or dual ownership framework. A common framework or general guidelines can harmonise how different ministries or agencies oversee sustainability. For example, **Germany** has introduced a unified performance evaluation framework that all federal ownership entities use to review SOE performance, including sustainability criteria. In addition, ownership entities are also specifically requested to ensure that SOEs in their portfolios submit a sustainability report in accordance with the German Sustainability Code or equivalent reporting standard, demonstrating that federal SOEs fulfil commitments such as those in the National Action Plan on Business and Human Rights. This kind of harmonised monitoring framework helps the state aggregate results and ensure that every SOE is meeting baseline expectations on sustainability compliance.

Sustainability performance evaluation

Beyond checking for compliance, state ownership entities may undertake more in-depth evaluations of how well SOEs perform on sustainability metrics and expectations. Performance evaluation looks at outcomes and effectiveness: for example, are SOEs actually reducing their greenhouse gas emissions in line with national targets? Are they improving their workforce diversity and supply chain ethics? Such evaluations can be conducted across the entire SOE portfolio or can be focused on key sectors and priority issues. Some ownership entities carry out regular performance reviews (annually or periodically) to benchmark and compare SOEs' progress, while others might commission one-off assessments on specific topics. These thorough reviews complement regular compliance monitoring by examining the quality of performance. In practice, this approach can support ownership entities with several purposes, notably by:

- *Identifying risks and opportunities across the SOE portfolio:* reviews can highlight which SOEs or sectors face significant sustainability risks (e.g. climate transition, social compliance) and opportunities for improvement.
- *Informing adjustments:* by examining the empirical evidence, state owners can refine or adjust their ownership policies or SOE expectations. For example, by identifying leaders or laggards, and adjusting any resources that may be directed to the SOEs.
- *Building knowledge and capacity:* evaluating the performance deepens the ownership entity's understanding of relevant (and material) sustainability issues affecting its SOE portfolio or individual SOEs. Over time, this can enable the state owner to more effectively challenge SOEs and encourage them to lead by example.

A number of countries, such as **Austria**, **France**, and **Sweden**, benchmark sustainability performance of SOEs across the portfolio, against industry peer companies or defined targets. Benchmarking defines the appropriate baselines for reviewing performance in light of industry-specific circumstances, making it easier to evaluate whether an SOE is leading in its industry on issues such as emissions, social impact or governance. The resulting data allow the state to prioritise how to address sustainability-related risks and opportunities within its portfolio, devise or revise expectations on an informed basis, and pinpoint where intervention is needed. SOEs themselves may use the findings to tailor or calibrate their internal objectives and targets. Box 2.11 provides a number of examples illustrating how performance evaluation is applied in practice.

The results of the state's monitoring and assessment exercises should be put to use. The findings need to be communicated to the SOEs and used to inform ongoing dialogue with their boards. This feedback loop allows the ownership entity to support implementation of sustainability expectations, helping to identify leaders, as well as corrective measures in case individual SOEs fall short of expectations. Public disclosure of progress – for example through the annual aggregate report – not only holds SOEs accountable, but also demonstrates the state's own commitment to its sustainability-objectives and helps build trust with stakeholders (see Section 2.2.4 “Step 4”).

Box 2.11. Case studies - Selected examples of state assessment of sustainability-related performance

Austria's ÖBAG reviews the sustainability performance of its SOE portfolio. The portfolio currently comprises 11 commercially oriented SOEs operating in key sectors of the economy including energy, telecommunications and postal services. To support its assessment, ÖBAG benchmarks the sustainability-related practices of its SOE portfolio with relevant SOE peers in the industry, on a national and international scale.

Based on this activity, relevant sustainability-related KPIs are identified for individual SOEs to monitor their performance and identify areas for improvement. Therefore, ÖBAG's portfolio monitoring has been designed to take into account not only cross-sector KPIs but also sector-specific KPIs. Environmental indicators are based on the Science Based Targets Initiative and focus on Scope 1, 2 and 3 emissions, although they significantly vary depending on the sector of operation.

In **Sweden**, performance reviews start with the SOEs' own double materiality assessment, which is required by the state ownership policy. It should provide information about the SOE's risks and opportunities as well as its impact on society, and should include both a long-term and short-term perspective. This assessment can be challenged by the state owner. Based on this information, each SOE's performance is assessed on three aspects:

- overall sustainability performance
- ability to deliver on sustainability expectations (governance, strategy, materiality assessment, KPIs and targets)
- performance on top five material sustainability issues in comparison to sector peers or similar companies.

SOEs' performance on each of these aspects is assessed using four colours (green = good performance, yellow = under monitoring, red = need action, grey = not assessed), resulting in a heatmap. This assessment is performed up to four times per year, depending on the SOE's size, priority and performance. The ambition is to increasingly make the performance assessment on sustainability topics more data-driven and automatically generated. In addition, portfolio performance is assessed for each sustainability area identified as top priority for the owner (e.g. climate, biodiversity, own workforce, human rights, business conduct).

Source: OECD, (2022^[2]), *Climate Change and Low-carbon Transition Policies in State-owned Enterprises*, <https://doi.org/10.1787/e3f7346c-en>; OECD's secretariat interviews with relevant ownership entities, 2024.

Practical insights

To support effective monitoring and performance assessment of SOEs, state owners may consider the following practices:

- **Integrate sustainability into reporting.** Ensure timely access to accurate, relevant data by including sustainability metrics into (existing) SOE reporting frameworks. Use tools such as questionnaires and interviews, regular reporting cycles or digital dashboards to collect and verify information.
- **Track compliance.** Systematically monitor whether SOEs are complying with the state's high-level expectations and any legal requirements. This can be facilitated through centralised platforms or databases that flag compliance status and gaps in real time (e.g. digitalised monitoring dashboard).
- **Evaluate performance and benchmark outcomes.** When possible, go beyond compliance checks and undertake deeper evaluations of SOEs' sustainability performance. Benchmark outcomes against industry peers or targets to identify leaders and laggards, and refine expectations to inform strategic decisions.
- **Engage and follow-up.** Use monitoring results to engage in constructive dialogue with SOE boards. Provide feedback and support where needed, and agree on remedial actions or make adjustments if an enterprise is not meeting expectations. Follow up on these actions to ensure continuous alignment with the state's sustainability expectations.

2.2.4. Step 4: Reporting on sustainability

The SOE Guidelines recommend that the state ownership entity develops consistent reporting on SOEs and publishes an annual report on the aggregate performance of its SOE portfolio as a tool for transparency and public accountability. These reports aim to disclose SOEs' overall performance and their alignment with the government's ownership policy, including sustainability-related expectations. Annual reporting can take the form of a narrative report with financial and non-financial information or an online inventory of financial and non-financial indicators.

*The state should disclose sustainability-related expectations and their attainment to the general public, including in annual aggregate report (**Guideline VII.A.4**).*

Aggregate reports serve a range of complementary objectives (OECD, 2022^[38]), including:

- communicating how SOEs are managed in the public interest
- promoting active and informed ownership and accountability
- supporting policy coherence at the whole-of-government level
- facilitating public and parliamentary engagement

An increasing number of state ownership entities are incorporating material financial and non-financial reporting related to sustainability into their annual reports.⁸ In some cases, disclosures are a direct result of revised ownership policies that integrate sustainability-related expectations for SOEs, and include information on progress on meeting the sustainability expectations (and objectives where relevant) set in the ownership policy and other relevant legislative or regulatory requirements (e.g. **Austria, Finland**).

Current country practices vary greatly in terms of scope and depth of annual reporting. Sustainability information most commonly reported focuses on GHG emissions and board and executive diversity

outcomes (e.g. gender diversity on boards and in senior management positions) (Table 2.7). In some cases, sustainability-related information is also provided for individual enterprises if central to their mandate and/or objectives (e.g. **Austria**), or to inform about relevant sustainability-related developments in selected enterprises or sectors, such as in **Brazil**, **Chile** and **Colombia**.

Table 2.7. Sustainability-related information in annual aggregate reports

Type of information most commonly reported	Selected examples of reporting countries
GHG emissions	Most countries
Gender diversity on boards or in senior management	Most countries
Overview of sustainability reporting standards applied by SOEs	Netherlands, Sweden, Norway
Adoption rate of specific targets (e.g. science-based, biodiversity)	Finland, Sweden
UN SDGs prioritised by SOEs	Finland, Norway
Attainment of specific high-level expectations (e.g. inclusion of sustainability-linked remuneration, tax footprint)	Finland
Owner's performance in meeting specific sustainability goals (e.g. management of natural resources)	Austria

Source: Annual reports of cited countries, 2024.

As sustainability expectations and reporting requirements evolve, it is expected that the content of aggregate reports will expand accordingly. This may include broader coverage of social and environmental risks and other specific target-based reporting to help better measure outcomes of the state's commitment and leadership in the area of sustainability.

Practical insights

To enhance sustainability-related reporting, state owners may consider the following practices:

- **Include sustainability data into aggregate reporting.** Material financial and non-financial information related to sustainability should be disclosed in the state's annual aggregate report on SOEs, including relevant indicators (e.g. GHG emissions, board diversity).
- **Report on individual SOEs when relevant.** Provide information on the sustainability performance of individual SOEs if central to their mandate and/or objective or to inform about relevant sustainability-related developments.
- **Track progress against state expectations.** Monitor alignment with sustainability-related goals and expectations set in the ownership policy – for both SOEs and the state ownership entity.
- **Disclose ownership entity performance.** Report on their own sustainability performance and/or alignment with national sustainability goals.
- **Ensure public access to annual aggregate reports.** Make reports available and easily accessible (e.g. by publishing them online, for free and in a user-friendly format).

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Notes

¹ For example, in Norway, as of 2024, climate and environmental aspects should, as a rule, have a minimum weight of 30 % in public procurement processes. In Finland, the central public procurement unit, Hansel Ltd, has developed a structured tool assessing sustainability around four key dimensions: environmental, financial, social and innovation. In parallel, Hansel Ltd also monitors the carbon footprint of its procurement activities using data from a model developed by the Finish Environment Institute (WEF, 2023^[40]).

² Other elements may play against the implementation of complex market-based instruments such as weak administrative and jurisdictional institutions or rampant corruption, most common in developing and emerging economies (Mayer and Rajavuori, n.d.^[42]).

³ State ownership entities generally refer to the entity or entities responsible for the exercise or co-ordination of state ownership in SOEs (i.e. line ministries and/or centralised ownership agencies, or other entities depending on ownership arrangements).

⁴ This includes the G20/OECD Principles on Corporate Governance, including the chapter on sustainability, the OECD Guidelines on Corporate Governance of State-Owned Enterprises, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises.

⁵ The expectation for SOEs to develop sustainability-related KPIs derives from the Federal Council's "Sustainable Development Strategy 2030" and related Action Plan for 2021-2023. There is a new Action Plan 2024-2027, which complements existing instruments with measures aimed at facilitating greater co-ordination between policy areas.

⁶ Recent studies show that the threat of stranded assets, in the case of SOEs, is generally more relevant for state owners as for SOEs for whom the probability of a government bailout is relatively high (Benoit et al., 2022^[8]).

⁷ In January 2022, the European Commission launched new Guidelines on state aid for climate, environmental protection and energy which provide the framework for public authorities to support the European Green Deal objectives efficiently and with minimum distortions of competition. They cover areas such as providing support for new technologies (such as hydrogen), closure of coal, peat and shale activities, and large airports that qualify for green investment projects (European Commission, 2022^[41]).

⁸ Among countries previously surveyed, close to half reported that they include sustainability-related information in annual reports (or other reporting forms, as applicable), though specific practices and the level of detail can vary (OECD, 2022^[2]).

3

The role and responsibilities of SOE boards

Boards of directors play a central role in advancing sustainability within SOEs. This chapter examines how sustainability considerations can be integrated into SOE board nomination processes and broader governance frameworks to equip boards to effectively manage sustainability risks and opportunities. It also explores how SOE boards can effectively integrate sustainability into corporate decision making and operational activities, including by setting and overseeing sustainability strategies, approving measurable targets, ensuring management accountability, and integrating sustainability into enterprise risk management and internal control systems. These practices help boards embed sustainability into core business functions and support long-term value creation for their shareholders, stakeholders and the public.

While the state as an owner sets overall sustainability-related expectations, SOE boards are responsible for embedding these into corporate strategy and operational activities. Even in the absence of such expectations, SOE boards have an interest and a responsibility to address sustainability-related risks and opportunities to support the enterprise's resilience and long-term performance.

As part of their corporate governance responsibilities recognised by the corporate laws of most jurisdictions, SOE boards have duties to act in the best interests of the company and its shareholders. This increasingly includes anticipating and responding to sustainability-related risks and opportunities. Even in the absence of specific state expectations, directors are expected to take a long-term perspective that supports the company's resilience and value creation (OECD, 2022^[1]). In some jurisdictions, directors' duties also include the obligation to take into account stakeholders' interests. Failing to adequately consider and communicate potential negative externalities to stakeholders may entail legal risks for the enterprise and its board. This is particularly important for SOEs as they often operate in sectors with important social or environmental externalities.

Embedding sustainability-related considerations into corporate decision making is associated with improved risk management, productivity and financial performance.¹ It is also linked to enhanced employee engagement and brand reputation (Pranta et al., 2024^[2]; Euromonitor, 2023^[3]), and may become a source of lasting competitive advantage, for example by enabling the development or improvement of products and services or expanding the consumer base and loyalty (Yang et al., 2023^[4]; Panda et al., 2020^[5]). This chapter examines how SOE boards can effectively embed sustainability into their strategic and oversight functions. It first reviews the board composition and governance structures that can support the integration of sustainability into corporate decision making (Section 3.1) and then discusses the role and responsibilities of SOE boards in this context (Section 3.2).

3.1. Board composition and governance structures

This section examines key aspects of 1) board composition and 2) governance structures that are relevant to advancing sustainability objectives.

3.1.1. Board composition

Good practice calls for SOE boards to include an appropriate number of independent directors with diverse experience, backgrounds and profiles relevant for the enterprise's key areas of operations. This includes having the appropriate skill sets in the boardroom to identify and manage sustainability-related risks and opportunities when material to the business.

In line with the SOE Guidelines, state owners increasingly incorporate sustainability-related considerations into board selection and nomination processes. Examples include:

- **Finland's** state ownership policy specifically requires board-level qualifications to include sustainability criteria.
- **Austria's** ÖBAG regularly appoints directors with sustainability expertise, which helps stimulate informed debate within SOE boards.

In addition, sustainability expertise is increasingly integrated into board tools. For example:

- *Skills assessments and matrices*: these are used to assess whether current board composition aligns with the strategic needs of the organisation and identify any potential gaps.
- *Board evaluations*: these support the identification of potential skill gaps on the board and guide future appointments.

- **Education and training:** depending on their results, some countries offer educational and upskilling opportunities for directors to ensure they are up to date on rapidly evolving expectations and the regulatory developments.

Diversity and the presence of independent directors contributes to enriching boardroom discussions where different experiences and viewpoints are considered. This can improve the board's readiness to address complex sustainability risks and opportunities. Diversity may include criteria such as gender, age or other demographic characteristics, as well as on experience and expertise, for example on accounting, digitalisation, sustainability, risk management or specific sectors.

The state may set expectations with regards to board governance arrangements (i.e. establishment of sustainability committee) and composition (i.e. board-level qualifications to include sustainability) for enterprises of a certain size and/or risk profile (Annotations to Guideline VII.A.1).

Several jurisdictions have introduced gender targets for SOE boards and executive management positions (OECD, 2024^[6]). Some have set mandatory quotas for the entire portfolio or for individual SOEs (e.g. **Austria, Brazil** and **Costa Rica**). Others have set aspirational targets, sometimes specific to SOEs, or based on the prevailing practice enshrined in legal requirements or corporate governance codes applicable to listed companies. Often, targets in place for SOEs are set higher than for other companies with the aim of having SOEs lead by example, as in **Australia, Belgium, Chile, Costa Rica, Finland, France** and **Ireland**, among others. In a few cases, targets apply to both board and executive positions. A growing good practice – as in **Australia** – is to expect SOEs to report on attainment of gender quotas or targets, meaning that this information is monitored both for SOE boards and executive positions. Table 3.1 provides examples.

