Review of the Draft Ownership Policy for State-Owned Companies 2027–2030



Consultation meeting • Ulaanbaatar
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Executive summary

Overall assessment

A sound and well-structured first ownership policy, aligned with Article 7 of the SOE Law, transparent and backed by a concrete reform programme.

Main opportunity

The Policy could set out more fully how the State will exercise ownership in practice. The SOE Law already provides most of the tools needed.

Areas that could be strengthened in the next version

1. Substantiating the ownership rationale for each company
2. Describing the ownership model and the SPPCA's coordinating role
3. Setting board standards and a clear performance evaluation framework
4. Defining, costing and compensating public service obligations
5. Adding owner expectations on integrity and sustainability
6. Setting conditions for share sales and the investment fund
7. Measuring implementation through defined indicators and an implementation table

Overall assessment against the SOE Law and the OECD Guidelines

SOE Law, Article 7 requirements

Purpose and grounds for control (7.3.1)	**Addressed**
List of companies, portfolio (7.3.2)	**Addressed**
Roles and responsibilities (7.3.3)	**Partly addressed**
Indicators and targets (7.3.4)	**Partly addressed**
Restructuring and liquidation (7.3.5)	**Addressed**
Sale of shares (7.3.6)	**Partly addressed**
Ground for each company (7.4)	**Addressed**
Monitoring and publication (7.5–7.7)	**Addressed**

OECD Guidelines (2024), by chapter

I. Rationales for ownership	**Largely addressed**
II. The State as owner	**Partly addressed**
III. SOEs in the marketplace	**Partly addressed**
IV. Equitable treatment	**Partly addressed**
V. Disclosure and accountability	**Largely addressed**
VI. Boards	**To be developed**
VII. Sustainability	**To be developed**

Detailed coverage of Article 7: Annex 9; OECD alignment: next slide.

Strengths of the draft

Close alignment with the SOE Law

Follows Article 7.3 item by item; reporting cycle mirrors Articles 7.5–7.7

High transparency

Company-level financial data, including subsidies and payments to the budget

Company-by-company approach

A legal ground and a commercial or public-service classification for each company

Concrete reform programme

Named measures and timetables for restructuring and share sales

Ownership rationale and classification: applying clear principles

Observations

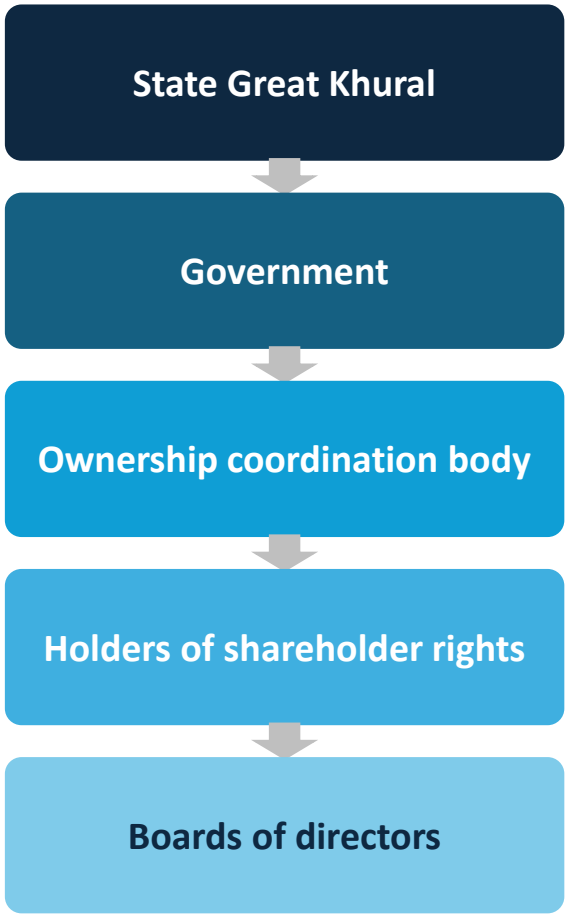
- Each company is given a legal ground and a classification, which is a valuable starting point
- The reasons behind each ground and classification are not yet explained
- In some cases, the ground or classification may not fully reflect the company's activities

Suggestions for consideration

- State ownership could be justified where a company serves a defined public interest that regulation or contracting cannot achieve (SOE Law Art. 8.1; OECD I)
- Classification could follow the company's objectives: a market return for commercial companies, defined services at least cost for public-service companies; a commercial company may also carry a specific PSO
- For each company, the Policy could state the public interest, the level of control needed and a review date (Art. 7.4)
- Where no ground applies, a reasoned decision to retain, restructure or exit would be helpful (Art. 8.4)
- Publishing the classification method would support consistent future reviews

References: SOE Law Arts 6.3, 7.4, 8.1, 8.4; OECD Guidelines Chapter I. Supporting data: Annex 3.

