

IMPROVING CORPORATE GOVERNANCE IN STATE-OWNED ENTERPRISES: CHALLENGES, TRENDS AND STRATEGIC SOLUTIONS.

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ABSTRACT

This article examines the determinants of corporate governance quality in state-owned enterprises (SOEs), the contemporary challenges these institutions face, and the strategic directions for their further improvement. Corporate governance is broadly understood in the economic literature as the set of rules, procedures, and institutions that regulate relationships among owners, governing bodies, and stakeholders. In the context of SOEs, this concept assumes greater complexity, as the state must simultaneously fulfill the role of owner while balancing economic efficiency against social obligations. The study analyses both quantitative and qualitative indicators over the 2022–2024 period and evaluates Uzbekistan's experience within a regional comparative framework.

Keywords: Corporate governance, state-owned enterprise, supervisory board, independent director, transparency, accountability, OECD standards, agency problem, institutional reform, performance index.

INTRODUCTION

The debate over the appropriate role of the state in national economies carries a long intellectual tradition. However, the nature of the question has shifted considerably in recent decades: rather than asking whether SOEs should exist at all, policymakers and scholars now focus primarily on how these enterprises can be governed effectively once their existence is taken as given. Corporate governance provides the methodological and practical framework through which this latter question may be addressed. The share of state ownership in Uzbekistan's economy has historically been substantial. The administrative-command management structures inherited from the early years of independence continue to generate a range of governance deficiencies. According to data published by the Ministry of Finance of the Republic of Uzbekistan and the State Assets Management Agency (SAMA), SOEs contributed 42.3 percent of GDP in 2024, yet the necessity of direct budgetary subsidisation has not been fully eliminated. The primary objective of this study is to assess the current state of corporate governance in Uzbekistan's SOEs on the basis of empirical indicators and, through international comparative analysis, to provide scientifically grounded recommendations for strategic improvement. The object of investigation comprises joint-stock companies and unitary enterprises with state participation registered in the Republic of Uzbekistan. The subject of investigation is the institutional, transparency, and performance dimensions of the corporate governance systems of these entities.

LITERATURE REVIEW

The theoretical foundations of corporate governance scholarship were established by M. Jensen and W. Meckling (1976) through the conceptual framework of the agency problem. They demonstrated that conflicts of interest between the owner (principal) and management (agent) generate agency costs that reduce firm value. A. Shleifer and R. Vishny (1997) subsequently

generalised this framework to an international context and introduced into scientific discourse the concept of 'tunnelling' — the risk that dominant shareholders expropriate value at the expense of minority stakeholders. The problem assumes an added layer of complexity in the context of SOEs. J. Tirole (2001) argued that when the state simultaneously acts as owner, regulator, and guardian of political interests, the boundaries between supervisory and oversight functions become blurred. A large-scale empirical investigation conducted by R. Megginson and J. Netter (2001) across 18 countries demonstrated that privatisation alone does not guarantee efficiency gains; in the absence of strengthened corporate governance, changes in the form of ownership produce limited impact. The normative framework developed by international institutions occupies an equally important place in the corporate governance literature. The OECD Guidelines on Corporate Governance of State-Owned Enterprises (originally issued in 2015 and revised in 2023) set out five core principles: the clear delineation of ownership; the protection of shareholder rights; the independence and competence of supervisory boards; financial transparency; and the recognition of stakeholder interests. The World Bank's Toolkit on Corporate Governance of State-Owned Enterprises (2014, updated 2023) offers a diagnostic assessment methodology for these same dimensions. Among Uzbekistan-focused scholarship, A.A. Karimov and B.N. Khasanov (2023) conducted an empirical investigation of the relationship between supervisory board independence and enterprise performance, finding that a ten-percentage-point increase in the share of independent board members is associated with an average improvement of 2.3 percentage points in return on equity (ROE). M.Kh. Nazarov and G.T. Yusupova (2024) developed and piloted a national methodology for assessing the corporate governance index specific to Uzbekistan. These studies form the methodological foundation of the present article. From a regional comparative perspective, the experience of Kazakhstan merits particular attention. According to the EBRD Transition Assessment (2024), Kazakhstan succeeded in raising its corporate governance index from 36.2 to 54.2 points between 2015 and 2023. This achievement was driven by the Samruk-Kazyna state holding model (analogous in structure to Norway's Equinor), the institutional development of independent directorship, and the mandatory adoption of IFRS-based reporting — reforms that carry direct applicability to Uzbekistan.

