

Organisation for Economic Co-operation and Development

**OECD Consultative Meeting
with Non-Member countries
on the Guidelines on Corporate Governance of
State-Owned Assets**

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Global Corporate
Governance Forum

Summary Note

Tuesday 12 October 2004

Location:
International Energy Agency
Room 1
9, Rue de la Fédération,
75739, Paris
France

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After opening remarks by Deputy Secretary General Richard Hecklinger, Chairman Jurgen Siewert, and Teresa Barger, Director of the Corporate Governance Department in the World Bank Group, the meeting proceeded directly to Chapter I of the Guidelines.

Chapter I: Government as Owner

The session was opened by the representative from India: Dr. Sikander Dewan, Director General Department of Public Enterprises, Ministry of Heavy Industry and Public Enterprises who emphasised the importance of a clear ownership policy and SOE guidelines, but also the tendency for policies to change as politics changed, and the need for flexibility through time. He noted that when policies do change, the new objectives should be circulated to the public. In addition, he emphasised the need to have a clear ownership policy that precludes or at least reduces political interference in SOEs. The representative from India and other participants in the session also noted that “one size does not fit all” across companies and countries, or even through time as the governance structure of the SOE may evolve.

Other participants in the session also emphasised the importance of a coherent government ownership policy with explicit objectives, and called for stronger language on the need for such a policy. It was also suggested that specific examples of SOE objectives be provided.

One area of concern involved “productive” vs. “public service” entities. It was clear from the discussion that these must be well defined. However there was also a sentiment by some participants that the guidelines, or at least a portion of them, are relevant for public service providers as well as commercial entities. Questions were also raised throughout the meeting about other SOE classifications (large, listed, joint stock company, etc) and participants emphasised the need to be clear with terms and to be careful when focusing on one type of SOE and appearing to exclude others.

Other specific comments included renaming the chapter to “The State as Owner” and the practical difficulties in budgeting for certain public service provisions.

Chapter II: The Ownership Function

This session was opened by the representative from Chile, Mr. Carlos Mladinic, Chairman of the SOE Enterprises System who gave his own country as an example of the effectiveness of single ownership entity. However, there was not consensus on this issue. While the single entity was supported by some who noted its successful use in other countries, many participants saw a single ownership entity as potentially over-bureaucratic and unnecessary. There was doubt that a single entity could oversee a large state sector, and it was noted that it may be more appropriate for smaller countries. The word “centralisation” was particularly criticised. There were also other language concerns, and a desire for clarification of what an ownership entity is.

There was much more consensus for having a singly co-ordinating entity. This may reflect the fact that in practice, ministries remain very involved in the boards of SOEs, even in Chile where there is a central entity. Other countries have also distributed certain ownership functions across certain ministries. According to the Moroccan participant one advantage for a more distributed system was to give different ministries a greater sense of “ownership” in terms of their own influence on the company.

At the same time, there was support for the government’s function as shareholder to be separated from its regulatory role. The need for an accountable and professional entity or entities to carry out ownership functions was noted.

Chapter III: Relations with other Shareholders

China, represented by Mr. Xiaoliang Jia, Deputy Director-General State-owned Assets Supervision and Administration Commission of the State Council (SASAC) opened this session, noting recent changes in their law, building on the OECD Principles of Corporate Governance, to improve the protection of shareholders in *all* listed companies. In general, there was a relatively high level of consensus on this Chapter, with mostly minor comments. One interesting point made by Malaysia was that to be an effective owner, there may be cases where the ownership entity does in fact need to have more information than other shareholders.

Chapter IV: Relations with Stakeholders

A South African representative, Mr. Peter Pedlar, Deputy Director General of the Department of Science & Technology opened this session. In his comments he noted the importance of stakeholder objectives in South Africa’s democratic transformation. As with the previous Chapter, there was relatively high consensus on the benefits and approach of this Chapter. However, one participant did raise the concern that stakeholders like employees might actually be treated to well by an SOE, implying that safeguards for stakeholder rights were less important than in private sector companies. This position was not widely supported, though potential for abuse was noted. In the context of state banks lending to other SOEs, it was noted by South Africa that “creating a level playing field” between private and public sector went beyond banking, and included other relationships as well.

Chapter V: Transparency and Disclosure

This session was opened by Mr. Vladimir Gusakov, Deputy Head of the Federal Service for Financial Market (FSFM). He emphasised the importance of both aggregate and individual SOE reporting, but expressed concern about the practical limits of reporting, including confidentiality issues (for military companies for example) and undo burdens on smaller SOEs.

In the session as a whole, there was “unclarity leading to confusion” (to paraphrase the chair) in regards to aggregate reporting, and how it was distinct from consolidated accounts for a group of related companies. There was a consensus for more clarity and less confusion in describing aggregate reporting in the guidelines.

Some interesting specific points include the need to disclose the public-private partnerships, the usefulness of “performance metrics” for the board and management, challenges in valuing non-market assets, the importance of disclosing (and certifying) the disclosure of governance arrangements, and the need to have a very clear link between objectives and their reporting within the guidelines themselves.

Chapter VI: The Role of Boards

Brazil, represented by Mr. Tarcísio José Massote Godoy, Deputy Secretary, Ministry of Finance, National Treasury Secretariat opened this session, noting that this was the most important chapter of the guidelines. This view was concurred by many of those present at the meeting. Importance did not imply consensus on the details however: Brazil emphasised the independence of boards from management and major shareholders; but views of independence and its importance were wide ranging.

There was no dissent on the need for board members to be qualified and accountable, and to exercise independent judgement. But some participants emphasised that this required no political (ministerial) role in nomination of board members, others saw a political role as desirable or at least unavoidable. Some participants emphasised the need for the board to hire and fire the CEO, South Africa suggested a “give and take” between ministers and the SOE board was necessary. In terms of composition, there was agreement on the need for non-executive directors, but the merits of state appointees vs. board members independent of the government was not agreed.

Some helpful suggestions included the reminder that whoever they are, board members should be accountable to all shareholders; focus more specifically on nepotism and other cronyism; and force political appointees to take a stand and be active decision makers.