Table 3.1. Examples of gender diversity targets or quotas for SOE boards

Target/Quota	Jurisdictions
50% gender target/quota	Australia, Costa Rica, Israel, Portugal, United Kingdom
40% gender target/quota	Australia, Austria, Chile, Finland, France, Ireland, Luxembourg, Norway, Sweden
At least one-third target or quota of the less represented gender	Belgium,* Denmark, Germany,** Greece,* Italy, Netherlands (only applicable to female representation), Poland,* Romania*
Below one-third target/quota	Korea: Gender target of 28% of female executives and 28% of female managers in public institutions Peru: At least 20% of female board representation Greece:* At least 25% of the underrepresented gender
Gender diversity is encouraged, without a precise target or quota	Brazil*, Czechia

Note: OECD analysis based on self-reported information. The legal scope of application for the targets or quotas varies depending on the national legal framework. While some of the targets cover all SOEs, some are general targets that affect SOEs through company law or applicable corporate governance codes, when applicable to them. Countries marked with an (*) denotes that the target only applies to a sub-set of the SOE portfolio.

** Women and men shall be represented equally among the members of the supervisory board of SOEs.

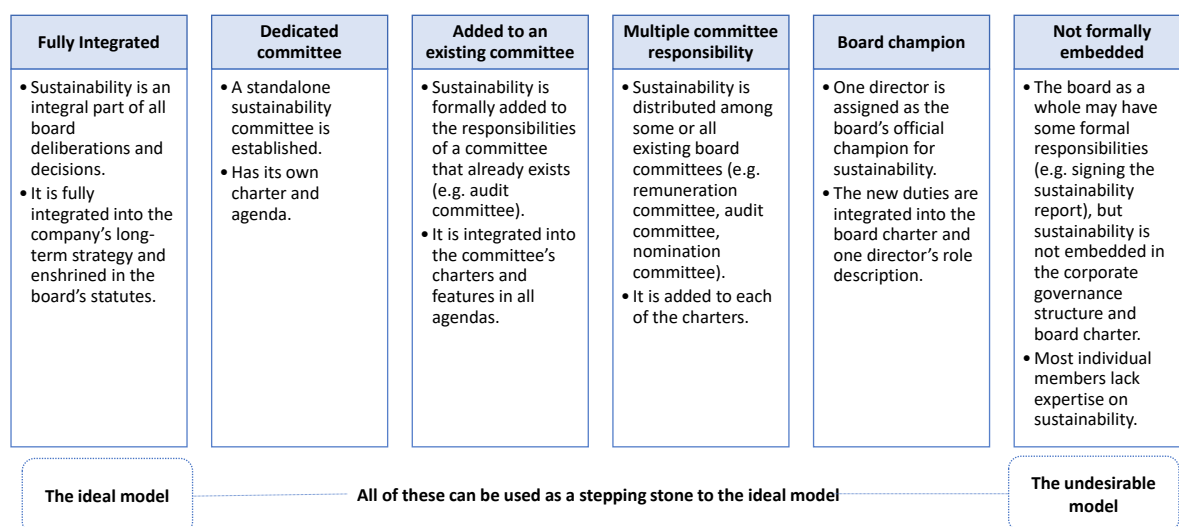
Source: OECD, (2024^[6]), Ownership and Governance of State-Owned Enterprises 2024, <https://doi.org/10.1787/395c9956-en>.

3.1.2. Governance structure

Beyond skills and expertise, SOEs must be supported by a governance structure that facilitates effective oversight of material sustainability-related matters. There are multiple ways boards of directors can organise themselves. Figure 3.1 outlines a typology of board governance models to embed sustainability in board decision making depending on the level of maturity and risk profile. While full integration of

sustainability into board deliberations is increasingly seen as a best practice, the optimal approach may vary depending on an enterprise's size, risk profile and maturity. For less mature enterprises, a phased approach may be more appropriate, with the aim of fully embedding sustainability into strategic decision making over time (INSEAD, 2022^[7]; IFAC, 2022^[8]).

Figure 3.1. INSEAD's sustainability board governance models



Note: The characterisation of the fully integrated model as "ideal" is that of INSEAD. The authors of this report do not express a view on the designation.

INSEAD also identifies different measures that could be used to help enhance sustainability governance. These include receiving advice from: 1) external experts invited on an ad hoc basis; 2) a permanent (or semi-permanent) external advisor to the board; 3) a permanent (or semi-permanent) internal advisor; 4) sustainability management; 5) a sustainability taskforce of board members and executives (as an informal version of the dedicated sustainability committee); and, 6) an independent external sustainability council (as an extra board, focused on sustainability but without voting rights).

Source: INSEAD (2022^[7]), *Designing Sustainability Governance. Board structures and practices for better ESG performance*, <https://www.insead.edu/insead-corporate-governance-centre/designing-sustainability-governance>.

In practice, boards often establish specialised committees or sub-committees to support the strategic oversight of sustainability (Box 3.1). As recommended by the SOE Guidelines, such committees should be composed of qualified members and an appropriate number of independent members, whose role will be to advise the board on social and environmental risks, opportunities, goals and strategies.

Box 3.1. Main responsibilities of sustainability board committees

Specialised board-level sustainability committees play a role in supporting board-level oversight of sustainability matters and may be tasked with overseeing them. Their main responsibilities generally include:

- conducting materiality assessments to identify key sustainability issues
- monitoring short- and long- term sustainability trends
- identifying key risks and opportunities that might impact the long-term competitiveness of the firm
- proposing and overseeing relevant sustainability initiatives
- setting sustainability goals and targets and monitoring and reporting on progress
- collaborating with the Audit Committee to ensure accurate sustainability reporting
- collaborating with the Nomination Committee to identify the key sustainability skills and expertise required by director(s)
- collaborating with the Remuneration Committee to design appropriate incentive schemes and compensation packages
- ensuring integration of sustainability issues into the company's Code of ethics.

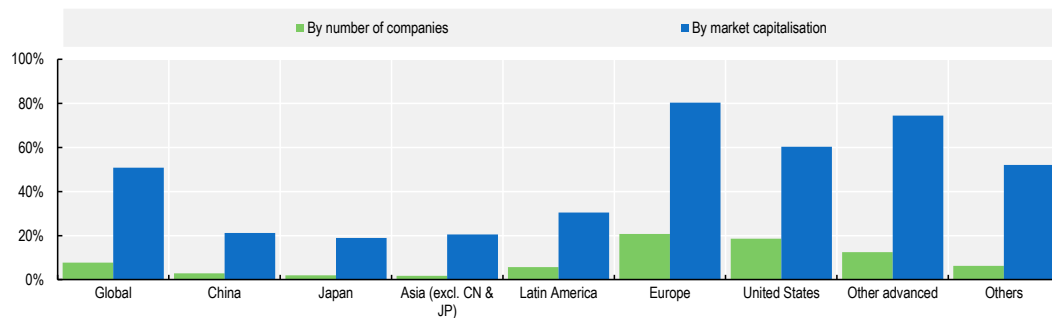
These responsibilities and the committee mandate should be reflected in the company policies, committee charters and any other relevant document.

Source: Rey, M., (2022^[9]) *The role of board-level committees in corporate governance*, No. 24.; UNEP FI, (2014^[10]) *Integrated Governance: a New Model of Governance for Sustainability*.

As of 2022, listed companies representing more than half of the world's market capitalisation had established sustainability committees reporting directly to the board (Figure 3.2). While this practice is most common among listed companies, large and systemically relevant companies, including SOEs, are also generally encouraged to strengthen their strategic oversight with sustainability committees (OECD, 2024^[11]). Countries such as **France**, **Norway**, and **Austria** have introduced such expectations for their SOEs.

Figure 3.2. Listed companies with board committees responsible for sustainability in 2022

Over half of companies (measured by market capitalisation) have board committees overseeing sustainability risks



Source: OECD, (2024^[12]), *Global Corporate Sustainability Report 2024*, https://www.oecd.org/en/publications/global-corporate-sustainability-report-2024_8416b635-en.html

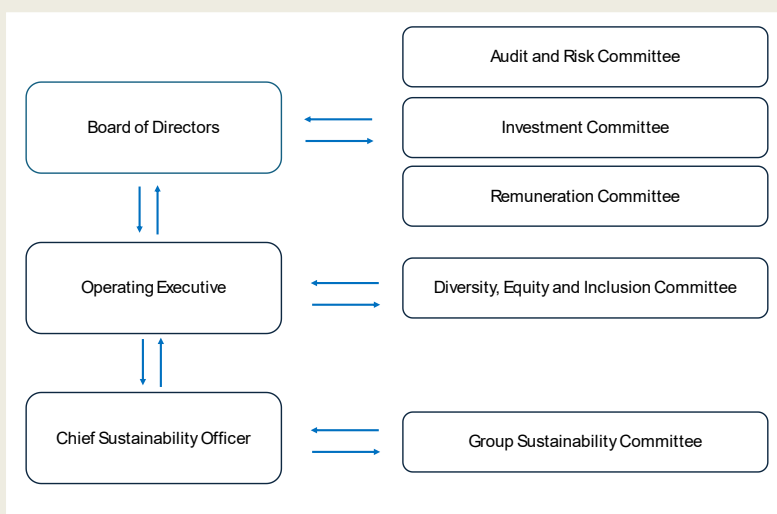
While some companies may choose to establish board-level sustainability committees to support strategic oversight, alternative governance arrangements can also be effective. For example, board responsibilities can be assigned to existing board-level committees with the requisite competence to advise the board on social and environmental risks. Ad hoc or special committees can also be set up to respond to specific needs or corporate transactions. In some cases, sustainability oversight may be supported through alternate governance arrangement – such as a management-level committee on sustainability, which in turn reports to the board (see Box 3.2). Regardless of the structure, it is essential – consistent with the SOE Guidelines – that the full board adequately considers sustainability risks and opportunities when fulfilling their key functions.

Box 3.2. Case study - Coillte's sustainability governance

Coillte is an Irish state-owned commercial forestry company responsible for managing 440 000 hectares of mainly forested land. It is the country's largest forester and producer of certified wood, as well as the leading provider of outdoor recreational spaces. The company also supports wind energy development on its estate, processes forestry by-products and carries out large-scale nature rehabilitation projects.

Coillte embeds sustainability into its overall corporate governance framework under a unitary board structure.

Figure 3.3. Coillte's sustainability governance



Source: OECD based on interview with Coillte, 2024.

The company aims to ensure environmental, social and ethical considerations are fully integrated alongside financial oversight. Effective governance is supported by clear reporting lines across three levels:

- **Boards of directors:** the board provides strategic direction and oversight, including the approval of sustainability and climate-related targets. It receives quarterly updates on relevant risks and integrates these considerations into investment and strategic decision making.

- **Operating Executive:** the Operating Executive is in charge of the Diversity, Equity and Inclusion Committee. The Executive recommends sustainability targets and ambitions to the board and advises on investment decisions. It receives monthly updates on sustainability and climate related risks and approves sustainability disclosures.
- **Chief Sustainability Officer (CSO):** the CSO leads Coillte's sustainability framework and strategy. The CSO oversees the Group Sustainability Committee, chaired by the Sustainability Manager and composed of senior sustainability experts. This committee meets quarterly to review ongoing projects and reports its findings to the Operating Executive.

Source: Interview with Coillte, 2024.

Practical insights

To strengthen board-level sustainability oversight, state owners and SOE boards may consider the following practices:

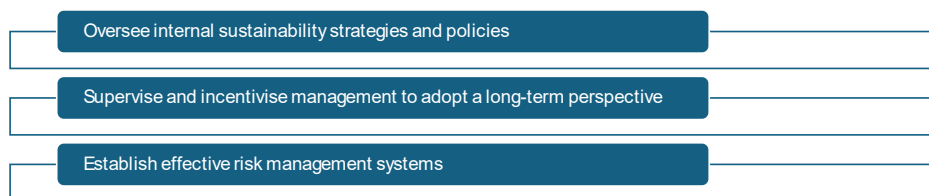
- **Ensure SOE board diversity and independence.** Ensure board composition contributes to gender and other forms of diversity, and includes an appropriate number of independent directors to strengthen objectivity and enrich boardroom deliberations.
- **Build board-level sustainability expertise.** Embed sustainability expertise at board-level by identifying and addressing skill gaps through tools such as skill matrices, board evaluations and director training.
- **Encourage tailored governance structures.** SOEs should adopt fit-for-purpose sustainability governance structures that align with the enterprise's size, risk exposure and maturity. Options include establishing dedicated sustainability committees, appointing board-level sustainability champion(s), or establishing ad hoc committees or working groups.

3.2. Relevant board responsibilities on sustainability

Boards of directors are accountable for an enterprise's long-term performance and resilience. In this context, their responsibilities increasingly extend to overseeing how sustainability considerations are embedded in the enterprise's strategy, operations and risk management systems. This section outlines the core responsibilities of SOE boards in integrating sustainability into their decision making, including by (Figure 3.4):

1. overseeing corporate strategies, policies and performance targets
2. supervising and incentivising management
3. establishing effective risk management systems as well as internal controls and compliance mechanisms.

Figure 3.4. The board's oversight role on sustainability



3.2.1. Overseeing corporate strategies, policies and performance targets

SOE boards are expected to guide the development and oversight of sustainability-related strategies, policies and performance targets. This includes ensuring that sustainability is integrated into the enterprise's business model and strategic priorities, rather than being treated as a stand-alone issue. Doing so will ensure that boards translate sustainability expectations or objectives into meaningful improvements while helping to address reputational risks such as “greenwashing” or “social washing” (i.e. provision of misleading information on environmental or social performance to gain reputational or commercial advantage). To effectively address sustainability-related risks and opportunities, boards of directors should 1) oversee corporate strategies and policies that embed sustainability considerations; and 2) include appropriate performance indicators and targets to track progress and enable effective and consistent disclosure.

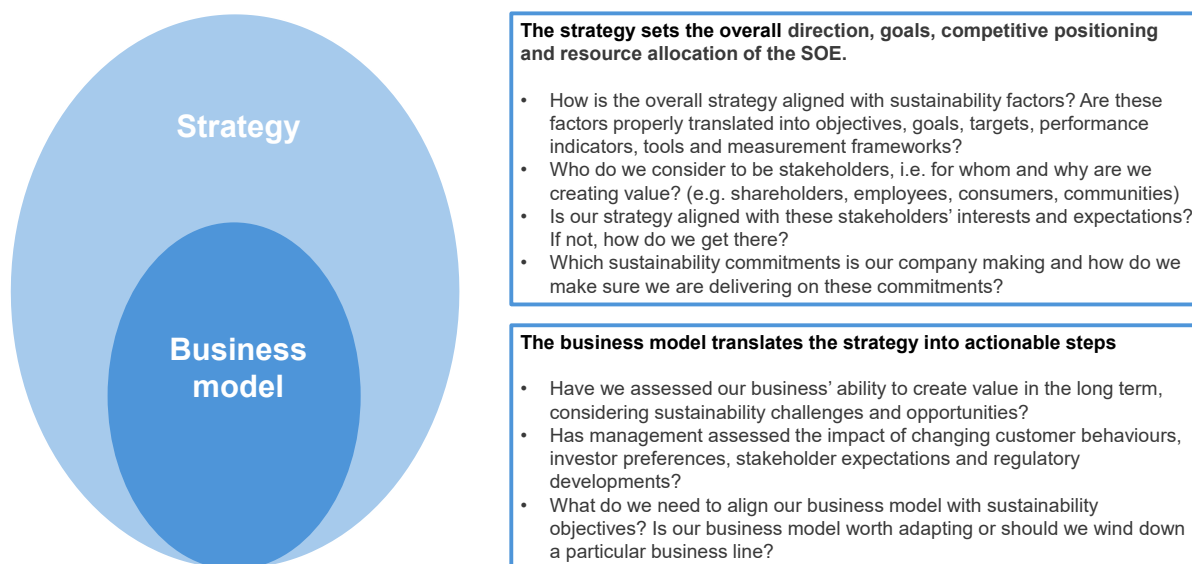
SOE boards should review and guide the development, implementation and disclosure of material sustainability-related objectives and targets as part of the corporate strategy (Guideline VII.B.1).