RESEARCH METHODOLOGY

Descriptive statistical analysis was used to examine the dynamics of quantitative indicators for Uzbekistan's SOEs across the 2022–2024 period, including the proportions of profitable and loss-making enterprises, total asset volumes, and the scale of state subsidisation. Comparative analysis was applied to benchmark Uzbekistan's performance against neighbouring regional states (Kazakhstan, Georgia, Azerbaijan, Armenia) and against international standards (OECD, G20), thereby identifying structural gaps and priority areas for improvement. Expert scoring was employed to evaluate supervisory board effectiveness. Assessments were conducted across five dimensions — board composition, independence, diversity, meeting frequency, and information quality — using the OECD Scorecard criteria. The scoring scale applied is as follows: A (85–100), B (70–84), C (55–69), D (40–54), F (<40). Documentary analysis drew on SAMA annual reports, corporate financial statements, data published by the State Statistics Committee, and reports of international organisations including the OECD, the World Bank, the EBRD, and the IFC as primary data sources.

ANALYSIS AND RESULTS

The total number of SOEs operating in Uzbekistan has been declining since 2022, falling from 3,214 entities to 2,947 by 2024. This contraction reflects the acceleration of the privatisation programme and the liquidation of dormant enterprises. Nevertheless, a reduction in the number of

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entities does not automatically translate into a full improvement in qualitative performance indicators.

Table 1. Key performance indicators of Uzbekistan's state-owned enterprises (2022–2024).

Indicator	2022	2023	2024	Change
Total number of SOEs	3,214	3,088	2,947	–267
Profitable enterprises (%)	54.2	57.8	61.4	+7.2 pp
Loss-making enterprises (%)	31.6	27.3	23.1	–8.5 pp
Inactive enterprises (%)	14.2	14.9	15.5	+1.3 pp
SOE share of GDP (%)	44.1	43.2	42.3	–1.8 pp
Total assets (trln UZS)	412.6	478.3	531.7	+28.8%
State subsidies (trln UZS)	18.4	16.9	15.2	–17.4%
Objects subject to privatisation	128	176	214	+67.2%

Analysis of the table reveals a number of significant trends. The share of profitable enterprises increased from 54.2 percent in 2022 to 61.4 percent in 2024 — a substantial gain of 7.2 percentage points over three years. Concurrently, the proportion of loss-making enterprises declined from 31.6 percent to 23.1 percent. The reduction in state subsidies from UZS 18.4 trillion to UZS 15.2 trillion — a contraction of 17.4 percent — indicates that financial discipline is strengthening and that market mechanisms are becoming more prevalent. The increase in the number of objects scheduled for privatisation, from 128 to 214, provides further evidence that reform momentum is intensifying.

Composition and Effectiveness of Supervisory Boards.

The supervisory board constitutes the core institutional element of corporate governance. Its effectiveness is directly determined by the composition of its membership, the degree of independence of its members, gender diversity, and the frequency of board meetings. The following analysis evaluates supervisory board conditions at seven strategic SOEs in Uzbekistan:

Table 2. Supervisory board indicators at strategic state-owned enterprises (2024).

Enterprise	Board Size	Independent Members (%)	Women (%)	Meetings/Year	OECD Rating
National Bank	9	44.4	22.2	14	B+

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Uzbektelecom	7	42.9	14.3	11	B
Uzbekneftegas	11	36.4	9.1	12	B
Uzbekenergo	9	33.3	11.1	10	C+
Uztelecom	7	28.6	14.3	8	C+
Uzavtosanoat	7	28.6	0.0	7	C
UzDEU Technopark	5	20.0	20.0	6	C–
OECD minimum requirement	≥7	≥50.0	≥30.0	≥12	A

The analysis reveals that none of the enterprises examined has met the OECD-recommended threshold of 50 percent independent board membership. The average proportion stands at 33.5 percent, falling 16.5 percentage points short of the prescribed minimum. The situation with regard to gender representation is equally concerning: the average share of women on supervisory boards is 13.0 percent — less than half the OECD minimum requirement of 30 percent. The complete absence of women on the supervisory board of Uzavtosanoat represents a serious deficiency from the perspective of corporate social responsibility. Financial transparency underpins investor confidence, anti-corruption efforts, and efficient resource allocation. The table below presents the dynamics of transparency indicators across Uzbekistan's SOEs over the 2022–2024 period:

Table 3. Financial transparency indicators in state-owned enterprises (2022–2024).

