THE 7TH MEETING OF THE ASIA NETWORK ON CORPORATE GOVERNANCE OF STATE-OWNED ENTERPRISES

Professionalization of State-Owned Enterprises

AGENDA

Hotel Novotel
Bandung, Indonesia
3-4 July 2012

With the support of:
The Government of Korea

Organised jointly with:
National Commission on Governance of Indonesia
Enterprise Risk Management Academy
Background and Objectives of the Asia SOE Network

The Asian Roundtable on Corporate Governance (the “ARCG”) has decided to develop, under its auspices, a specific activity on the corporate governance of SOEs to raise awareness and promote the use in Asian economies of the OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “Guidelines”). These Guidelines were adopted in spring 2005 and are the first international benchmark in this area. After a preliminary meeting held in Beijing in May 2005 to discuss a first list of priority issues regarding corporate governance of SOEs in Asia, the Guidelines were presented in the 2006 meeting of the ARCG in Bali. Discussions there underlined the importance of developing a specific forum to carry out a focused policy dialogue and investigate in-depth the appropriate policy options to improve the governance of SOEs in Asia.

In order to reach the appropriate audience and to deal with the policy challenges ahead, it was therefore decided to set up an Asia Network on Corporate Governance of SOEs (the “Asia SOE Network”), bringing together the experience and expertise of experts from all Asian economies participating in the ARCG. The Asia SOE Network has since then met regularly and developed into a high-level hub for a structured policy dialogue on corporate governance of SOEs in Asia, using the Guidelines as a framework for discussion.

The objectives of the Network are:

- to raise awareness of all concerned constituencies on the importance and challenges related to the good corporate governance of SOEs;
- to evaluate the current SOE corporate governance policy frameworks and practices, and benchmarking these against international good practice as described in the Guidelines;
- to influence policy making by providing a forum in which policy makers, practitioners and experts can share knowledge and experience among themselves and with their OECD peers;
- to support viable and effective reforms in the area of SOE corporate governance, by discussing and analysing policy options, developing relevant recommendations and agreeing on priorities for reforms adapted to the conditions in Asian economies.

Altogether, the meetings gather around 50-70 participants, including the most prominent, active and influential policy makers, practitioners and experts on corporate governance of SOEs in the region. They constitute a peer group that can press for legal, regulatory or other type of reform in this field. In order to provide the OECD experience and to ensure consistency with the Guidelines, the Network also includes relevant experts from OECD countries, particularly from the OECD Working Party on State Ownership and Privatisation Practices.

The Asian Network has met six times since 2006. The first three meetings covered the six chapters of the Guidelines. Each meeting was dedicated to comparing regional practices with one or two chapters of the Guidelines and to developing specific recommendations in this regard. To keep the dialogue purposeful and to produce tangible outcomes, the Asian Network has developed a Regional Policy Brief, providing a set of recommendations and priorities for policy reform in order to improve the corporate governance of SOEs in the economies of Asia. Accordingly, the last three meetings in Bangkok (2009), Kuala Lumpur (2010) and Seoul (2011) focused on implementation issues, discussing examples of good practices and the ways to implement the recommendations as provided by the Policy Brief.
The 2012 Meeting of the Asia SOE Network

The overarching theme for this year’s Network meeting is Professionalization of SOEs. Professionalization does not equal commercialization. It may be perfectly legitimate for SOEs to be charged with important public policy obligations and, in consequence, depart from commercial and competitive principles. However, professionalism implies that those involved in decisions related to SOEs, and their implementation, must be held to high levels of qualifications, governance, transparency and accountability. The meeting will focus on two important aspects of professionalization: the performance of the boards of directors of individual SOEs; and the conduct of the state ownership function.

SOE professionalization at the board level needs to address all factors influencing the boards’ ability to carry out their dual functions of approving corporate strategy and monitoring the senior management. If must further consider whether boards enjoy sufficient autonomy to carry out these functions in a rational fashion and in the best interest of the company and its shareholders. This involves the structure and composition of the board; formal competences and qualifications; director training; boardroom dynamics including the role of the Chair; and evaluation of board performance.