Embedding sustainability into corporate strategies and policies

According to the SOE Guidelines, “Sustainability strategies and/or plans should be integral to and aligned with the overall business strategy of the enterprise.” To effectively embed sustainability into the corporate strategy, the board must account for material sustainability risks, opportunities and impacts, and work with management to identify relevant ways to mitigate them. Figure 3.5 provides practical guidance on questions the board should be considering when integrating sustainability into the corporate strategy, and ensuring the business model translates the strategy into actionable steps.

Figure 3.5. Board leadership in reviewing the strategy and business model

A report on ESG governance issued by Accountancy Europe, EcoDa and ECIIA sets out practical questions that boards should consider when integrating sustainability in their company strategy and business model.



Source: Based on Accountancy Europe, EcoDA and ECAII (2023^[13]) *ESG Governance: questions boards should ask to lead the sustainability transition*, https://accountancyeurope.eu/wp-content/uploads/2023/11/ESG-Governance-toolkit-for-boards_FINAL.pdf.

An important first step is for the board to undertake a robust materiality assessment. A materiality assessment is a process by which companies identify and prioritise the financial and non-financial matters that are material to their business, shareholders and stakeholders (see Sections 3.1 and 3.2 for more information on materiality). The information helps identify issues that 1) can significantly impact the company's performance, value or long-term success; and 2) are important to investors and stakeholders. There is no universal approach for assessing materiality as it will vary by organisation and sector. Materiality assessments typically begin by identifying relevant sustainability issues which will then be narrowed down to key elements with business impact and importance to stakeholders. Common practices include:

- conducting internal workshops or surveys to identify material risks
- consulting with stakeholders to validate priorities
- engaging with the board directly to interpret the results.

Engaging with stakeholders can provide valuable input for understanding the company's main risks and impacts. They can also help track progress during the implementation and offer feedback which can drive improvements (see Section 4.2 for more information on stakeholder engagement).

Austria's state holding ÖBAG provides a good example. ÖBAG has performed a materiality assessment using a stakeholder survey – the results of which were subsequently discussed and validated through tailored stakeholder workshops (see Section 4.2 for more information on stakeholder engagement).

Once material issues are identified, these should be translated into a viable strategy and implementation roadmap to be approved by the board, with relevant resourcing, governance and targets. These should:

- clearly define goals and milestones
- allocate resources and responsibilities
- be monitored regularly by the board or a dedicated committee.

Where relevant the board may need to approve implementation roadmaps, including transition plans (see Box 3.3), “just transition” measures for affected workers and communities, and diversification and adaptation measures (World Bank, 2022^[14]). In carbon-intensive sectors, for instance, boards may need to consider bold transitions such as plans to (De Kleine Feige, 2021^[15]):

- retire and repurpose carbon-intensive assets
- divest from carbon-intensive activities
- build resilience against operational disruptions and physical losses due to climate hazards
- invest in new low-carbon technologies and businesses.

An example of a state-owned enterprise applying a risk-based strategic approach includes **Colombia’s** Ecopetrol – which has adopted a transition agenda that includes diversification away from hydrocarbons, emissions reduction targets, and investments in renewable energy and low-carbon infrastructure (CSIS, 2022^[16]).

Box 3.3. Climate Transition Plans

A transition plan aims at setting out how an organisation will move from its current business model to one that is aligned with its net-zero commitments (and increasingly with other long-term sustainability goals). Such a plan should not only set sustainability targets but contain strategic guidance on how the corporate strategy will enable getting there, including any financial impacts.

Credible transition plans are important for financial market participants as they signal that sustainability strategies are not only disclosed but internally actionable. According to the Climate Policy Initiative, credible transition plans, with a focus on climate-related issues, include the following six elements:

- quantitative, detailed and time-bound interim emission targets supporting a 2050 net zero goal
- concrete implementation tools and policies
- institute-wide capacity and alignments
- prevention of negative externalities
- transparent disclosure and verification frameworks
- regular monitoring and updates.

While this is an emerging area of good practice, evidence from the state-owned oil and gas sector demonstrates that implementation may be lagging across some SOEs. In a Natural Resource Governance Institute assessment on the energy transition plans of selected national oil companies (NOCs), only 9 out of 21 large NOCs publicly acknowledged climate transition risks in their strategies (with the manner and depth differing), while four mentioned the use of transition risk assessments. Only five NOCs explicitly mentioned strategies to mitigate transition risks.

Source: OECD, (2022^[17]), *OECD Guidance on Transition*, https://doi.org/file:///C:/Users/irmscher_k/Downloads/7c68a1ee-en.pdf; Climate Policy Initiative, (2022^[18]), *What Makes a Transition Plan Credible?*, <https://www.climatepolicyinitiative.org/wp-content/uploads/2022/03/Credible-Transition-Plans.pdf>; Natural Resource Governance Institute (2024^[19]), *Facing the Future: What National Oil Companies Say About the Energy Transition*, <https://resourcegovernance.org/sites/default/files/2023-11/Facing%20the%20Future%20What%20National%20Oil%20Companies%20Say%20About%20the%20Energy%20Transition.pdf>

In addition to environmental matters, the corporate strategy should also cover material risks related to human and labour rights, consumer protection, disclosure, and anti-bribery and corruption, among other areas. These priorities can be elaborated in a dedicated action plan. For example, a human rights due diligence plan can help identify salient risks and establish appropriate grievance mechanisms, in line with

the broader strategy. Similarly, a diversity action plan can help promote fairness and equal opportunity within the organisation's workforce and leadership. This may include setting diversity targets, ensuring inclusive hiring processes and conducting pay equity reviews.

Sustainability-related priorities and commitments can also be translated into relevant corporate policies such as codes of ethics or conduct, and labour policies (see example in Box 3.4) reflecting the values and priorities of the organisation. Corporate-level policies ensure that all parts of the organisation act consistently with the strategy and provide a shared understanding of expectations and processes. Boards should ensure alignment of such policies with the corporate strategy and monitor their implementation.

Box 3.4. Case study - Vattenfall's sustainability-related policies

Vattenfall is a Swedish state-owned multinational power company, active across Europe. It offers electricity, district heating, renewables, EV charging and energy services.

The group has integrated sustainability in its strategy, target-setting, decision making and risk management. To integrate sustainability in all its actions and decisions, Vattenfall has also developed several guiding policies, including:

- **Sustainability policy:** demonstrates the group's contribution to the UN SDGs and highlights its commitment to a "just transition". This includes continuously identifying risks and opportunities in its entire value chain, ensuring a diverse and inclusive workforce, and actively co-operating and engaging with stakeholders to improve sustainability performance.
- **Environmental policy:** commits to reduce environmental footprint, notably by reducing GHG emissions (and becoming carbon neutral by 2040), safeguarding biodiversity, and optimising resource use, notably by engaging in the circular economy.
- **Human rights policy:** ensures respect for human rights across operations and the value chain via due diligence processes including risk assessments and awareness-raising. The policy is also complemented by a separate Human Rights Action Plan.
- **Statement on slavery and human trafficking:** details actions in supply chains to combat slavery and human trafficking.
- **Tax policy:** aims for transparency and ethical taxation; paying correct taxes in jurisdictions where value is generated.
- **Code of conduct and integrity:** defines expected behaviour for all employees and group companies, promoting ethical and responsible business practices.
- **Code of conduct for suppliers and partners:** defines Vattenfall's requirements and expectations to ensure that suppliers and partners share the same values throughout the value chain. This code is accompanied by a guide aimed at supporting implementation.
- **Health and safety policy:** describes the overriding principles for health and safety.

Source: Vattenfall, (2025_[20]), *Policies and Management*, <https://group.vattenfall.com/sustainability/policies-and-management>

Strategies and policies should be regularly reviewed and updated to reflect regulatory changes, emerging risks, shifts in stakeholders' expectations and other lessons learned from practice.

Establishing appropriate sustainability-related indicators and targets

To effectively monitor performance, boards should approve a set of relevant, consistent and decision-useful indicators and targets aligned with the corporate strategy as recommended in the SOE Guidelines.

Indicators help to identify what to monitor and report on, while targets set a benchmark for goals the SOE commits to achieving within a defined timeframe. Indicators will vary company by company based on the materiality assessment and should include:

- cross-cutting indicators (e.g. GHG emissions, waste generation, gender and diversity)
- sector-specific indicators that relate to the SOE's operations (e.g. flaring volumes for oil and gas, or land rehabilitation in mining).

Targets set a benchmark for performance by defining expected levels of progress within a given timeframe. Good practice involves setting specific, measurable, achievable, relevant and time-bound (SMART) targets, particularly in areas material to the SOE's operations and impact. These should rely on verifiable and auditable metrics. For example, an enterprise may track water consumption and set a target to reduce total freshwater use by 20% by 2030. Setting such targets help:

- inform strategic decision making
- track and evaluate performance
- engage in meaningful dialogue between shareholders, board and management
- strengthen sustainability reporting
- build stakeholder trust by providing credible information.

Several countries have set expectations for SOE boards to embed sustainability into their corporate strategies and develop specific indicators and targets to this effect. Table 3.2 and Box 3.5 provide examples on how SOEs can be encouraged to set and pursue sustainability targets.

Data collection by the company can be facilitated with a variety of tools and monitoring mechanisms including:

- simple tools, such as surveys to monitor targets (e.g. related to employee satisfaction)
- more sophisticated systems, such as sensors or software (e.g. to monitor GHG emissions, water consumption or waste levels) (OECD, 2022^[21]).

Progress against indicators and targets should be integrated into the reporting process and aligned with internationally recognised reporting standards (see Chapter 4 for more information). Monitoring should also be used proactively to inform the development of a new corporate strategy, support board-level decision making within the risk management framework and to drive performance improvement.

Table 3.2. State expectations on strategy development and target-setting for SOEs

Type of expectation	Description	Country examples
Boards responsibilities	• Adequately consider sustainability risks and opportunities when fulfilling their key functions	Finland, Germany, Netherlands, Norway, Sweden, Switzerland In Germany, SOEs' management boards are expected to identify and assess the environmental and social risks and impacts of their companies' activities.
Development of sustainability-related targets and strategies	• Formulate concrete sustainability objectives and targets and integrate them into corporate strategy • Perform materiality assessments	Finland, Germany, Netherlands, Norway, Sweden, Switzerland In the Netherlands, SOEs are expected develop a materiality assessment and draw up targets accordingly, in particular related to their public service obligations. This process should be an integral part of the broader strategy-making process. In Finland, sustainability must be "integral to the corporate strategies and business models of SOEs". SOEs must identify material sustainability issues and set ambitious short- and long-term targets to address them. Environmental goals must be more ambitious than those of peer companies and supported by concrete action plans.

Type of expectation	Description	Country examples
Alignment with national and international commitments	Align corporate policies, strategies and targets with national strategies and international frameworks such as the SDGs or MNE Guidelines	Germany, Norway, Sweden, Switzerland, Thailand
Adoption of adaptation and mitigation plans	Adopt climate adaptation and mitigation plans aligned with Nationally Determined Contributions (NDCs)*	Finland, France, Germany, Ireland, Thailand In Ireland , SOEs must adopt government emissions reduction targets and detail a pathway for achieving them. Progress is measured and reported, with data verified by the Sustainable Energy Authority of Ireland. In Thailand , SOE boards are expected to adopt so-called “Business Continuity Management Plans” to ensure resilience against climate change and natural disasters.
Draw on science-based targets	Encourage all SOEs, or those operating in certain sectors, such as gas and fossil fuels, to adopt science-based targets**	Austria, Finland, Norway

Note: *NDCs are countries’ self-defined national climate pledges under the Paris Agreement.

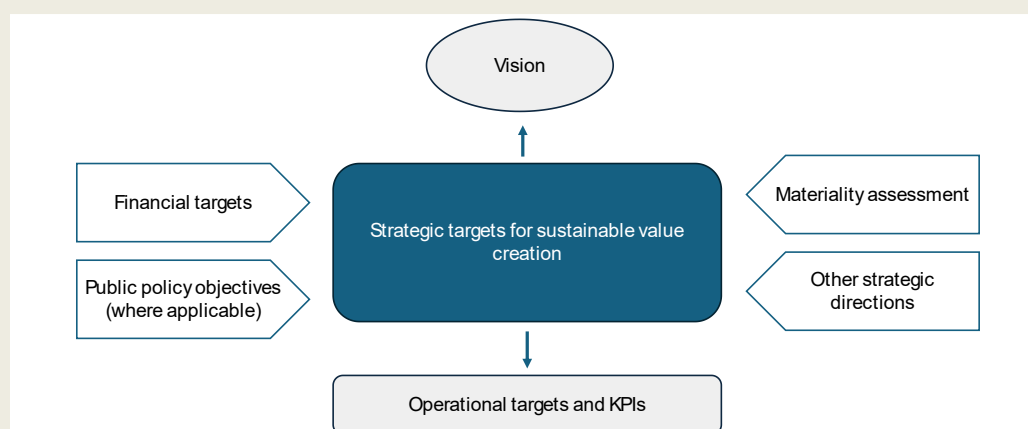
**The Science Based Targets Initiative (SBTI) aims at supporting companies into identifying and setting specific GHG emission reduction targets in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement. The initiative is supported by the Carbon Disclosure Project (CDP) and the United Nations Global Compact amongst others.

Source: Ministry of Finance of Germany, (2024^[22]) *The Principles of Good Corporate Governance and Active Management of Federal Holdings*; Government of Finland, (2024^[23]), *Sustainable growth through state ownership*, <https://valtioneuvosto.fi/en/-/sustainable-growth-through-state-ownership-government-adopts-resolution-on-state-ownership-policy>; Ministry of Finance of the Netherlands, (2022^[24]), *State-Owned Enterprises Policy 2022*.

Box 3.5. Case study - Strategic target setting in Sweden

In Sweden, SOEs are expected to identify a set of five to seven “strategic targets for sustainable value creation” based on four key factors: 1) financial performance; 2) public policy objectives; 3) materiality assessment; and 4) other relevant strategic issues for the SOE, including digitalisation and/or security aspects where relevant (see Figure 3.6 below).

Figure 3.6. Strategic target setting in Sweden



Source: Government Offices of Sweden, 2021, *Annual Report for State-Owned Enterprises 2021*, <https://www.government.se/reports/2022/09/annual-report-for-state-owned-enterprises-2021/>.

All targets are discussed and tracked by the state owner during regular owners' dialogue meetings. The targets must also be long-term, challenging and trackable, as well as clear and comparable (e.g. CO₂ emissions, workplace injuries, employee or customer satisfaction, sick leave percentage).

Luossavaara-Kiirunavaara Aktiebolag (LKAB) is a state-owned international high-tech mining and minerals group and a producer of refined iron ore products for steel production. To align with the state owner's expectations, LKAB developed seven sustainability-related strategic targets in two different areas (see Table 3.3).

Table 3.3. The example of LKAB

Area	Indicator	2022 (outcome)	2026 (target)	Target for 2030
Environment	Energy use (kWh/tonnes of finished product)	176	162	154
	CO ₂ emissions (kt)	661	608	536
	Biodiversity*	-	-	-
Safety and health	Accidents with absence (number/millions of hours worked)	6.5	4.0	2.0
	Long sickness absence (%)	0.7	0.8	0.8
	Share of women in the workforce (%)	26	30	-
	Share of female managers (%)**	28	30	-

Note: * LKAB follows SVEMIN's roadmap for biodiversity. SVEMIN is an industry association for mines and mineral and metal producers in Sweden. The goal is to contribute to increased biodiversity in the regions in which LKAB operates by 2030.