Ownership model: clarifying roles and coordination



Approves the Ownership Policy; receives annual and end-of-term reports (Art. 7)

Holds state shares; designates who exercises shareholder rights (Arts 17–18)

Coordinates owners; oversees the Policy; organises board selection (Art. 21)

Set expectations; appoint boards; evaluate performance (Art. 20)

Strategy, risk, oversight of management; independent judgement (Art. 23)

Suggestions for consideration

- The Policy could describe the current model: distributed ownership with statutory coordination by the Coordinating Body (currently referred in the Policy as "State administrative body responsible for state property")
- Setting out the decision rights of each body would help keep ownership separate from regulation and sector policy (Art. 5.2.1)
- Existing legal requirement: confirm one person exercising shareholder rights per company, unless another law provides otherwise (Art. 17.3).
- Additional policy proposal: formalise coordination procedures, common methods, data access and adequate resources for the Coordinating body.
- International examples: Lithuania, Romania, Montenegro, UK,

References: SOE Law Arts 5.2.1, 17–21, 29.6–29.9; OECD Guidelines Chapter II. Supporting data: Annex 4.

Boards: strengthening competence, independence and accountability

Observations

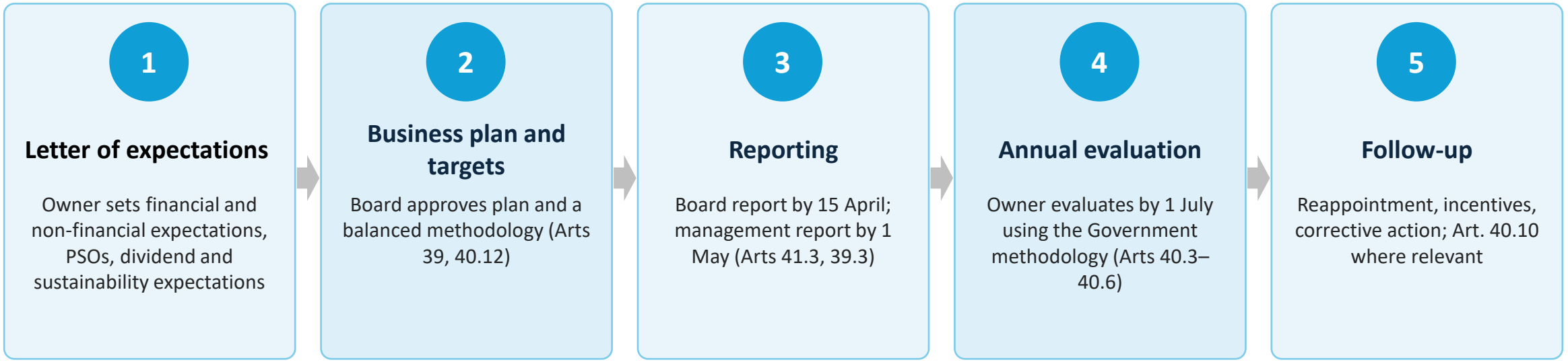
- The draft rightly refers to the selection and renewal of boards under the SOE Law
- It does not yet set a policy on board skills, independence beyond the legal minimum, succession, evaluation or remuneration
- Existing legal requirements: apply statutory composition and appointment rules, terms of up to two years with one further term subject to satisfactory evaluation, and board evaluation duties (Arts 24–28, 42).

Additional policy proposals

- Board skills matrices linked to mandates, strategy and risks could guide open selection (Art. 25).
- Induction, training, succession planning and staggered appointments support continuity
- Set an annual timetable for board evaluations under Art. 42, with tracked improvement actions.
- A board remuneration policy applying Art. 30.2 could reward long-term results
- Set an independent-chair expectation separately from a majority-independent-board target, subject to the Law and other shareholders' rights.

