3rd Meeting of the OECD Network on the Governance of State-Owned Enterprises in Southern Africa

Forging Ahead with Reforms

SESSION 5: WHAT IS THE ROLE OF SOEs IN SUPPORTING DEVELOPMENTS?

DBSA Vulindlela Academy, Midrand, South Africa
8 – 9 October 2012
Using SOEs to Support Development: Conditions and Challenges

Zhengjun ZHANG
Chief of SOEs Division, Senior Research Fellow
Development Research Center of the State Council, China
8-9 Oct, 2012, Midrand
1. The main stream of SOEs reform in China was trying to improve efficiency of SOEs since 1978

<table>
<thead>
<tr>
<th>Year</th>
<th>Numbers</th>
<th>Revenue</th>
<th>Profit</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>22%</td>
<td>81%</td>
<td>84%</td>
<td>70%</td>
</tr>
<tr>
<td>1992</td>
<td>20%</td>
<td>65%</td>
<td>55%</td>
<td>64%</td>
</tr>
<tr>
<td>1997</td>
<td>18%</td>
<td>44%</td>
<td>25%</td>
<td>65%</td>
</tr>
<tr>
<td>1998</td>
<td>39%</td>
<td>52%</td>
<td>36%</td>
<td>60%</td>
</tr>
<tr>
<td>2006</td>
<td>6%</td>
<td>32%</td>
<td>43%</td>
<td>24%</td>
</tr>
<tr>
<td>2010</td>
<td>4.5%</td>
<td>28%</td>
<td>28%</td>
<td>19%</td>
</tr>
</tbody>
</table>

- 1978: Deciding authorizing to SOEs
- 1979: Deciding let SOEs keep profits
- 1983: Introducing contract business running
- 1988: Law on Industrial Enterprises Owned by the Whole People
- 1993: Political decision to build a market Economy; and to introduce modern enterprise system
- 1993: Company Law, small and medium SOEs gradually transformed into stock or limited liability companies
- Large SOEs kept purely state owned.
- 1997: Political decision gave permission to SOEs to exit, almost all small and medium SOEs were sold in the following years.
- 1998: Government system reform, dismissed various ministries of industries
- 1999: Political decision to set up corporate governance and multiple-ownership structure in SOEs
- 2003: Central SASAC established
- 2004: Pilot action on establish BOD in SOEs
- 2005: Company Law revised
- 2008: Law on the State-Owned Assets of Enterprises
Enlarging SOEs Rights and Introducing Incentive, without Ownership Change

Results:
✓ SOEs disordered under authorizing, and rigid when pull back authorizing

Pro-Market Institution System was Introduced, without ownership structure policy

Results:
✓ the new enterprise system was not recognized seriously by most SOEs
✓ no big changes in terms of governance mechanism.
✓ In mid-1990, large scale of losses for SOEs occurred in China.

“Control large while free small and medium” Ownership policy and Modern CG System were executed

Results:
✓ Competition degree upgraded;
✓ Privatized SOEs became real company;
✓ Large SOEs that introduced investors from capital markets, changed their goals and mechanisms;
✓ With the profit oriented goals, pro-market mechanisms, inclined finance, and reluctant intention to exit from profitable resources and franchise right, SOEs really growth fast, competitiveness improving
2. Considering the large proportion of SOEs in economy, better performed SOE contributed greatly to the whole economy growth in China.