The interim goal for 2026 is for LKAB to have established a systematic way of working for increased biodiversity. In 2022, a guide describing the goal and way of working was developed, and workshops were held.

** The target for the share of women will be replaced by a 60/40 gender distribution target in management by 2030.

Source: Government Offices of Sweden, (2023^[25]) *Annual report for state-owned enterprises 2022*, <https://www.government.se/reports/2023/09/annual-report-for-state-owned-enterprises-2022/>

Practical insights

To support board-level oversight of sustainability, SOE boards may consider the following practices:

- **Embed sustainability into core strategy.** Oversee the integration of material sustainability considerations as part of the core corporate strategy and business model. This should ensure alignment with long-term value creation and expectations set by the state owner, and take into account the interests of stakeholders.
- **Guide and oversee materiality assessments.** Support the identification and prioritisation of sustainability-related risks and opportunities, and impacts. This process should involve internal analysis and external stakeholder consultations.
- **Guide and oversee the development of implementation roadmaps or action plans.** Support the development and execution of corporate action plans (e.g. transition plan, human rights due diligence plan) and policies (e.g. code of conduct). These plans should identify relevant resourcing, governance and targets, and should be regularly reviewed and updated.

- **Approve relevant KPIs and monitor sustainability performance.** Monitor performance with sustainability indicators and targets that are aligned with the corporate strategy. These should include:
 - cross-cutting and sector-specific indicators (e.g. GHG emissions, workplace diversity)
 - SMART targets (e.g. cut emissions by 50% by 2020)
 - verifiable and auditable metrics (e.g. tonnes of CO₂ emitted per year).

3.2.2. Supervising and incentivising management

A key responsibility of the board of directors is to assess and monitor management's performance, including that of the CEO, and ensure alignment with the enterprise's strategic objectives, including those related to sustainability. In line with the corporate strategy, sustainability-related expertise could be factored into CEO and other executive appointments to ensure leadership is equipped to guide the enterprise accordingly.

Boards can also decide on the remuneration of the CEO and other key executives. SOE boards should consider sustainability matters when assessing and monitoring management performance (Guideline VII.B.3).

SOE boards also decide on the remuneration of the CEO and other key executives, often within the broader framework of a remuneration policy identified by the state owner. The SOE Guidelines recommend that boards consider sustainability matters when assessing and monitoring executive performance.

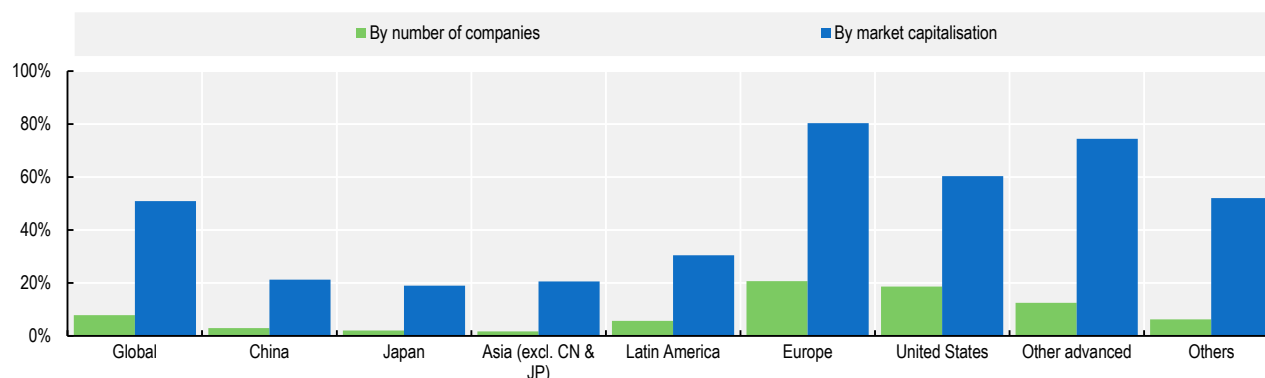
Sustainability-related compensation can take the form of a variable component, such as bonuses or long-term incentive plans, tied to KPIs on sustainability. These incentives should be structured around credible metrics (mix of qualitative and quantitative), such as emissions reductions targets, employee well-being or resource efficiency (see also Box 3.6). As recommended by the SOE Guidelines, such KPIs should:

- incentivise a long-term perspective
- be linked to material elements of the SOE's strategy
- be based on high-quality, preferably audited and/or assured, data and metrics.

In practice, while relatively few listed companies globally use sustainability-related executive remuneration, uptake is higher among large European and United States firms, particularly in emissions-intensive sectors (Figure 3.7).

Figure 3.7. Executive compensation linked to sustainability matters in 2022

Sustainability-related executive remuneration has become common in large European and US listed companies.



Source: OECD Corporate Sustainability dataset, LSEG. See Annex for details; reported in OECD, 2024, *Global Corporate Sustainability Report*, <https://doi.org/10.1787/8416b635-en>.

A number of jurisdictions – such as **Austria**, **Colombia**, **Finland**, **France** and the **Netherlands** – have begun to set expectations for sustainability KPIs to be integrated into executive remuneration policies in the SOE sector. In **Finland**, for example, SOE boards are expected to align executive incentives with sustainability objectives that have business relevance and SOEs in emission-intensive sectors are expected to introduce measures aimed at reducing climate impact. By 2022, nearly 90% of Finnish SOEs had integrated these into their executive remuneration. Common indicators include progress on carbon footprint and emissions, employee well-being and satisfaction, and occupational safety (Prime Minister's Office of Finland, 2022^[26]). In some jurisdictions (e.g. **Croatia**, **Iceland**, **Japan**), non-monetary incentives, such as awards and recognition programmes have been introduced at both corporate and state ownership levels to promote strong performance and enhance sustainability practices among SOEs (OECD, 2022^[27]).

Box 3.6. Designing sustainability-linked remuneration

In a report published in 2022, PriceWaterhouseCoopers (PwC) and the Centre for Corporate Governance at London Business School reviewed market practices and academic evidence on linking executive remuneration to sustainability (referred to as “ESG” in the report). It suggests considering four key dimensions when integrating sustainability criteria into remuneration:

- **Input versus output:** performance measures can be based on inputs (i.e. actions towards a goal, e.g. implementing an internal carbon pricing mechanism) or outputs (i.e. results achieved, e.g. reduction in GHG emissions). While output measures are generally preferred by investors for their perceived objectivity and clear link to pay outcomes, input measures may be more suitable in certain contexts (e.g. strategic transformation). As such measures tend to be more qualitative, they should be transparently disclosed, with their link to pay clearly explained.
- **Individual KPIs versus scorecard:** focusing on a few KPIs to measure performance may be more appropriate when one or two sustainability issues are clearly dominant. However, many organisations face multiple material issues, in which case a scorecard – covering a broader set of relevant KPIs linked to material issues – is more suitable. Such scorecards should be transparently disclosed and carefully weighted so that all components carry an adequate individual importance.

- **Annual bonus versus long-term incentive plan (LTIP):** companies must decide whether to use an LTIP or an annual bonus. Because of their long-term focus, several environmental goals align better with an LTIP. However, some sustainability goals, such as health and safety objectives and even gender remuneration targets, can be effectively assessed in a single year. According to the report “setting aggressive, well-calibrated, one-year goals is preferable over imprecise long-term ones.”
- **Underpin versus scale targets:** sustainability metrics are often best applied as scaled targets, with threshold and maximum performance levels. This is particularly relevant for transformational objectives such as energy transition, where full achievement is not always the expectation. Scaled measures allow for ambition at the top end while still rewarding partial progress. In contrast, underpin (pass/fail) measures may be more appropriate for issues perceived as minimum standards such as health and safety, where failure justifies a reduced payout.

Note: These criteria were identified to apply to all companies and not specific to SOEs.

Source: PwC and London Business School, (2022^[28]) *Paying Well for Paying Good*, <https://www.pwc.se/sv/esg/paying-well-by-paying-for-good.pdf>.

Despite these developments, opinions differ on the effectiveness of sustainability-linked pay in driving performance. Evidence from market practice and academic research (Box 3.6) offers guidance that can influence the credibility of sustainability-linked pay.²

Finally, boards can promote performance and accountability by scheduling regular reviews of progress in meeting sustainability-related KPIs. Where underperformance is identified, corrective actions should be taken. Boards can also encourage capacity-building for management to address implementation challenges and improve results over time.

Practical insights

To incentivise SOEs’ management to adopt a long-term perspective and perform on sustainability in line with the corporate strategy, SOE boards may consider the following practices.

- **Appoint sustainability-aware leadership.** Integrate sustainability expertise into CEO and executive appointments to ensure leadership is fit for purpose.
- **Design long-term incentive structures.** Ensure that executive remuneration schemes are carefully designed. They should incentivise a long-term perspective aligned with matters material to the SOE’s strategy.
- **Align with state guidance on remuneration.** Consider any guidance on executive remuneration that may be elaborated in the state’s SOE remuneration policy.
- **Use relevant and transparent KPIs.** Carefully select key performance indicators depending on material sustainability issues for the organisation. Such indicators must be transparently disclosed and their link to pay clearly explained. Their monitoring should be based on high-quality, credible, and (where possible) assured data.
- **Encourage long-term performance with non-financial incentives.** Use non-monetary incentives and recognition schemes to reinforce sustainability-oriented performance.

3.2.3. Establishing effective risk management and internal control systems

The SOE Guidelines highlight the importance for boards to develop, implement, monitor and communicate effective risk management systems. These should embody a coherent and comprehensive set of internal controls, ethics and compliance programmes or measures, including those which contribute to preventing fraud and corruption. Sustainability considerations should be an integral part of this process.

SOEs should integrate sustainability considerations into their risk management and internal control systems, including by conducting risk-based due diligence (Guideline VII.B.2).

This section addresses two critical pillars of board oversight: 1) risk management as a forward-looking framework for identifying, assessing and addressing sustainability-related risks; and 2) internal control as the assurance framework that supports risk detection, control and organisational accountability.

Together, these systems enable SOEs to anticipate challenges, comply with legal and regulatory requirements, and implement sustainability strategies in a robust and credible manner.

Risk management

The existence of a sound, integrated risk management system, grounded in risk-based due diligence, can support SOEs achieve sustainability goals and long-term value creation. For this, boards should ensure that the system effectively identifies, prevents and mitigates:

- material sustainability-related risks and opportunities affecting the enterprise
- actual or potential adverse impacts from the enterprise's activities or its business relationships, including on human and labour rights (e.g. child or forced labour), and the environment (e.g. climate change, pollution, biodiversity loss).

Table 3.4. Examples of sustainability-related risks and opportunities

Type	Sustainability-related risk or opportunity	Environmental	Social	Governance
Strategic	Shifting customer preferences toward products that are manufactured with ethical supply chains		■	
	Growing investor interest in sustainability issues, resulting in proxy voting against the company on a range of topics (e.g. diversity, deforestation and human rights)	■	■	■
Operational	Increased cost of raw materials due to sustainable forestry practice requirements	■		
	Reduction of waste and raw material costs through improved manufacturing processes	■		
	Changing weather patterns and increased natural disasters disturbing operations and business continuity	■		
Financial	Reputation impacts and societal concerns due to a tax avoidance strategy and a lack of transparency		■	■
	Investment in local content to generate sustained and inclusive growth through economic diversification and employment opportunities		■	
	Increased taxation from carbon tax regulation	■		
Compliance	Enhanced reporting requirements for greenhouse gas emissions and energy usage	■		
	Inaccurate or fraudulent disclosure of emissions resulting in fines, penalties and loss of consumer trust	■		■

Source: COSO and WBCSD (2018^[29]), *Enterprise Risk Management. Applying enterprise risk management to environmental, social and governance-related risks*, http://chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://docs.wbcsd.org/2018/10/COSO_WBCSD_ESGERM_Guidance.pdf

These risks and impacts often fall under strategic, financial, operational or compliance categories (see Table 3.4), and may include specific concerns such as supply chain human rights issues or reputational risks. Regular risk assessments support more informed board-level decision making.³

Effective risk governance requires a structured risk management system that includes robust due diligence processes to identify the risks of adverse impacts. The SOE Guidelines encourage SOEs to adopt an integrated approach to managing risks, meaning that risk management and due diligence should be treated as interconnected elements of a single, coherent process.

Box 3.7. COSO's Enterprise Risk Management framework – as applied to sustainability

The framework builds on COSO's core Enterprise Risk Management (ERM) principles and adapts them specifically for sustainability (ESG) risks. It focuses on the following five main components:

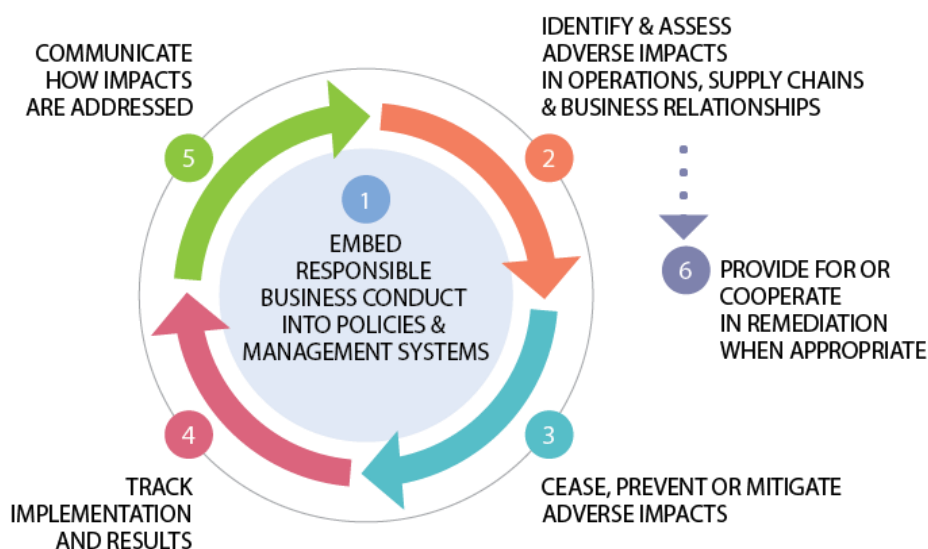
- **Governance and culture:** a strong framework begins with clear governance and a culture that supports accountability and ethical behaviour. Good practice involves establishing board oversight of sustainability risks, clarifying roles and responsibilities across the organisation, and embedding sustainability into corporate values and decision making. Boards should foster a risk-aware culture that encourages transparency and early identification of sustainability issues.
- **Strategy and objective-setting:** organisations should integrate sustainability considerations into their strategy development and define objectives that align with long-term value creation and public expectations. Leading practice includes defining the enterprise's risk appetite in relation to sustainability goals (e.g. decarbonisation) and embedding sustainability risks into strategic planning and investment decisions. Sustainability should be viewed not as a separate objective, but as integral to achieving the organisation's overall mission.
- **Performance:** organisations should identify, assess and prioritise sustainability risks in relation to their impact on strategy and operations. Good practice means using both qualitative and quantitative methods to evaluate risk likelihood and severity, incorporating sustainability indicators into performance monitoring, and aligning risk response actions with the organisation's strategic priorities. Risk assessments should also consider emerging issues and opportunities, such as evolving climate regulations or stakeholder expectations.
- **Review and revision:** as the sustainability landscape evolves, organisations must continuously evaluate the effectiveness of their risk responses and adapt accordingly. Good practice includes regularly reviewing risk registers, control mechanisms and mitigation plans, and incorporating lessons learned from incidents, audits and stakeholder feedback. A flexible and adaptive approach ensures that sustainability risks are not only managed reactively but are anticipated and addressed proactively.
- **Information, communication and reporting:** organisations should ensure consistency across financial, sustainability and regulatory reports, and communicate how sustainability risks are being governed and managed.