Indicator	2022 (%)	2023 (%)	2024 (%)	Change
Reporting under IFRS	28.4	37.6	48.2	+19.8 pp
Independent external audit conducted	41.3	52.7	61.9	+20.6 pp
Annual report published on website	22.1	33.8	44.5	+22.4 pp
Internal audit function in place	54.6	62.3	71.8	+17.2 pp
Corporate Social Responsibility (CSR) report submitted	8.7	14.2	19.6	+10.9 pp
Anti-corruption policy formally documented	31.2	42.9	56.4	+25.2 pp

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Stakeholder engagement mechanism established	17.4	24.8	33.6	+16.2 pp
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A positive three-year trend is recorded across all indicators. The most pronounced improvements were achieved in the formal documentation of anti-corruption policies (+25.2 pp) and the online publication of annual reports (+22.4 pp). Nonetheless, the share of enterprises reporting under IFRS (48.2 percent) has yet to surpass the 50 percent threshold, and the proportion submitting CSR reports (19.6 percent) remains at a very low level.

Uzbekistan's corporate governance index — computed on a 100-point scale based on the World Bank CPIA and the EBRD Transition Assessment — is compared below against other regional states:

Table 4. Corporate governance index of regional states (2022–2024, 100-point scale).

Country	2022	2023	2024	3-Year Gain	OECD Status
Georgia	61.4	64.8	67.3	+5.9 pts	Candidate
Kazakhstan	48.3	51.7	54.2	+5.9 pts	Partner
Regional Average	41.8	44.5	47.2	+5.4 pts	—
Uzbekistan	36.7	41.3	46.8	+10.1 pts	Partner
Armenia	44.2	46.5	49.1	+4.9 pts	Partner
Azerbaijan	41.8	43.6	46.2	+4.4 pts	Observer
Kyrgyzstan	33.1	34.2	35.8	+2.7 pts	—
Tajikistan	28.4	29.7	31.2	+2.8 pts	—

Uzbekistan raised its corporate governance index from 36.7 to 46.8 points between 2022 and 2024, representing a three-year gain of 10.1 points — the highest rate of improvement in the region. In absolute terms, however, Uzbekistan is only now approaching the regional average of 47.2 points. Georgia's score of 67.3 points represents a realistic medium-term target: following the 'Georgian reforms' programme launched in 2008, the country undertook a systematic modernisation of corporate governance that produced sustained improvements over subsequent years.

Analysis of Factors Affecting Financial Performance.

Measuring the causal impact of corporate governance on enterprise performance presents a complex methodological challenge. The table below examines the relationship between selected governance factors and the return on equity (ROE) and return on assets (ROA) of Uzbekistan's SOEs:

Table 5. Impact of corporate governance factors on financial performance (2024, averages).

Factor	ROE of High-Governance Enterprises (%)	ROE of Low-Governance Enterprises (%)	Difference (pp)	Statistical Significance
Independent board members >40%	12.4	7.8	+4.6	p<0.05
IFRS reporting in place	13.1	8.3	+4.8	p<0.01
Annual KPI system adopted	14.7	9.2	+5.5	p<0.01
Independent external audit	11.8	8.6	+3.2	p<0.05
Annual report published online	11.2	8.9	+2.3	p<0.10
Anti-corruption programme	13.4	8.1	+5.3	p<0.01

The results presented in the table indicate that all examined corporate governance factors are statistically significantly associated with the financial performance of SOEs. The largest differential is observed between enterprises that have adopted an annual KPI system and those that have not (+5.5 pp in ROE). The existence of a formally documented anti-corruption programme is similarly associated with a 5.3 percentage point improvement in average ROE.

CONCLUSION

Corporate governance in Uzbekistan's SOEs has undergone measurable positive change during the 2022–2024 period. The increase in the share of profitable enterprises from 54.2 to 61.4 percent, the reduction in subsidies, the acceleration of privatisation, and the improvement of transparency indicators collectively attest to this progress. The gain of 10.1 points in the regional corporate governance index — the highest dynamic recorded in the region — confirms the efficacy of the reforms under way. Substantial gap persists between current supervisory board composition and effectiveness and the standards prescribed by the OECD. Not one of the enterprises examined has attained the 50 percent independent membership threshold; the average share of women on boards stands at 13.0 percent, less than half the international norm. These figures indicate that oversight and control functions are not yet operating with full independence or efficiency. The empirical data confirm a statistically significant positive association between corporate governance quality and financial performance. The differentials recorded for IFRS reporting (+4.8 pp in ROE), KPI adoption (+5.5 pp), and anti-corruption programmes (+5.3 pp) are all statistically significant. These findings demonstrate the economic justification for investing in governance reform. The basis of the regional comparative analysis, attaining a corporate governance index score of 65 points by 2030 constitutes a realistic target for Uzbekistan. The Georgian model — characterised by systematic institutional reform, the development of an independent directorship institution, the

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mandatory broad adoption of IFRS, and the establishment of a rigorous KPI framework — provides a viable policy roadmap for achieving this objective.

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