References: SOE Law Arts 23–30, 42; OECD Guidelines Chapter VI. Supporting data: Annex 5.

Company performance evaluation: linking expectations and results



Suggestions for consideration

- The Policy could describe this cycle, with responsibilities and deadlines, and introduce annual letters of expectations consistent with company charters (Art. 10.4)
- Separate criteria could apply to commercial companies (return on invested capital compared with cost of capital) and public-service companies (service quality, unit cost), with adjustment for below-cost tariffs (Art. 40.11)

Measuring implementation of the Policy: possible indicators

Additional policy proposals to complement/replace Annex 2

Area	Possible indicator	Data source
Ownership and coordination	Share of companies with an approved letter of expectations	SPPCA records
Boards	Share of boards meeting Art. 24 requirements; evaluations completed	Selection and evaluation records
Performance evaluation	Share of companies evaluated by 1 July under the Art. 40.3 methodology	Owners' evaluation reports
Public service obligations	Share of material PSOs defined, costed and compensated	Ministry of Finance; owners
Integrity	Share of companies with board-approved compliance programmes (Art. 23.1.3)	Company reports
Sustainability	Share of business plans with climate measures (Art. 39.4)	Company reports
Transparency	Share of companies publishing Art. 48 information on time	Company websites

The "average governance assessment score"

Annex 2 sets a target rising from 0 to 70% in 2027 and 95% in 2030, but does not describe how the score is calculated. A short methodology could explain:

- who would prepare it, ideally within the evaluation methodology under Art. 40.3
- who would carry out the assessment, e.g. company self-assessment validated by the Agency
- which criteria would be scored, drawn from the SOE Law (boards, audit, compliance, disclosure)
- how scores would be weighted and averaged
- the baseline, measured in 2027, and publication of results

For each indicator, a definition, baseline, annual target, data source and responsible body would be useful. Current Annex 2 targets: Annex 7.

Portfolio return targets (ROA, ROE): points for caution

Why aggregate return targets may be problematic

- They combine commercial and public-service companies, whose objectives differ; public-service companies are not expected to maximise returns (SOE Law note to Art. 5; Art. 16.7)
- Results are driven largely by a few large mining companies and by commodity prices, rather than by ownership performance
- Negative equity, asset revaluations, one-off gains and changes in the portfolio can distort the ratios and their comparability over time
- Targets could be met in undesirable ways: higher tariffs, deferred maintenance or investment, asset sales, or unfunded PSOs
- Portfolio averages are not linked to each company's cost of capital, which the SOE Law uses to define efficiency

Suggestions for consideration

- Company-specific return targets for commercial companies, expressed as return on invested capital compared with the cost of capital, could be set in letters of expectations
- Public-service companies could be assessed on service quality, unit cost and efficiency (Art. 40.5)
- Portfolio ROA and ROE could be reported for monitoring, separately for commercial and public-service companies, rather than used as Policy targets
- The calculation method could be published, including treatment of negative equity, one-off items and below-cost tariffs (Art. 40.11)

Draft Annex 2 targets: ROA from 2.9% to 8% and ROE from 4.9% to 10% by 2030. Historical returns: Annex 2; targets: Annex 7.

Public service obligations: defining, costing and compensating

Observations

- The draft usefully requires PSOs to be defined and accounted for separately from commercial activities
- It does not yet describe who commissions each obligation, how its net cost is calculated or how it is compensated
- Without this, losses from below-cost tariffs are difficult to distinguish from inefficiency

Legal duties and policy proposals

- Existing legal requirements: apply relevant PSO charter and dividend-calculation provisions (Arts 10.4, 16.3.3).
- Existing legal requirement: make evidenced evaluation adjustments for below-cost tariffs and additional PSO burdens (Art. 40.11); these do not fund compensation.
- Additional policy proposal: adopt a common process for commissioning, costing, funding and verifying material PSOs, subject to budget and sector rules.
- Additional policy proposal: Compensation could be provided through the budget or tariffs, on the basis of a contract or decision (OECD III)
- Compensated PSOs could be a precondition for share offerings

References: SOE Law Arts 4.1.4, 6.3, 10.4, 16.3.3, 16.7, 40.5, 40.11; OECD Guidelines Chapter III.