Source: COSO and WBCSD, (2018^[29]), *Enterprise Risk Management. Applying enterprise risk management to environmental, social and governance-related risks*, http://chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://docs.wbcsd.org/2018/10/COSO_WBCSD_ESGERM_Guidance.pdf Source: COSO and WBCSD, (2018^[29]), *Enterprise Risk Management. Applying enterprise risk management to environmental, social and governance-related risks*, http://chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://docs.wbcsd.org/2018/10/COSO_WBCSD_ESGERM_Guidance.pdf

Several frameworks exist on the management of sustainability-related risks. One of the most relevant and practical frameworks available, including for SOEs, is the 2018 guidance on “Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks” by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD) (Box 3.7). This framework is designed to help boards and senior leadership integrate sustainability risks into their strategic and operational decision making.

In addition, the *OECD Due Diligence Guidance for Responsible Business Conduct* provides an overarching framework on due diligence to help companies along any part of the supply chain to address actual and potential adverse impacts. These impacts encompass sustainability, covering human rights, employment and industrial relations, environment and bribery, and other forms of corruption that may be caused or contributed to through their own activities or directly linked to their operations, products or services by a business relationship (Figure 3.8) (OECD, 2023^[30]).

Figure 3.8. OECD due diligence process and supporting measures



Source: OECD, (2018^[31]), *OECD Due Diligence Guidance for Responsible Business Conduct*, https://www.oecd.org/en/publications/oecd-due-diligence-guidance-for-responsible-business-conduct_15f5f4b3-en.html.

The OECD has developed sector-specific due diligence guidance for agriculture, minerals, extractives, garment and footwear, and finance, and is currently developing additional instruments to help companies mitigate environmental and climate-related risks. Such guidance can provide useful frameworks for embedding sustainability within core corporate operations, including risk management systems.

Boards are expected to ensure that management effectively identifies, assesses and prioritises sustainability-related risks. This process generally starts with a risk assessment aimed at mapping both inward risks (impacts to the company) and outward impacts (risks from the company and, where relevant, its supply chain to people, the environment and society). Such assessments can draw on the materiality assessment (see previous Section 3.2.2) and other tools such as human rights and/or environmental due diligence. It should incorporate internal input and stakeholder consultation, where relevant.

The process is likely to focus on identifying material risks and opportunities that are relevant to the corporate strategy and business objectives.

Once identified, risks should be assessed based on their likelihood and severity and determine the enterprise's insulation or resilience to them (e.g. scenario analysis, stress testing). Box 3.8 showcases

how **Sweden's** largest energy company Vattenfall implements scenario analysis to plan for various physical and transitional risks.

Box 3.8. Case study - Vattenfall's scenario analysis of climate-related risks

In 2022, Vattenfall, a fully-owned Swedish SOE, carried out an in-depth risk assessment of all its business areas, encompassing both physical and transitional risks. In 2023 and 2024, this risk assessment was refined through a scenario analysis in view of aligning with the EU Taxonomy's requirements for assessing and reporting on climate risks.

The two Intergovernmental Panel on Climate Change (IPCC) climate scenarios: Representative Concentration Pathway (RCP) 4.5 (+2°C) and RCP 8.5 (+4°C) have been used to conduct the physical climate risk and vulnerability assessments for Vattenfall's operations. The scenarios represent an intermediate and high GHG concentration scenario (Figure 3.9).

Vattenfall identified the transition to fossil-free energy sources as a key opportunity tied to its business model. This transition offers growth opportunities for Vattenfall, mainly related to potentially higher demand for electricity, but also related to additional services such as energy storage solutions (e.g. batteries).

Figure 3.9. Two climate scenarios

Description	Intermediate climate scenario based on limited emissions and with international climate policies, where the global temperature increase stabilises at just below 2.0° C by 2100. Emissions peak around 2040 and then decline.		Description	High-end scenario, where emissions continue to accelerate, and the temperature increase stabilises at just below 4°C by 2100 (i.e worst-case scenario).	
Assumptions	• population slightly below 9 billion by 2100 • low agricultural land use due to increased yields and lower meat production • extensive focus on reforestation • low energy intensity and powerful climate policies.		Assumptions	• population increases to 12 billion by 2100 • high methane emission and high agricultural land use due to land needs for grazing and crops • high dependence on fossil fuels assumptions • high energy intensity, limited climate policies.	
Outcomes	The average temperature and precipitation are projected to increase. For Sweden and Finland, the average winter temperature could increase by 2–5°C and the maximum daily rainfall by up to +20%. The snow season will be shorter, and the spring flood more distributed.		Outcomes	The average temperature and precipitation are projected to increase and effects are more pronounced. For Sweden and Finland, the average winter temperature could increase by approximately 3–7°C, and the maximum daily rainfall by up to +24%. Impacts on the snow cover and spring flood are larger.	

Source: Vattenfall, (2024^[32]), *Annual Report 2024*, <https://group.vattenfall.com/globalassets/com/sustainability/vattenfall-annual-and-sustainability-report-2024.pdf>

Once material risks and opportunities are assessed, structured tools (e.g. risk registers, heat maps) can be used to prioritise them. Mitigation plans should be devised to define actions to avoid or mitigate such risks, including preventive measures and corrective actions. For example, relevant measures may include diversifying supply chains to reduce the enterprise's environmental impact. As such, it is worth recalling that risk management is not only about identifying or mitigating risks – it also helps enterprises identify sustainability-related opportunities, such as innovation in energy use, resource efficiency or new green markets.

During these processes, the board should review and challenge risk assessments and monitor progress against risk mitigation measures. It should also periodically review the enterprise's risk exposure and the

effectiveness of its responses. This also means ensuring that the risk management system is dynamic and able to adapt to new developments, stakeholder expectations or emerging sustainability-related risks. This involves reviewing internal audit findings, third-party assessments and lessons learned from past incidents.

Internal controls

The board's understanding of risks and opportunities, as well as of the functioning of the risk management system, should be underpinned by strong internal controls, which will help ensure that oversight activities are responsive to sustainability-related issues, including related risks and opportunities. Internal control generally includes the internal audit function, and ethics and compliance mechanisms.

The internal audit function can enhance the enterprise's strategic sensitivity to sustainability issues (Amoako et al., 2023^[33]). It provides assurance by reviewing the accuracy and comprehensiveness of sustainability-related data and its compliance with relevant laws and regulations. Further elements could include conducting periodic audits of sustainability-related policies and processes.

The internal audit reports inform the board and its relevant committees and can include recommendations on how to strengthen sustainability governance. In this context, the board should review audit plans to ensure sustainability considerations receive adequate focus and act on audit findings as relevant. The board should also ensure that such considerations are reflected in the enterprise's ethics and compliance programmes, where applicable. Such programmes play a key role in shaping how enterprises address their sustainability responsibilities, including through relevant tools and measures such as:

- **Codes of conduct or ethics:** these codes should clearly articulate the SOE's values, ethical principles and expected standards of behaviour for all employees, from the board down to frontline staff. They should be integrated into human resource and other relevant corporate policies through clear rules and procedures, with regular training and communication to ensure understanding and adherence. For SOEs, these codes often incorporate specific provisions related to public service ethics, conflicts of interest in dealings with government and the appropriate use of public resources.
- **Grievance mechanisms:** robust mechanisms are essential to encourage stakeholders, including employees and their representative bodies, to report concerns to the board without fear of retribution. These mechanisms should provide confidentiality for the reporting person, or anonymity at a minimum. Relevant mechanisms include whistleblower channels, public complaint offices or community liaison officers for people living near company operations (e.g. mining sites, factories).

Internal controls, ethics and compliance programmes or measures should also be extended to subsidiaries and where possible to third parties along the value chain as recommended by the G20/OECD Principles of Corporate Governance and SOE Guidelines. SOEs dealing with third parties (e.g. agents and other intermediaries, consultants, representatives, distributors, contractors and suppliers, consortia, and joint venture partners) are likely exposed to sustainability-related risks that go beyond their own legal person. This risk may be particularly high for corporate groups involving large and complex organisations or with suppliers engaging in complex value chains. For example, the **French** national railway company, SNCF, has extensive internal controls and compliance measures that extend to its various subsidiaries (e.g. SNCF Réseau, SNCF Voyageurs) and its numerous contractors and suppliers for infrastructure projects and services. This includes anti-corruption clauses in contracts and supplier codes of conduct (SNCF, 2023^[34]).

Practical insights

To ensure effective enterprise-level risk management and internal controls, SOE boards may consider the following practices:

- **Foster an ethical culture.** Set the tone by establishing a strong ethical culture that promotes integrity, accountability and transparency across the enterprise.
- **Oversee the risk management framework**, including by:
 - approving and regularly reviewing the risk management framework – ensuring that it includes robust due diligence processes
 - ensuring that management identifies, assesses and responds to material risks and opportunities (including adverse impacts) – in line with the enterprise’s strategy and sustainability objectives
 - periodically reviewing and challenging risk assessments
 - monitoring progress against risk mitigation measures and their effectiveness.
- **Monitor and evaluate internal controls**, including by:
 - overseeing the design and effectiveness of internal controls – including the enterprise’s ethics and compliance programme (e.g. code of conduct, accessible and trusted grievance and reporting mechanisms)
 - ensuring that internal controls cover sustainability-related risks, including adverse impacts
 - identifying potential weaknesses in the control system and ensuring management takes corrective action
 - approving the internal audit charter, strategy and annual work plan
 - reviewing audit findings, including those related to ethical lapses, compliance failures or sustainability-related data quality.

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Notes

¹ Over the last few years, there has been mixed evidence regarding the effect of sustainability-related measures on financial returns and corporate performance. OECD evidence suggests a positive relationship between sustainability-related practices and the financial performance of companies (OECD, 2022^[1]), which other research notes is stronger for high-risk and large enterprises (Chen, Song and Gao, 2023^[36]).

² Attention should also be paid to the potential risk that such schemes encourage executives to portray sustainability performance of the enterprise as positively as possible, and even to hire a third-party reviewer who is more likely to provide a favourable opinion (OECD, 2024^[12]).

³ A 2018 OECD survey showed that SOEs which conducted risk assessments on an annual basis, as is most common, report fewer risks and consider their internal control and risk management systems to be more effective (OECD, 2018^[35]).

4 Sustainability reporting and disclosure

Sustainability reporting and disclosure enhances transparency, support risk management and help state-owned enterprises (SOEs) attract financing – especially as they increasingly access capital markets. It is also essential for demonstrating long-term value and aligning with national sustainability goals. This chapter examines how state owners can set expectations for timely and credible sustainability disclosures, aligned with internationally recognised standards. It also reviews emerging global trends and provides practical guidance to support improved reporting practices across SOEs.

Sustainability reporting and disclosure are key components of good corporate governance. They provide crucial information on corporate performance and transparency on how enterprises identify, manage and communicate their sustainability-related risks and opportunities, contributing to improved internal decision making and enhanced risk management. As perceptions of sustainability evolve, these issues are no longer seen as purely non-financial. Enterprises, and particularly SOEs, are now expected to report both on how sustainability risks affect them and on the impacts of their activities on people, the planet and broader stakeholder groups.

The state should expect SOEs to be subject to appropriate sustainability reporting and disclosure requirements, based on consistent, comparable and reliable information (Guideline VII.C).

Primary users of sustainability reporting are generally shareholders and investors, who have been demanding better disclosure from companies around sustainability-related matters that are material to their assessment of a company's business perspectives and risks. It also benefits stakeholders, who are placing greater emphasis on transparency and accountability in how enterprises manage environmental and social issues. For SOEs, which typically face heightened public scrutiny, the case for high-quality sustainability reporting and disclosure is particularly strong. Given their public mandates, SOEs should demonstrate how they maximise long-term value for the state, other shareholders and society.

In this context, the SOE Guidelines recommend that states set clear expectations for SOEs to disclose material sustainability-related information. As this is a fast-evolving field, state ownership entities should aim to keep abreast of key trends and developments and align their national reporting obligations and expectations accordingly. This chapter examines trends and developments in sustainability reporting, with a particular focus on SOE practices (Section 4.1) and identifies good practices to guide what sustainability disclosures should contain and how they can be strengthened (Section 4.2). To note, while Chapter 2 focuses on disclosure by SOE owners regarding their broader portfolios, the emphasis here is on the disclosure practices expected of SOEs themselves.

4.1. Trends and developments in sustainability reporting and disclosure

Clear and consistent expectations around sustainability reporting and disclosure are essential for improving the quality, comparability and credibility of disclosures by SOEs. The SOE Guidelines recommend SOEs to be “explicitly required to adequately report and disclose clear, accurate and complete material information on sustainability-related policies, activities, risks, objectives and performance metrics in a timely and accessible manner, in line with high-quality internationally recognised standards.” To establish such expectations, it is important to first understand their sources, often grounded in existing legal and regulatory, or voluntary frameworks. This chapter reviews existing requirements and frameworks and provides examples of how they are applied in practice to guide SOE disclosure.

4.1.1. Corporate sustainability reporting trends

The disclosure of sustainability-related information has considerably increased over the last two decades, with a notable uptake in sector and industry-specific reporting, in particular for the extractives, mining and financial sectors (Van der Lugt, Van de Wijs and Petrovics, 2020^[1]). Out of nearly 44 000 listed companies globally with a total market capitalisation of USD 98 trillion, almost 9 600 disclosed sustainability-related information in 2022 or 2023 (Figure 4.1). The companies that disclosed sustainability-related information represented 86% of global market capitalisation. Among the 479 listed state-owned enterprises identified in that sample, 441 disclosed sustainability-related information in 2022 (representing 98% of the market capitalisation of state-owned enterprises in the sample).¹ This higher share reflects the fact that several jurisdictions either mandate through laws and regulations or strongly encourage sustainability-reporting for

their SOE portfolios (OECD, 2024^[2]). In some cases, state owners have established higher expectations on sustainability reporting through their state ownership policies or voluntary guidelines, often going beyond legal minimums and focusing on areas where the state has set ambitious goals (e.g. climate), warranting closer scrutiny of SOE performance.

Some notable examples include:

- **Sweden:** Since 2007, all SOEs are mandated to undertake sustainability reporting and disclosure with requirements being stricter than for private-sector companies (see Box 4.1).
- **Finland:** SOEs must report annually on their direct and indirect scope 1, 2 and 3 emissions.
- **Spain:** SOEs are required to publish annual sustainability reports, and those with more than 1 000 employees must also submit a CSR report to a national council (Consejo Estatal de Responsabilidad Social de las Empresas – CERSE) which is an advisory and consultative body of the government (Sustainable Economy Law, 2011^[3]).²
- **European Union:** The Corporate Sustainability Reporting Directive (CSRD) requires large EU companies, including SOEs, to report in line with the European Sustainability Reporting Standards (ESRS) with obligations phased in over time.³ Some non-EU companies operating in the EU may also be subject to the CSRD.

Figure 4.1. Disclosure of sustainability-related information by listed companies in 2022



Source: OECD Corporate Sustainability dataset, LSEG, Bloomberg.

It is expected that the adoption of mandatory disclosure requirements in some jurisdictions, applicable to both private and state-owned enterprises, will continue to shape corporate disclosure outcomes including for SOEs (see Section 4.2.2).

Box 4.1. Case study - Sustainability reporting obligations for SOEs in Sweden

In addition to regulations on sustainability reporting for the private sector, Sweden became the first country to issue a specific regulation mandating sustainability reporting and disclosure for SOEs. These mandatory guidelines were developed in 2007 with the objective to increase the transparency and level of ambition regarding sustainability of SOEs, as well as to improve the monitoring of related objectives. These guidelines (known as the “Principles” since 2020) are **mandatory and enforced on a comply or explain basis**. According to the Swedish Ministry of Finance, all companies are expected to take responsibility for sustainability issues, with SOEs leading and setting an example in this field.