Professionalization in the conduct of the state’s ownership involves transparency in communicating a clear strategic approach to SOEs rather than approaching issues on a case-by-case basis. This can be done either by coining individual corporate objectives or by categorizing groups of SOEs according to their degree of commercial or public policy orientation. Many countries have also communicated high-level “expectations” to their SOEs as a group. Such may include the pursuit of social responsibility and other ethical behaviour.

The Network will continue to be a platform for a structured policy dialogue and an exchange of practical experiences in corporate governance of state-owned enterprises. The Sixth meeting in Seoul took the initial steps towards establishing an SOE Company Circle aiming at bringing together leading SOEs with practical experience in implementing best practices in corporate governance in the Asian context. The main goal of the SOE Company Circle will be to provide a forum where SOE board directors and managers can discuss the challenges they face and the responses they have formulated in improving their corporate governance practices and to contribute to the work of the Network with the views and experiences of SOEs that have successfully undertaken corporate governance reforms.

This year will see the formal inauguration of the Company Circle. The Network will be invited to agree on a structure and governance of the Circle. Participation will be open to SOEs from any sector, but the Secretariat will focus its invitations to the Oil and Gas and Telecommunication sectors. The focus here will be to present as case studies how these enterprises are managed in terms of corporate governance practices especially charting the progress in implementing professionalization of board practices and ownership policy.
Tuesday 3rd July 2012

9.00 - 9.30  Registration

9.30 - 10.30  Inaugural Session

Opening Remarks

- Mas Achmad Daniri, Chairman, NCGI
- John Lim, Chair of the Asia Network on Corporate Governance of SOEs
- Young-jin Kim, Director General, Ministry of Finance and Strategy, Korea
- Hans Christiansen, Corporate Affairs Division, OECD

Keynote Address

- Mr. Sahala Lumban Gaol, Expert Staff for Public Policy, Ministry of SOE, Indonesia and committee member of NCGI.

10.30 - 11.00  Tea/Coffee break

11.00 - 13.00  SESSION 1: SOE governance reforms in Indonesia: experiences & prospects

Chair: Mas Achmad Daniri, NCGI, Indonesia

Presentation
Karen Agustiawan, President Director of PT. Pertamina Persero
Arifin Tasrif, President Director of PT, Pupuk Indonesia Holding Company
I Ketut Mardjana, President Director of PT, Pos Indonesia Persero

Open discussion

Background:
The objective of this session is to invite an in-depth discussion of the current status and reforms in Indonesia. Accordingly, the current status of practices and on-going reforms in the country will be presented, and discussants from the Network will comment, based on their experiences in their respective countries.

13.00 - 14.00  Lunch

14.00- 15.30  SESSION 2: SOE governance reform in other Asian Countries: experiences and prospects

Chair: Selim Yesilbas, OECD Working Party on State Ownership and Privatisation Practices
Tour de table on implementing reform priorities according to the Policy Brief

- Karma Yonten, DHI, Bhutan
- Zhengjun Zhang, DRC, China
- Arun Kumar Sinha, DPE, India
- Lya Rahman, MSWG, Malaysia
- Fuad Hashimi, PloD, Pakistan
- Cesar L. Villanueva, Governance Commission on GOCCs, The Philippines
- Tran Tho Hai, Ministry of Finance, Vietnam

Background:

Vietnam has implemented a new system of memorandums of understanding between SOEs and their ownership entity. Pakistan and the Philippines have, as discussed at the previous meeting of the Network, issued new SOE governance regulations. India has implemented a comprehensive policy, including instruments to enforce CSR, performance management from within the Cabinet Office. In Malaysia, there is a new Director’s Institute and Centre of Excellence to train directors. If individual countries wish the support of the Network for further domestic reform, a communiqué can in each case be developed stating the Network’s assessment of ongoing reform and future priorities.