Integrity and compliance: setting owner expectations

Observations

- The draft refers to the National Anti-Corruption Programme in its legal basis
- It does not yet contain provisions on integrity, conflicts of interest or compliance
- Existing legal requirement: boards adopt the risk and compliance policies required by Art. 23.1.3.

Additional policy proposals

- The Policy could set out what owners expect of company compliance programmes, including controls over procurement, gifts, conflicts of interest and related parties
- Declarations, staff training, protected reporting channels and an independent internal audit function would support these programmes
- Owners and the Agency could have defined monitoring responsibilities
- A prohibition on using SOEs for political financing or patronage could be considered, through an instrument with legal authority
- Use effectiveness indicators to assess whether controls work. Any new binding prohibition or requirement must use an instrument with the necessary legal authority.

References: SOE Law Arts 23.1.3, 24.1, 29.1, 37–38; OECD Guidelines Chapters II and VII.

Sustainability: integrating climate and social considerations

Observations

- The draft does not yet address sustainability, although the portfolio includes significant coal, mining and thermal power assets
- Existing legal requirements: apply climate-planning and sustainability-reporting duties within their statutory scope (Arts 39.4, 46.3.7).
- Transition risks may affect company value and the planned share sales

Additional policy proposals

- Proportionate owner expectations on climate, environmental and social issues could be included in letters of expectations
- Boards could integrate these issues into strategy, investment, risk and management evaluation, starting with materiality assessments and baselines
- For coal, mining and thermal assets, transition investment, closure costs, security of supply and impacts on workers and communities could be considered
- Sustainability mandates that qualify as PSOs could be costed and funded
- Phase in international reporting and assurance standards proportionately, starting with listed companies as data quality improves.

References: SOE Law Arts 5.1.8, 23.1.3, 39.4, 46.3.7; OECD Guidelines Chapter VII.

Share sales and the investment fund: establishing conditions first

Observations

- The draft sets out an ambitious programme of share sales and a pooled investment fund
- The draft sets readiness conditions for Baganuur and Shivee Ovoo, but lacks a common readiness framework across the programme.
- The National Investment Fund's legal and governance framework is still to be defined

Legal duties and policy proposals

- Readiness conditions could include audited accounts under international standards, boards meeting Article 24 requirements, compensated PSOs, and tariff and regulatory arrangements.
- A single statement on decision rights, consistent with Arts 43.8, 43.9 and 18.1.4, would provide clarity
- Before any transfer, the fund's legal form, mandate, manager selection, governance and link with the Sovereign Wealth Fund should be defined
- Exchanges of shares for fund units should follow the applicable sale and trading rules (Art. 43.7.3).
- Existing legal requirement: preserve equitable treatment by share class and holding (Art. 5.2.2), and applicable information, voting and pre-emption rights.
- Additional policy proposal: establish common safeguards for material information, related-party conflicts, valuation, dilution, restructuring and fund transfers.

References: SOE Law Arts 13, 18.1.4, 43; OECD Guidelines Chapters II and IV. Supporting data: Annexes 8 and 10.

Fiscal risk and statutory deadlines

Existing legal requirements

- Obtain finance-authority approval for debt instruments and long-term loans of wholly owned and majority-owned companies, subject to the within-financial-year exemption (Arts 15.1–15.3).
- Submit debt repayment and overdue-payment plans in the first quarter (Art. 15.4). Apply capital-impairment notification and decisions to wholly owned companies (Arts 12.2–12.3).
- Align reform with commencement on 1 January 2027, the one-year conversion window under Art. 50.1 and board transition ending 30 April 2028 (Arts 50–51).

Additional policy proposals

- Monitor liquidity, arrears, short-term borrowing, repeated refinancing and related-party exposures through a common Ministry of Finance and SPPCA framework.
- Publish an annual fiscal-risk statement distinguishing company liabilities, explicit State guarantees and possible future support.
- Maintain a company-by-company register of actions, responsible bodies, approvals and statutory deadlines.

References: SOE Law Arts 12, 15, 50 and 51. Scope and exceptions are explained in the speaker notes.

Thank you