The guidelines apply to all SOEs that do not fall under the new CSRD standards - irrespective of their size (currently 73 SOEs). They consist of **stricter requirements** than for private-sector companies. SOEs are required to develop a sustainability report based on GRI standards or another internationally-accepted framework, and to publish it on their website – either as a stand-alone document or integrated within their annual reports. The sustainability report should provide “a good description of the operations, opportunities and challenges of SOEs, and provide input for continuous tracking and evaluation of the enterprises’ operations and targets.” It must include the following information (which is the same as for large enterprises according to the Annual Accounts Act):

- A **materiality assessment** identifying the sustainability issues that are most material to the enterprise’s operations, its value chain and its stakeholders
- The enterprise’s **management of sustainability issues**, including key policies, strategic priorities and short- to long-term targets
- A **stakeholder analysis** or clear information on the implementation of a stakeholder dialogue
- Activities carried out during the year **to address material sustainability issues** (i.e. to reinforce positive impacts and minimise negative adverse impacts)
- An account of relevant quantitative and qualitative **performance indicators** that are linked to the priorities and targets set
- An account of the climate-related **financial risks and opportunities** in operations

The sustainability report **must be quality assured by an independent auditor** appointed by the general shareholder meeting.

Note: GRI reporting requirements will be replaced by ESRS where applicable.

Source: Interview with Government Offices of Sweden, 2024

4.1.2. Reporting frameworks

While legal and regulatory requirements with regards to sustainability reporting are evolving, a related question concerns which frameworks companies should use. A number of internationally recognised frameworks are now converging to support more standardised corporate sustainability disclosures. Relevant examples include:

- **IFRS Sustainability Disclosure Standards (S1 and S2):** Focused on investor-relevant financial materiality, these standards are being adopted internationally with IFRS S1 addressing general sustainability-related disclosures and S2 focusing on climate-related risks. They are the result of the merging of several reporting frameworks under the direction of the International Sustainability Standards Board (ISSB) (see also Box 4.2).

- **GRI Reporting Standards:** Widely used by SOEs, the GRI framework is based on double materiality and includes universal, sector-specific and topic-specific standards. In May 2024, the Global Sustainability Standards Board (GSSB) announced plans to strengthen its work with the ISSB, in view of identifying and aligning common disclosures that address information needs with respect to thematic and sector-based standard setting. An initial outcome of the collaboration will involve a methodology pilot to adequately scope impacts on biodiversity and ecosystems (GRI, 2024^[4]).

Efforts to align existing standards are underway. In 2024, GRI and the IFRS Foundation announced plans to ensure interoperability of their standards which should help support implementation while reducing reporting burden for companies. In addition, the new IFRS Sustainability Disclosure Standards will be interoperable with the new mandatory European Sustainability Reporting Standards (ESRS). The IFRS Foundation and the European Financial Reporting Advisory Group (EFRAG) have recently published guidance aimed at illustrating the high level of alignment between the IFRS and ESRS reporting frameworks (IFRS Foundation, 2024^[5]).

Box 4.2. IFRS Sustainability Disclosure Standards

In June 2023, the International Sustainability Standards Board (ISSB), including representatives of six of the main standard-setting institutions (IFRS, CDP, CDSB, GRI, IIRC, and SASB), released two new sustainability disclosure standards based on financial materiality only:

- **The General Requirements for Disclosure of Sustainability-related Financial Information (IFRS – S1):** sets out general sustainability-related disclosure requirements with a focus on governance, strategy, risk management, metrics and targets.
- **Climate-related Disclosure (IFRS – S2):** focuses on climate-related physical and transitional risks and opportunities.

IFRS S2 serves as an add-on to IFRS S1, while IFRS S1 can be used on its own. The new standards require public companies to report on sustainability-related risks and opportunities that could “reasonably be expected” to affect their “prospects” which IFRS defines as their cash flow, access to finance and cost of capital. They entered into effect for annual reporting periods on 1 January 2024. IFRS S1 entails the reporting of information on a range of risks and opportunities beyond climate. It connects and merges work done by several other international standard setting bodies, including;

- Sustainability Accounting Standards Board (SASB) standards, which set out industry-specific sustainability metrics.
- Climate Disclosure Standards Board (CDSB)’s framework, which integrates climate and environmental information into financial reporting.
- Value Reporting Foundation’s Integrated Reporting Framework, whose concepts are incorporated into IFRS S1 to promote connectivity between financial and sustainability information.
- World Economic Forum’s Stakeholder Capitalism Metrics, whose metrics have also been considered to ensure comprehensive sustainability reporting.

Source: IFRS Foundation, (2024^[5]), *IFRS Foundation and EFRAG publish interoperability guidance*, <https://www.ifrs.org/news-and-events/news/2024/05/ifrs-foundation-and-efrag-publish-interoperability-guidance/>, IFRS, (2024^[6]), *Jurisdictional sustainability consultations*, <https://www.ifrs.org/ifrs-sustainability-disclosure-standards-around-the-world/jurisdiction-consultations-on-sustainability-related-disclosures/>

For SOEs, the selection of reporting frameworks is often influenced by their dual accountability to their shareholders and the public. Frameworks such as GRI are commonly used in jurisdictions that emphasise double materiality and stakeholder accountability. For instance, **Chile, Finland, Netherlands, and Sweden** require or encourage their SOEs to report in line with GRI Standards (Box 4.3). The GRI's widespread adoption and alignment with the EU's Corporate Sustainability Reporting Directive, which also adopts the double materiality principle, may further reinforce their relevance for SOEs (OECD, 2022^[7]).

Box 4.3. The GRI Reporting Framework

The GRI Standards are a modular system comprising three series of standards: the GRI Universal Standards, the GRI Sector Standards and the GRI Topic Standards. Each comprises general principles and indicators that an enterprise can use to report on the impact of its activities. It is designed for use by organisations of any size, sector or location. The GRI Standards were revised in 2021 to account for latest developments.

The **GRI Universal Standards** comprise:

- **GRI 1: Foundation 2021**, which sets out the requirements that an organisation must report in accordance with the GRI Standards. It also specifies certain principles, such as accuracy, balance and verifiability, which are fundamental to good-quality reporting.
- **GRI 2: General Disclosures 2021**, which detail the contextual information about an enterprise that should be reported (e.g. governance, strategy, policies, stakeholder engagement).
- **GRI 3: Material Topics 2021**, which guide an enterprise in identifying, analysing and responding to the impacts related to material topics.
 - **Sector-specific standards.** They intend to increase the quality, completeness and consistency of reporting by organisations. Standards are currently being developed for 40 sectors, starting with those with the highest impact, such as oil and gas, agriculture, aquaculture, and fishing. The Standards list topics that are likely to be material for most organisations in a given sector and indicate relevant disclosures to report on these topics. If an applicable Sector Standard is available, an organisation is obliged ('required') to use it when reporting with the GRI Standards.
 - **Topic-specific standards.** The GRI Topic Standards contain disclosures for providing information on topics. Examples include Standards on waste, occupational health and safety, and tax. Each Standard incorporates an overview of the topic and disclosures specific to the topic and how an organisation manages its associated impacts. An organisation selects the Topic Standards that correspond to the material topics it has determined and uses them for reporting.

In preparing sustainability reports, enterprises apply the three universal Standards, and then choose from the topic-specific Standards and sector supplements to report on their material topics.

Source: GRI, (2024^[8]), The GRI Standards, <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/>

4.2. Good practices in SOE sustainability reporting and disclosure

While many legal and voluntary frameworks exist, it is important to define the minimum expectations for disclosure. In line with the SOE Guidelines, state expectations, often shaped by existing regulations and frameworks, should clearly specify the type of information to be disclosed, including sustainability-related policies, risks, objectives and performance metrics. Good practices also involve using internationally

recognised frameworks and, where relevant, independent assurance. These measures help improve the quality and comparability of disclosures, reinforce the state's role as an active owner, and support aggregate-level reporting (see Section 2.2, Step 4).

4.2.1. Coverage of sustainability reporting

Based on the SOE Guidelines, SOEs should report and disclose all material issues regarding the enterprise, in line with high-quality, internationally recognised accounting and disclosure standards. The OECD/G20 Principles and SOE Guidelines define material information as any data whose omission or misstatement could reasonably be expected to influence an investor's evaluation of a company's value. Material information may cover environmental, social and governance matters, and compliance with the respective legal obligations or specific policies with regard to human rights, health, safety, diversity, consumer security, employment, anti-corruption and sustainable business practices. In addition and as appropriate, SOEs should provide information on key issues relevant to employees and other stakeholders that may materially affect the performance of the enterprise, or have significant impacts on stakeholders.

Depending on the reporting standard used, the sustainability reports may cover a range of financial and non-financial material disclosures. Non-financial disclosures may cover environmental, social and governance categories (Table 4.1). For SOEs, additional reporting may be expected on:

- performance-related to public policy objectives and public service obligations
- attainment of sustainability-related expectations of shareholder(s)
- compliance with the legal obligations or specific policies with regard to human rights, health, safety, diversity, consumer security, employment, anti-corruption and sustainable business practices.

To ensure information on sustainability is of quality, consistent and comparable across SOEs and markets, the state owner may decide to harmonise or standardise reporting standards and performance indicators. To this effect, the state may:

- provide a minimum set of indicators or metrics aligned with international frameworks which should be reported on
- require or recommend the use of (specific) internationally accepted reporting standards such as IFRS and/or GRI.

Table 4.1. Examples of ESG topics covered by sustainability reporting

Sustainability reports typically address a broad range of issues, ranging from cross-cutting global issues to sector- or enterprise-specific concerns

Category	Description	Selected topics	Selected indicators
Environmental	Generally aims at: • measuring an organisation's environmental impact and management of natural resources • assessing environmental risks and opportunities for the enterprise • ensuring compliance with environmental regulations	• Climate change • Carbon neutrality • Environmental protection • Waste management • Energy efficiency • Air and water pollution • Raw material sourcing • Deforestation • Biodiversity and ecosystems	• GHG emissions • Product carbon footprint • Waste productivity • Energy consumption • Water use reduction
Social	Generally aims at: • assessing the enterprise's relationship with internal and external stakeholders	• Employee engagement • Diversity • Employee health and safety • Human rights • Social justice	• Employee representation • Retention rate of employees • Supply chain risk management • Stakeholder perception

Category	Description	Selected topics	Selected indicators
		Stakeholder engagement	- analysis - CEO-to-average worker pay
Governance	Generally aims at: ensuring accountability, transparency and responsibility	- Tax and regulatory compliance - Anti-corruption & integrity - Internal controls - Audits - Shareholder rights - Board independence - Ownership structure	- Internal controls report - Risk profile and Enterprise Risk Management (ERM) - Chairman/CEO separation - Board composition (% of women) - Board effectiveness (# of board meetings) - Board independence

Source: OECD own compilation, 2025.

A certain number of jurisdictions have issued expectations in this regard, often through the ownership policy. For example, the **Dutch** state ownership policy provides an overview of all relevant standards and frameworks that SOEs are expected to use for their reporting and disclosures, indicating the nature of their application (i.e. required or expected) and their implementation (in full or on a comply-or-explain basis).

4.2.2. *Applicability and proportionality*

Many countries have established reporting requirements that may include sustainability-related information. Such requirements generally tend to target listed and large enterprises and those that issue debt in financial markets, which includes some SOEs (OECD, 2024^[2]). However, state owners should consider extending reporting requirements to the entire SOE portfolio, if not already the case. This would also be consistent with the SOE Guidelines, which recommend that SOEs be subject to the same high-quality accounting and disclosure standards as listed companies.

Indeed, good practice would call for all SOEs to engage in sustainability reporting and disclosure, as they should demonstrate how they deliver value for citizens. However, flexibility and proportionality related to an enterprise's size, stage of development or sector of activity may be warranted when setting reporting and disclosure requirements. This may translate into reduced or phased-in reporting requirements for certain categories of SOEs.

In addition, care should be taken not to exclude SOEs that are subject to PPOs from the scope of reporting requirements. Generally speaking, the non-financial performance of such SOEs matters, and therefore transparency to non-state shareholders (where present) and the wider public should be accommodated (see Section 2.2.2 Step 2 for more information on PPOs/PSOS).

4.2.3. *Format and accessibility*

Where the state has set sustainability reporting requirements or expectations, it may provide SOEs with guidance on where sustainability-related financial disclosures should be presented, such as in the primary annual report (i.e. integrated report) or separately. Reference should be made to the reporting practices in the country, including clear requirements regarding publication and accessibility of reports. Enterprises should avoid disaggregating sustainability-related information into multiple reports and should aim at providing consistent information between any statutory filings and reports to the regulators and information provided to other investors or stakeholders (World Bank, 2022^[9]). A comparison of common business reporting formats is provided in Table 4.2.

Table 4.2. Comparison of common business reporting formats

	Financial reporting		Sustainability reporting	Integrated reporting
	Financial statements	Narrative report*		
Purpose	Communicate financial performance, position and cash flows in a specific reporting period	Provide context for financial statements and forward-looking information through the eyes of management	Communicate the entity's broader social and environmental impacts, strategies and goals	Explain to providers of financial capital how value is created over time
Audience	Current and prospective investors, lenders and other creditors	Current and prospective investors, lenders and other creditors	Investors (when including sustainability data in investor-focused communications) or multi-stakeholder (when preparing a stand-alone sustainability report)	Providers of financial capital. Others interested in the organisation's ability to create value will also benefit
Scope	Information about: • Recognised assets • Liabilities • Equity • Income • Expenses • Changes in equity • Cash flows	• Risk exposure • Risk management strategies and the effectiveness of those strategies • Effect of beyond financial statement factors on operations and financial statement performance	Significant impacts in the following performance areas: • Economic • Environmental • Social, including labour practices, human rights and broader societal influences • Governance	Content elements: • Organisational overview and external environment • Governance • Business model • Risks and opportunities • Strategy and resource allocation • Performance • Outlook • Basis of preparation and presentation

Note: Narrative reports can take on the form of the directors' report, management commentary, management's discussion and analysis, or operating and financial review.

Source: IFAC, (2015^[10]), *Materiality in Integrated Reporting. Guidance for the Preparation of Integrated Reports*, https://www.integratedreporting.org/wp-content/uploads/2015/11/1315_MaterialityinIR_Doc_4a_Interactive.pdf

While integrated reporting can effectively link strategy, governance, and sustainability performance, as it aims at explaining how an entity creates value over the short, medium and long term (forward-looking), a separate sustainability report may better serve broader stakeholder audiences. If conciseness is prioritised (as in integrated reports), supplementary disclosures should detail methodologies and materiality assessments, as this adds to the credibility and auditability of the information (World Bank, 2022^[9]).

4.2.4. Assurance and verification

The SOE Guidelines recommend that the accuracy of sustainability reports be verified. Related requirements can be phased in. Annual assurance attestations should be provided by an independent, competent and qualified assurance service provider, in accordance with high-quality internationally recognised assurance standards. The disclosures in the financial statements and those in sustainability reports should be consistent and connected, as per the G20/OECD Principles of Corporate Governance (VI.A.3). The Principles also recommend that whenever high-quality assurance for all disclosed sustainability information might not be possible or too costly, mandatory assessment for the most relevant sustainability-related metrics or disclosures, such as GHG emissions, may be considered. However, greater assurance of sustainability-related disclosures should be the long-term goal.

OECD data shows that in practice, while sustainability reporting has grown, assurance remains limited. In 2022, 66% of all listed companies – including 48% of all SOEs in the sample – by market capitalisation that disclosed sustainability reports had them verified by an independent assurance provider. By number of companies, this represents 31% and 25% of companies, respectively (Figure 4.2) (OECD, 2024^[2]).

Figure 4.2. Assurance by an independent third party in 2022



Source: OECD Corporate Sustainability dataset, LSEG, Bloomberg.

Third-party audits of sustainability-related information are expected to increase in the near future, especially for companies operating within the EU market. The CSRD introduced a requirement for limited assurance of sustainability information for EU companies as well as non-EU companies with substantial activity in the EU market (“third country companies”).⁴ In addition, external assurance is also already mandatory for some companies in **India** and **Chinese Taipei** (OECD, 2024^[2]).

However, with the exception of countries where sustainability reporting is well-advanced (e.g. **France**, **Spain** and **Sweden**), it is not yet common practice for governments to require independent assurance of SOEs’ sustainability disclosures. In **Colombia** and **Lithuania**, sustainability-related audits of SOEs are carried out by supreme audit institutions depending on a few criteria most frequently related to environmental risks of certain operations. However, such controls do not substitute for external audits or assurances provided by independent third parties.