The OECD Secretariat, further to instructions of the Asia SOE Network Chair and Core Group, has invited Network participants to fill out a reporting template drafted according to the recommendations in the Policy Brief. In this session, we’ll further invite a tour de table of the survey respondents.

15.30 - 16.00  Coffee/Tea Break

16.00-17.30  SESSION 2 (continued): SOE governance reform in other Asian Countries: experiences and prospects

17.30 – 18.30  SESSION 3: Competitive Neutrality

Chair:  Anne Molyneux, CS International

Presentation
Hans Christiansen, OECD

Discussant
Lawrence Lee, Taiwan Fair Trade Commission
Ram Kumar Mishra, Institute of Public Enterprises, India

Open Discussion
Background:

Due to their privileged position SOEs may negatively affect competition and it is imperative to ensure that, SOEs are subject to similar competition disciplines like their private sector counterparts. The issue of ensuring a level-playing field to the private sector and to avoid competitive distortions has been addressed by the Asia Policy Brief through its recommendations such as making specific obligations and related costs transparent (Recommendation I.3) and clarifying SOE objectives and making noncommercial ones explicit (Recommendation V.1). Competition issues in relation to the conduct of SOEs may vary depending on the form in which the state exercises its control over them and whether SOEs occupy monopoly positions or actively compete in a market with private entities.

19.00 Dinner at Saung Angklung Udjo
Wednesday 4th July 2012

09.00 – 09.30 Establishing the Companies Circle and agreeing on its mandate

Moderator: Hans Christiansen

09.30 – 12.00 SESSION 4: Professionalization of SOE Boards

Chair: John Lim, Chair, Asia Network on Corporate Governance of SOEs

This session will draw on the experience of individual SOEs involved in the Company Circle. They will mostly represent the Oil and Gas and Telecommunication sectors.

09.30 – 10.45 Part A: Training of directors

Presentation
Li Bing, SASAC, China

Discussants
Jesus Estanislao, ICD, The Philippines
Abdul Aziz Abu Bakar, Malaysian Directors Academy, Malaysia

Open Discussion

Background:
In terms of professionalizing SOE board practices directors’ training is seen as a key priority in many Asian countries. As recognized by the Policy Brief on Corporate Governance of SOEs in Asia (the “Policy Brief”), a better board functioning can be achieved by providing directors the autonomy to exercise their powers. However, a prerequisite for success is ensuring that directors have the necessary skills to achieve their goals, including through an adequate nomination process but also by providing appropriate training. This also contributes to an atmosphere through which SOE boards may better resist undue political interference in its functioning.

10.45 – 11.15 Coffee/Tea Break

11.15 – 12.30 Part B: Risk management at the Board level

Presentation
Rana Assad Amin, Ministry of Finance, Pakistan

Discussants
Antonius Alijoyo, Enterprise Risk Management Academy, Indonesia
Naresh Kumar Nagpal, GAIL, India
Open Discussion

Background:
SOEs may sometimes perceive a lower need for risk management since stakeholders tend to rely on implicit guarantees arising from state ownership. However, in the current environment SOEs are becoming increasingly reliant on financing on market terms which has heightened their risk awareness. At the same time, governments have an interest in prudent risk management by the enterprises they control as the political fallout from mishaps can be considerable. The principal duty of managing risk is with the board of directors, which under almost all national legislations is subject to a duty of care toward the company and/or its shareholders. Some have established risk management committee at the board level to identify, assess, quantify, manage, and mitigate risk. Since the financial crisis attention has also focused on how SOEs manage all their risks and how risks are inter-connected.