Similarly to sustainability reporting, several methodologies and frameworks exist for sustainability assurance (e.g. International Standard on Assurance Engagements 3000 (ISAE 3000), AA1000 Assurance Standard). New global baselines for sustainability assurance engagements are currently being developed by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). They are expected to further strengthen global assurance practices.

Practical insights

To ensure alignment with rapidly-evolving sustainability reporting and disclosure standards and requirements, state owners and SOEs may consider the following practices:

- **Align with global reporting standards.** Reports should provide a clear, accurate and complete information on sustainability-related policies, activities, risks, objectives and performance metrics. Many state owners reference internationally recognised accounting and disclosure standards in their expectations to ensure alignment with high-quality disclosure norms. This includes adapting to evolving and emerging reporting requirements and standards – including convergent and interoperable frameworks (e.g. IFRS, GRI).
- **Tailor reporting requirements and/or expectations.** Sustainability reporting is increasingly applied to all SOEs, although expectations are often tailored to enterprise size, sector or stage of development.
- **Ensure accessible and timely reporting.** Timely and user-friendly disclosure of material sustainability-related information is a growing focus, including online access and aggregated formats.
- **Promote assurance and verification.** Some countries encourage annual assurance through independent third-party verification to provide an external and objective assessment of a company's sustainability-related disclosure.

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Notes

¹ This includes the disclosure of a sustainability report, an integrated annual report with sustainability data, a CSR report with substantial data and a full or partial report of GHG emissions scope 1 and 2 or scope 3.

² The CERSE involves representatives from the government, trade unions, employer associations and representatives of civil organisations and experts, with the objective of strengthening and promoting CSR policies in Spain.

³ In February 2025, the European Commission proposed revisions to the CSRD that would narrow its scope, postpone reporting for large companies until 2028, and exclude listed SMEs unless they meet new size thresholds (EU Commission, 2024^[11]). This so-called “Omnibus Simplification Package” is still under consultation.

⁴ “Limited” assurance engagement refers to the process by which a service provider reduces the risk of material misstatement to an acceptably low level in the circumstances of the engagement. It entails less extensive procedures than a “reasonable” assurance engagement for which the assurance provider affirms that the information reported is materially correct – with a high, but not absolute, level of confidence (IAASB, 2013^[12])

5

Responsible business conduct and stakeholder engagement

For SOEs, which often operate in strategic sectors and deliver public services, responsible business conduct (RBC) is both a governance imperative and a practical tool to mitigate legal, reputational and operational risks. This chapter first outlines RBC-related expectations in the SOE Guidelines. It then focuses on two practical areas where RBC is particularly relevant for SOEs: stakeholder engagement and the development of strong anti-corruption and integrity systems. Together, these elements provide the behavioural foundation for sustainable and resilient SOEs.

The growing presence of SOEs in the global marketplace and value chains has brought increased attention to the importance of responsible business conduct (RBC). RBC refers to the expectation that enterprises avoid and address adverse impacts of their operations on people, the planet and society, and contribute positively to sustainable development (OECD, 2023^[1]).

The state as an owner should set high expectations for SOEs' observance of responsible business conduct standards together with effective mechanisms for their implementation, should fully recognise SOEs' responsibilities towards stakeholders and should request that SOEs report on their relations with stakeholders. Such owner's expectations should be publicly disclosed in a clear and transparent manner (Guideline VII.D).

As recommended by the SOE Guidelines, the state as an owner should set high expectations for SOEs' observance of RBC standards, along with effective implementation mechanisms. RBC and sustainability are closely linked, and many enabling conditions for RBC (such as risk-based due diligence and transparency and disclosure) are addressed in earlier chapters. This chapter begins by outlining key RBC concepts and instruments and their link to the SOE Guidelines (Section 5.1), and then examines two key areas not previously covered, stakeholder engagement (Section 5.2) and anti-corruption and integrity (Section 5.3).

5.1. Responsible business conduct and the SOE Guidelines

5.1.1. Concept of RBC and key instruments

RBC is increasingly central to enable corporate sustainability. The “RBC concept” has two core objectives:

- Enterprises are expected to contribute positively to economic, environmental, and social progress in the countries where they operate, and advance sustainable development outcomes.
- Enterprises are expected to avoid and address adverse impacts, whether caused by their own activities or linked to their operations, products, or services through business relationships.

The OECD has developed a framework of instruments aimed at promoting responsible business practices and helping governments create enabling environments for RBC. Key among these are:

- **The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (MNE Guidelines).** The MNE Guidelines are the most comprehensive international standard on RBC. They are recommendations from governments to businesses on how to act responsibly across a wide range of areas: human rights, labour relations, the environment, anti-corruption, taxation, consumer interests, disclosure, and more. The Guidelines were updated in 2023 to reflect evolving priorities, including climate change and technological transformation. The MNE Guidelines are also aligned with and complement other leading international standards on RBC, including the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.
- **Due Diligence Guidance on Responsible Business Conduct.** At the heart of RBC is risk-based due diligence, a process through which enterprises can identify, prevent, mitigate, and account for how they address actual and potential adverse impacts. As further elaborated in Chapter 3, the OECD has developed a cross-sectoral due diligence instrument to support this process, as well as sector-specific guidance, focusing on minerals and extractives, agriculture, garment and footwear, and financial sectors, to help mitigate RBC-related risks in company operations, supply chains and business relationships.
- **National Contact Points (NCPs).** To ensure their implementation, countries that adhere to the Guidelines are required to establish NCPs. These NCPs have two main functions: (i) to promote

awareness and uptake of the MNE Guidelines; and (ii) to serve as a non-judicial grievance mechanism through the handling of “specific instances” of non-compliance. As of 2024, NCPs had handled more than 620 specific instances in over 105 countries, and continue to play a key role in promoting corporate accountability globally (OECD, 2024^[2]).

Recognising the essential role of public policy in fostering responsible conduct, the OECD adopted in 2022 a *Recommendation on the Role of Government in Promoting Responsible Business Conduct* to guide governments in this regard. Broadly, it encourages governments to embed RBC expectations across areas, including legal and regulatory frameworks, trade agreements, public procurement, and co-operation frameworks. Importantly, it also includes provisions for the state to lead by example in terms of state ownership practices (Figure 5.1).

Figure 5.1. Key principles of the OECD Recommendation on the Role of Government in Promoting Responsible Business Conduct



Source: OECD (2022^[3]) *Recommendation of the Council on the Role of Government in Promoting Responsible Business Conduct*, <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0486>

5.1.2. RBC requirements and expectations for SOEs

Some economies explicitly reference RBC in their ownership policies (see Table 2.3). These expectations often incorporate stakeholder consultation practices (OECD, 2022^[4]). For example, in the **Netherlands**, the state has set expectations for Dutch SOEs to develop RBC policies and to further strengthen them if necessary. This is translated by SOEs into concrete policies, such as the Dutch state's entrepreneurial development bank, FMO, which revised its sustainability policy to describe how RBC is implemented within its operations as a financial institution (Box 5.1).

Box 5.1. Case study - FMO's sustainability policy

FMO is a Dutch development bank, majority-owned by the Dutch government (51%) but operating as a commercial company. It provides long-term capital to projects in developing countries where private investors are often reluctant to engage, with a strong focus on achieving both financial returns and positive environmental and social impact. FMO manages funds on behalf of the Ministries of Foreign Affairs and Economic Affairs and promotes responsible business conduct (RBC) through several policies:

FMO's responsible finance approach: FMO's responsible finance approach precludes the bank from engaging in certain consumer finance activities. It supports the adoption of Client Protection Principles (CPPs) which are embedded in the investment process. The CPPs aim at facilitating a risk-based assessment of financial institutions, non-banking financial institutions and corporations providing finance to natural persons. CPPs define the minimum standards that end-clients should expect to receive when doing business with a financial service provider.

Business integrity and anti-money laundering: FMO's investee companies – including their owners, directors, managers and other key staff – need to comply with FMO's policies on business integrity and anti-money laundering. FMO maintains a zero-tolerance policy regarding bribery and corruption. FMO's Know Your Customer (KYC) Policy describes FMO's participation in international efforts to fight money laundering and terrorist financing.

Human rights due diligence: the IFC Performance Standards guide FMO's human rights due diligence with respect to customers. FMO requires customers to assess the likelihood and severity of adverse impacts on human rights as part of their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards. In case environmental, social or human rights impacts are identified that the IFC Performance Standards do not sufficiently address, FMO will identify and agree on mitigants by referring to the other standards.

Source: FMO, 2024, Sustainability Policy, https://www.fmo.nl/library/download/urn:uuid:c4d8ec12-9257-464f-8154-bf111ea07ce6/2024.01_sustainability+policy.pdf

Expectations for companies – state-owned and private – can also be articulated within broader national strategies. For example, **Canada** launched in 2022 a national strategy called “Responsible Business Conduct Abroad: Canada’s Strategy for the Future” (2022-2027), which was developed in consultation with SOEs. The Strategy aims at supporting Canadian companies abroad adopt responsible business practices, gain a competitive edge, manage risks, and support inclusive economic recovery. One key enabler is ensuring policy coherence across federal departments, SOEs, subnational governments, and Indigenous peoples, who receive support from Canada’s Trade Commissioner Service on issues such as human rights, environmental risks, and due diligence (Government of Canada, 2022^[5]).

Beyond national policies, RBC is increasingly embedded in legal and regulatory requirements. Many jurisdictions have begun translating due diligence expectations into legislation (e.g. **France, Germany, Netherlands, Norway**). At the EU level, the Corporate Sustainability Due Diligence Directive (CSDDD) was adopted in 2024.¹ It requires large companies operating in the EU to implement risk-based due diligence procedures to address adverse human rights and environmental impacts across their global value chains. The EU has also introduced regulations on conflict minerals, batteries, deforestation and forced labour (EU Council, 2024^[6])

Trade agreements can also serve as instruments to advance RBC. For example, the **European Union's** agreements with partner countries include chapters specific to trade and sustainable development which

may promote responsible business conduct beyond EU borders. Such agreements may also make explicit reference to their application to SOEs. For instance, the Association Agreement between the **European Union** and the European Atomic Energy Community and their Member States, on the one hand, and **Ukraine**, of the other, has a chapter specifically dealing with sustainable development and trade. It explicitly references SOEs and encourages adherence to standards such as the MNE Guidelines.

5.1.3. RBC scope in the SOE Guidelines

Earlier chapters have demonstrated intersections between RBC approaches as outlined in relevant OECD instruments. Within this framework, the SOE Guidelines recommend state owners to:

- set high expectations for SOEs' conduct, particularly with regard to integrity and stakeholder engagement
- ensure that SOEs respect stakeholder rights and foster meaningful stakeholder dialogue
- avoid the misuse of SOEs for political finance, patronage, or personal gain
- require regular and transparent reporting on stakeholder relations and responsible conduct.

Beyond setting expectations, state owners should also support implementation. This includes measures such as:

- supporting and participating in multistakeholder dialogue
- ensuring adequate access to remedy (through judicial and non-judicial mechanisms). The mechanisms for reporting violations should be transparent and unbiased. They should offer legal protections for whistleblowers who report misconduct (e.g. related to social or environmental issues, corruption, or human rights violations).

The following sections of this chapter examine how countries are putting these expectations into practice, with a focus on stakeholder engagement and anti-corruption and integrity.

5.2. Stakeholder engagement by SOEs

Stakeholder engagement is a key component of RBC and sound corporate governance. The MNE Guidelines recommend enterprises to “engage meaningfully with relevant stakeholders or their legitimate representatives as part of carrying out due diligence and in order to provide opportunities for their views to be taken into account with respect to activities that may significantly impact them (...)” (OECD, 2023^[1]).²

This is especially relevant for SOEs, which often operate in high-risk sectors and provide public goods and services (e.g. water, electricity, transport). As such, SOEs tend to have a broader and more diverse stakeholder base than privately-owned companies. In line with the SOE Guidelines (VII.D), SOEs should acknowledge the importance of stakeholder relations, including those with workers, creditors, customers, suppliers, and affected communities. Importantly, workers are a specific stakeholder group for which tailored engagement and consultation mechanisms may be necessitated reflecting their specific rights and interests (e.g. enshrined in labour law and/or governance arrangements). Their engagement requires tailored mechanisms and protections that go beyond typical stakeholder consultations. This includes, for example, collective bargaining rights, representation on boards or advisory bodies, and access to grievance mechanisms.

Stakeholder engagement can also contribute to SOEs' resilience, as it supports them with the identification of their material sustainability-related risks and opportunities, as well as the impact of their activities on the environment and society more broadly. It can also be an effective response to the evolving trend of grievances and sustainability-related litigation against companies, which in some cases involve SOEs. An example includes the United Nations challenging a large SOE involved in the oil and gas sector over

climate change concerns in 2023 (Box 5.2). As noted in Section 3, in some jurisdictions, directors' duties also include the obligation to take into account stakeholders' interests. Failing to adequately consider and communicate potential negative externalities to stakeholders may entail legal risks for the enterprise and its board. As demonstrated by a 2022 OECD survey, the corporate sector has witnessed a rise in sustainability-related litigation, partly due to stakeholder activism (OECD, 2022^[7]).³ Engaging stakeholders early and transparently can reduce litigation risk and ensure stakeholders' interests are taken into account effectively.

Box 5.2. Case study - United Nations highlights growing responsibilities of SOEs under international standards

In June 2023, the United Nations (UN) Working Group on Business and Human Rights issued a public communication expressing concern about the climate-related human rights impact of the state-owned oil and gas company Saudi Aramco. The communication signals growing expectations that SOEs uphold international human rights standards – particularly in relation to climate change and environmental harm.*

According to UN experts, the continued crude oil production and further exploration of oil and gas of companies with an already important carbon footprint may threaten “the enjoyment of the right to a healthy environment” and contribute to undermining the Paris Agreement. Referring to the UN Guiding Principles on Business and Human Rights (UNGPs), which outlines the responsibilities of both states and businesses with respect to the impact of climate change on human rights, the communication underscored that SOEs may carry “increased responsibility” to act in line with international standards. It also stated that financial institutions supporting such companies may be expected to take “reasonable steps” to prevent or mitigate the adverse impacts, or risk being “viewed as enabling” them.

It is one of the first times that UN Working Group experts has taken action focused on an SOE's human rights responsibilities in the context of climate change. Although not a court case, the process reflects how soft law instruments are increasingly used to interpret accountability under international norms, with implications for SOEs and their stakeholders.

Note: *U.N Communications are not legally binding but may influence how governments, courts and other actors interpret corporate responsibilities.

Source: UNFCCC (2023^[8]), *COP28 Agreement Signals “Beginning of the End” of the Fossil Fuel Era*, <https://unfccc.int/news/cop28-agreement-signals-beginning-of-the-end-of-the-fossil-fuel-era>

5.2.1. Operationalising stakeholder engagement

International conventions generally recognise the rights of stakeholders to information, consultation and negotiation. In certain contexts, stakeholders may also be granted such rights by way of law (e.g. labour, environmental protection, tax, human rights, etc.) or through mutual agreements or contracts. For example, the **French** national railway company, SNCF, has established partnerships with regional authorities and local communities that outline specific rights regarding environmental assessments and community input on infrastructure projects (SNCF, 2019^[9]).⁴

In practice, SOEs should develop an active policy of stakeholder dialogue and consultation which can include practices such as (see also Table 5.1).

- formal or informal consultation
- whistleblower protections
- access to efficient redress mechanisms
- representation on advisory bodies or boards.

Table 5.1. Stakeholder dialogue and consultation practices

Practice	Description
Formal or informal consultations rights	Stakeholders are provided with rights on certain (material) management decisions (e.g. sustainability strategies) or when taking important business decisions (e.g. takeovers, cross-border mergers) as these may affect communities, workers and the environment in which they operate. This includes ensuring that they have access to relevant, sufficient and reliable information on a timely and regular basis.
Whistleblower protections	Allowing employees or other stakeholders to report concerns in SOEs (including subsidiaries or business partners) confidentially and without fear of retribution.
Access to efficient redress mechanisms	Includes unbiased legal or arbitration processes when stakeholders consider their rights have been violated (SOE Guideline III.B). Stakeholders should be able to obtain redress for the violation of their rights at a reasonable cost and without excessive delay (SOE Guideline VII.D.1). Stakeholders should also have access to non-judicial grievance mechanisms to resolve disputes (e.g. ombudsman services*, community engagement platforms, mediation and conciliation, NCPs).
Representation on advisory bodies or boards	This includes having employee representatives on boards**, trade union representation and advisory councils that consider stakeholders viewpoints in certain key decisions. In some jurisdictions, employee representation on boards is considered a key element of corporate governance arrangements (e.g. Germany, Sweden). Another mechanism is employee-shareholder participation in general shareholders meeting, which could be facilitated through the collection of proxy votes from employee-shareholders.

Note: *Independent offices that investigate complaints against public authorities or organisations, often providing recommendations for resolution.

** Such schemes can be sometimes part of a compensation/privatisation programme that makes employees shareholders, thereby empowering them to elect representatives to the board.

Stakeholder Analysis

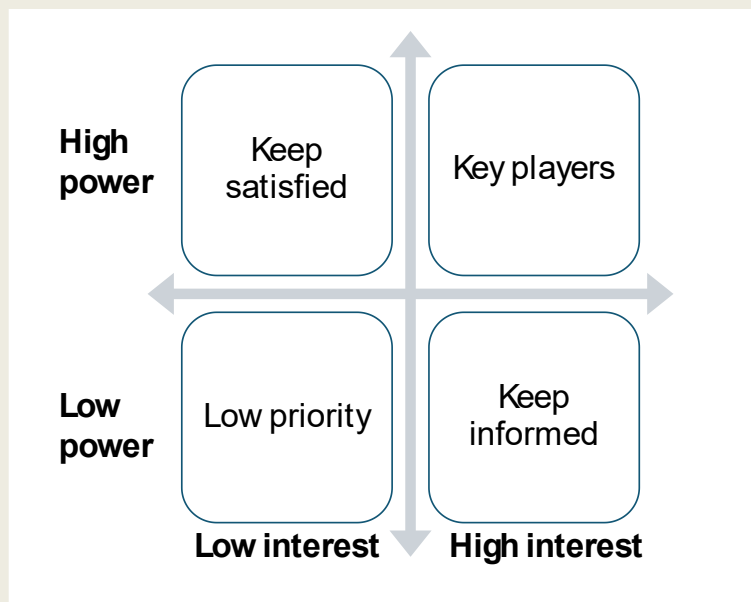
An effective stakeholder engagement process should start with a stakeholder analysis or mapping to identify and prioritise key groups and their needs and concerns, based on what is material for the company. Trade unions and workers are considered a key stakeholder group to prioritise. Several methods exist for stakeholder mapping, the most widespread is based on the Mendelow Framework (Box 5.3).

Box 5.3. Stakeholder mapping: the Mendelow Framework

The Mendelow framework helps identify key stakeholders by mapping their individual power (i.e. ability to influence an organisation's objectives) and interest (i.e. how interested they are in the organisation or project succeeding).

The stakeholders with the highest combination of power and interest are likely to be those with the most influence over an organisation's objectives. Therefore, they should be fully engaged, while others may be given less attention according to this model.

Figure 5.2. The Mendelow Framework



The matrix must be regularly updated to reflect changing circumstances. For example, individual stakeholders with high interest but low power can increase their overall influence by forming coalitions with other stakeholders to exert greater pressure and thereby increase their power. Conversely, stakeholders with high power but low interest can also be tapped into by simply “awakening” their interest for a specific issue. While useful as a starting base, this framework is generally considered too static and simple to account for relevant stakeholders in more complex organisations. It is generally complemented with richer tools. Alternative frameworks such as the stakeholder salience model (Mitchell, Agle and Wood, 1997) or the AA1000 Stakeholder Engagement Standard (SES) and GRI standards may be more adapted in such circumstances.

Source: ACCA (n.d.^[10]), *All about stakeholders*, <https://www.accaglobal.com/gb/en/student/exam-support-resources/professional-exams-study-resources/strategic-business-leader/technical-articles/all-about-stakeholders-part-1.html>.

After identifying key stakeholders of the enterprise, it is important for a firm to determine a stakeholder engagement policy/strategy, including the appropriate form of stakeholder participation. Several stakeholder engagement methods may be leveraged depending on the stakeholder group and the purpose of the enterprise. A significant body of OECD work on RBC, including the MNE Guidelines, establishes that stakeholder engagement has moved from one-way communication (e.g. informing/reporting) towards

interactive two-way dialogue through, for example, meetings, hearings or consultation proceedings. This ensures a more “meaningful” stakeholder engagement (see Box 5.4).

Box 5.4. “Meaningful” stakeholder engagement

“Meaningful” stakeholder engagement refers to ongoing engagement with stakeholders that is two-way, conducted in good faith and responsive. The elements below are the constituents of meaningful stakeholder dialogue.

- **Two-way engagement** means that parties freely express opinions, share perspectives and listen to alternative viewpoints to reach mutual understanding. Some sharing of decision making power through moving away from the enterprise as a primary decision maker to a more mutual process of decision making between the interested and affected parties is important. It also means that stakeholders are actively involved in driving engagement activities themselves.
- **“Good faith” engagement** depends on the participants of both sides of the engagement. It means that the parties engage with the genuine intention to understand how stakeholder interests are affected by enterprise activities. It means that the enterprise is prepared to address its adverse impacts and that stakeholders honestly represent their interests, intentions and concerns.
- **Responsive engagement** means that there is follow-up on outcomes of stakeholder engagement activities through implementation of commitments agreed on by the parties, ensuring that adverse impacts to stakeholders are appropriately addressed including through provision of remedies when enterprises have caused or contributed to the impact(s), and that stakeholder views are taken into account in project decisions.
- **Ongoing engagement** means that stakeholder engagement activities continue throughout the lifecycle of an operation and are not a one-off endeavour.

Source: Direct quote from OECD (2017^[11]), *OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector*, https://www.oecd.org/en/publications/2017/02/oecd-due-diligence-guidance-for-meaningful-stakeholder-engagement-in-the-extractive-sector_g1g65995.html

The use of social media platforms and other new communication technologies is increasingly gaining traction as an effective tool to promote stakeholder engagement. These tools allow enterprises to disseminate information broadly and engage in real-time, two-way dialogue with a wide range of stakeholders, including employees, customers, communities and interest groups. Several studies have shown that social media facilitates cost-effective, inclusive, and interactive communication that helps enterprises both gather feedback and adjust to stakeholder expectations (Paredi et al., 2021^[12]). Stakeholder engagement through social media can be initiated directly by SOEs – for instance, through online consultations sessions. Stakeholders, such as workers’ unions or civil society organisations, also use digital platforms to mobilise stakeholder input, raise awareness about specific issues or organise campaigns. An example of a co-ordinated stakeholder dialogue is provided in (see Box 5.5)

Box 5.5. Case study - Systembolaget's stakeholder engagement

Systembolaget is Sweden's government-owned alcohol retailer. Its mission is to sell alcohol beverages responsibly, focusing on consumer satisfaction and health rather than profit. It is a retail monopoly and Sweden's only chain liquor shop. The company follows a strict mandate to implement Sweden's alcohol policy, which is based on public health considerations and focuses on three pillars which the World Health Organization (WHO) has established as best practice: 1) the price of alcohol; 2) limited access; and 3) restrictive regulation of marketing.

Systembolaget organises its stakeholder engagement process by first identifying relevant stakeholder groups and by scoping important key issues that will have to be discussed with them. The company's stakeholders include civil society, customers, employees, suppliers, and stakeholder organisation groups.

Selected example: protection of children and secondary harm of alcohol

In 2023, Systembolaget initiated a collaboration with the organisations Bris, Maskrobarn, Trygga Barnen and the World Childhood Foundation as part of their stakeholder dialogue process. The aim of the collaboration was to raise awareness of the impact of adult's drinking habits on children. The outcome of the project was an educational campaign to inform the public on what individuals can do if they see a child being subject to secondary alcohol abuse. It involved the distribution of a pamphlet labelled "Decisive Moments" in Systembolaget's stores and its partner organisations, for example during seminars and by sending it out to sports clubs, community programmes and all schools in Sweden.

Source: Systembolaget, 2023, Systembolaget Responsibility Report 2023, <https://www.omsystembolaget.se/globalassets/pdf/ansvarsredovisning/systembolaget-responsibility-report-2023.pdf>.

Finally, stakeholder engagement activities, outcomes and impact should be part of the overall sustainability performance monitoring and evaluation process and should be publicly reported in the enterprise's annual report, sustainability report, or website content. Effectively reporting on stakeholder issues can support SOEs with demonstrating their willingness to operate transparently and their commitment to co-operation with stakeholders. Such reporting may include progress reports for project-affected stakeholders, reports on stakeholder engagement activities and outcomes to stakeholder participants, amongst other aspects.

5.3. Anti-corruption and integrity mechanisms

Anti-corruption and integrity are fundamental components of sustainability and are often embedded in enterprise-level corporate compliance and risk management systems. They also form a core pillar of the sustainability chapter in the SOE Guidelines. This section explores these components, recognising that anti-corruption merits a focused approach not only due to its prominence the SOE Guidelines, but also because of the availability of complementary instruments, namely the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises (ACI Guidelines). These tools can support the development of more robust integrity frameworks within the state-owned sector.

In certain countries, state ownership is concentrated in high-risk and carbon-intensive sectors such as the extractive industries and infrastructure, where public and private sectors intersect via valuable concessions and large public procurement projects. Such configurations present heightened corruption risks and integrity challenges for SOEs (OECD, 2018^[13]).⁵

Sustainability in the SOE sector also depends on the ability of state owners and SOEs to effectively prevent, detect and address corruption or other forms of abuse or exploitation. This is not only costly for the public purse, but also harms SOEs' reputation, trust in government institutions and citizens' wellbeing particularly where SOEs are involved in the delivery of key public services. It can also distort competition and create conflicts with sustainability goals.

*State ownership entities and SOEs should take action to ensure high standards of integrity in the state-owned sector and to avoid the use of SOEs as conduits for political finance, patronage or personal or related-party enrichment (**Guideline VII.D.4**).*

To address these risks, the state owner should adopt clear policies aimed at combating corruption and bribery in SOEs. In practice, many OECD countries have set expectations for SOEs to implement anti-corruption compliance programmes, including whistleblower mechanisms, establish internal audit functions, and adopt transparent procurement processes (e.g. **Croatia, Romania, Lithuania**).

The OECD recommends that both state owners and SOEs implement the ACI Guidelines to the fullest extent possible, to ensure high standards of integrity in the state-owned sector and to avoid the use of SOEs as conduits for political finance, patronage or personal or related-party enrichment.⁶

Figure 5.3. The four pillars of the OECD Guidelines on Anti-Corruption and Integrity in SOEs

The OECD Guidelines on Anti-Corruption and Integrity in SOEs have four pillars which are designed to work in tandem to address all stages and actors involved in the corporate governance of SOEs.



Source: OECD, (n.d.^[14]) *Anti-corruption and integrity in state-owned enterprises*, <https://www.oecd.org/en/topics/sub-issues/corporate-governance-of-state-owned-enterprises/anti-corruption-and-integrity-in-state-owned-enterprises.html>.

The ACI Guidelines set out a comprehensive framework built on the following four “pillars” (Figure 5.3):

- 1. Integrity of the state owner:** a culture of ethics and integrity should start at the top. This entails a strong rule of law as its absence may translate in increased risks of interference in SOE decision making and appointments of board members and CEOs, and in favouritism through its varied forms (e.g. nepotism, cronyism, patronage). The state ownership entity in particular – being the main contact point between the state and SOEs – should exemplify high standards of conduct. Integrity

in the SOE sector also depends largely on the ownership arrangements in place which should ensure a sufficient level of transparency and independence of the state ownership function as established in the SOE Guidelines.

2. **Active and informed ownership:** the state should, as an active and informed owner, hold SOEs to high standards of performance and integrity, while also refraining from unduly intervening in the operations of SOEs or directly controlling their management. The different ways the state can be an active and informed owner are elaborated in Chapter 2.
3. **Integrity at the enterprise level:** develop integrated risk management and internal control systems, as discussed under Section 3.2, that address high-risk areas such as the procurement of goods and services.
4. **Accountability and enforcement:** ensure proper detection, investigation and enforcement of corruption or related irregularities, and that key processes are entrusted to institutions that are insulated from influence or suppression of said processes or dissemination of public information regarding their conduct.

To ensure SOEs operate in line with high levels of integrity, state owners should set and communicate clear expectations regarding anti-corruption and integrity, notably by identifying and expressing their expectations related to high-risk areas that could include among others: board and senior/top management composition and remuneration, conflicts of interest, hospitality and entertainment, charitable donations and sponsorships, gifts, favouritism, nepotism or cronyism, facilitation payments, solicitation, extortion and lobbying.

Practical insights

To support implementation of responsible business conduct by SOEs, state owners and SOE boards may consider the following practices.

- **Embed RBC expectations in the state ownership policy.** Define clear expectations for SOEs to behave responsibly and avoid adverse impacts across operations and value chains, including by conducting risk-based due diligence. This includes promoting the use of the OECD MNE Guidelines, UN Guiding Principles, and ILO instruments as guiding frameworks for SOE conduct.
- **Encourage stakeholder engagement at both state and SOE levels.** Some countries have supported SOEs in recognising and respecting stakeholders' rights and interests by adopting structured approaches to stakeholder dialogue. Relevant stakeholders can be identified through stakeholder mapping, analysis of priority groups, and tailored consultation formats (e.g. employee engagement mechanisms that reflect their specific rights). A common aim is to promote meaningful two-way dialogue with relevant stakeholders throughout SOE operations.
- **Set clear expectations on anti-corruption and integrity.** To mitigate corruption risks, many countries have established anti-corruption and integrity safeguards to reduce the risk of conflicts of interest, self-dealing or undue influence in SOE operations. This includes expectations for SOEs to adopt compliance programmes, whistleblower protections and transparent procurement processes, in line with the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises.

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Notes

¹ A proposal for simplification was issued in 2025 and is currently under consideration.

² In the SOE Guidelines the term stakeholder generally refers to non-shareholder stakeholders and includes, among others, the workforce, creditors, customers, suppliers and affected communities.

³ In certain OECD countries, SOEs have faced litigation with regard to environmental degradation (such as pollution and water discharge), timelines for coal plant closures and investments by state-owned companies in fossil fuels, among other areas (OECD, 2022^[4]).

⁴ Stakeholder engagement may also be required under specific contexts such as within the framework of large (infrastructure) projects that may raise potential environmental and social concerns.

⁵ The 2018 SOE survey demonstrated that SOE leaders in oil and gas, as well as in mining, were more likely to have witnessed corruption or related irregularities transpire in their companies in the years prior (OECD, 2018^[13]).

⁶ State owners and SOEs may also resort to the implementation guide of the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises issued in 2020 to identify concrete ways in which they can implement OECD recommendations in this area (OECD, 2020^[15]).

State-Owned Enterprises and Sustainability

Leading by Example

State-owned enterprises (SOEs) often operate in strategic sectors such as energy, transport or heavy industry, that are vulnerable to environmental, social and governance-related risks, but they are also uniquely placed to advance sustainability and responsible business conduct.

Governments as owners and SOEs themselves should lead by example and manage risks and opportunities in a way that contributes to sustainability, resilience and long-term value creation. For this to happen, policies and practices must be coherent with and enable national and international sustainability commitments. Drawing on a collection of international experiences and the revised OECD Guidelines on Corporate Governance of State-Owned Enterprises, this report provides practical implementation guidance on how SOEs and their owners can lead by example on sustainability.



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