12.30 – 13.30 Lunch

13.30-16.00 SESSION 5: Professionalization of the State Ownership Function

Chair: John Kim, KIPF, Korea

Presentation
Young-Jin Kim, Director General, Ministry of Finance and Strategy, Korea

13.30 – 14.45 Part A: Categorising SOEs and balancing their commercial and non-commercial objectives

Presentation
Zhengjun Zhang, DRC, China

Discussants
David Robinett, World Bank
Angela E. Ignacio, Governance Commission on GOCCs, The Philippines

Open Discussion

Background:
A majority of SOEs are subject to certain public policy obligations, which not infrequently serve as a justification for continued state ownership. These may trigger outright subsidies from the national treasury or induce the ownership function to accept lower-than-usual rates of return. This is consistent with the Policy Brief. However, professionalism in the ownership function requires clarity regarding the nature of such obligations – if necessary involving disclosure by different members of the policy framework. An overall ownership policy should normally set out the basic objectives of government ownership. Company-specific objectives can be either developed and disclosed individually or clustered into categories with different classes of commercial and non-commercial objectives.
14.45 – 16.00 Part B: Corporate Social Responsibility, Ethics and Accountability

Presentation
Jogiranjan Panigrahi, DPE, India

Discussants
Lijie Chen, China Mobile
Rainier B. Butalid, Governance Commission on GOCCs, The Philippines

Open Discussion

Background:
All companies should be expected to behave ethically and in socially responsible manner, but in practice the political oversight may make SOEs relatively more susceptible to such public expectations. Governments should communicate their expectations in this respect to the companies they control, preferably in a transparent manner and subject to accountability regarding the way in which these expectations are developed. Moreover, socially responsible behaviour is not just a question of declarations and compliance programmes. An effective way to ensure that SOEs’ CSR obligations are reflected in practices is to integrate CSR into existing business plans. Where this is done, it effectively makes the pursuit of CSR a board responsibility at par with monitoring the companies’ financial performance.

16.00 – 16.30 Coffee/Tea Break

16.30 – 18.00 SESSION 6: Future Roadmap

Going forward, the focus of the Network must be to help achieve concrete progress in SOE reform across the Asian region. The participants are invited to discuss – in a “brain storming” mode – topics for future meetings, organising the work of the Network, direct inputs from individual countries and/or the members of the Company Circle, as well as processes and tangible outcomes that will increase the impact of the Network in the coming years.

18.00 – 18.30 CONCLUDING SESSION
ANNEX

Background to the Companies Circle

At the sixth Asia SOE Network meeting in Seoul in May 2011, there was an exploratory discussion concerning the formation of an “SOE Companies Circle” to support the work of the Network. The discussions established that there was a widespread support to set up an SOE Companies Circle. The purpose of the Circle is threefold: (i) it will serve as a forum for exchange of information and good practices among the SOEs of the region; (ii) it will act as a common platform for the region’s SOEs, allowing them to bring issues or concerns to the attention of the Network; and (iii) it will serve as a source of case studies, allowing the Network to highlight examples of successful SOE governance reform at the enterprise level.

The SOE Companies Circle will meet annually on the day preceding the meeting of the Asia Network. On the basis of the overall theme of Asia SOE Network meetings every year, representatives from SOEs will be encouraged to make sector and SOE specific presentations. The inaugural meeting of the Companies Circle in Bandung, Indonesia this year will formally establish the Circle and agree on its governance and mission statement. This year, SOE representatives from Oil and Gas and Telecommunications sectors will be invited to present governance practices, reforms and challenges in their respective sectors.

Until the SOE Companies Circle is formally established, the participants in the informal meeting in May 2011 agreed to act as interim Companies Circle members. The interim members will make known to relevant national authorities about the existence of the Circle and suggest names of and interact with other SOE representatives that might have an interest in joining the Circle.

Membership of the Circle is not restricted. However, a “Core Membership” will be established, consisting of SOEs which are committed to participate at (almost) all annual meetings and take part in electronic exchanges of information between meetings. The Core Membership will consist of companies rather than individuals. The companies will be free to designate any member of their staff to participate in meetings of the SOE Companies Circle.