### SOEs production in GDP proportion（% ， 2006）

<table>
<thead>
<tr>
<th></th>
<th>First Industry</th>
<th>Second Industry and Construction</th>
<th>Third Industry</th>
<th>Whole Nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of Industry</td>
<td>5.8</td>
<td>33.3</td>
<td>50.6</td>
<td>-</td>
</tr>
<tr>
<td>Proportion of Whole Nation</td>
<td>0.68</td>
<td>16.31</td>
<td>19.92</td>
<td>36.9</td>
</tr>
</tbody>
</table>

### AGR of SOEs in manufacture Sector during 2005-2010

<table>
<thead>
<tr>
<th></th>
<th>Total Industry Production</th>
<th>Total profit</th>
<th>Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>All manufacture Sector</td>
<td>22.7</td>
<td>29.1</td>
<td>19.5</td>
</tr>
<tr>
<td>All SOEs in manufacture Sector</td>
<td>17.3</td>
<td>17.7</td>
<td>14.1</td>
</tr>
<tr>
<td>SOEs in top 10 output manufacture industries</td>
<td>17.9</td>
<td>39.2</td>
<td>19.2</td>
</tr>
</tbody>
</table>

### M&A of Large Company in 2010

<table>
<thead>
<tr>
<th>Buyer company</th>
<th>No. of Companies</th>
<th>No. of merged companies</th>
<th>No. of Companies being merged per buyer company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese 500</td>
<td>182</td>
<td>1112</td>
<td>6.1</td>
</tr>
<tr>
<td>SOEs</td>
<td>134</td>
<td>903</td>
<td>6.7</td>
</tr>
<tr>
<td>Private Firms</td>
<td>48</td>
<td>209</td>
<td>4.3</td>
</tr>
</tbody>
</table>
3. There are no clear voices in terms of SOEs roles in supporting development in China, more over there were no such strategies for Government in China in the past

Debates:

- SOEs should be reduced to at 10% of current level;
- Criticizing on SOEs’ low efficiency, monopoly position, priorities taken, and squeezing out private investment;
- SOEs should play major roles in China
- Even voices of SOEs be party’s ruling bases.
4. Practically, we could see that SOEs was used as tools for government in China in recent year

Tools for:

• **Natural monopoly industry management:** telecommunication, state grid;

• **Public goods providing:** Postal services, mobile and telecommunication infrastructure in rural areas, utilities;

• **Remedy Externalities:** public R&D platform;

• **National securities:** nuclear power production, defense industry, the Three Gorges;

• **Industrial development, especially for those significant infrastructures:** express way, airport, railway, water conservancy;

• **Industrial policy:** safety production, upgrading industrial level, technology innovation;

• **Big events holding:** Olympic games, World Expo;
5. Reasons for SOEs could play roles to support development in China

- The leadership were rather practical
  - with clear goals of pursuing economic development.
  - At the same time, they are rather open to learn foreign experiences when emphasizing to remain Chinese characteristics.

- SOE features in recent year in China
  - Profit oriented feature imports relatively strong incentives to insiders.
  - Surpassed finance shortages and skill shortages
  - Larger size with relative more stable operation, higher credit, and management
  - Concentrated to more resource industries or franchise sectors
  - Strong ownership and better governance.

- Using ownership control to remedy market failures of
  - Externalities
  - Natural monopoly: telecom, electric grid, etc.
  - Public goods or semi-public goods: subway, railway, strategic high-tech industries with huge risk-taking, important strategic industries
  - Inefficient market mechanism in a developing economy.
  - Insufficient legislation and regulation in a transition economy.
6. It seems that there are a perfect balance between SOEs roles and relatively "weak government" in terms of market mechanism building, legislation, and regulation, in order to seek for remedies using SOEs as tools.

- **Q1:** Will such balance last long?
  - the risks originated from the nature of SOEs: “no clear boundary between Government and SOEs”, “soft budget”, “incentive for expansion”.
  - If added with a fuel of easy money, the result in the long term will be low investment return, and then drag slow economy growth, finally fall into “middle income trap”

- **Q2:** If the balance can not last long, Will government’s capability be improved greatly to remedy the shrink scale or weaker competitiveness of SOEs, or can government continue improve governance and then efficiency of SOEs?
  - Risks come from partial group interest, corruption, and lack of talent people in government
  - Risks also come from to what degree can government eliminate weak nature of SOEs state in above
7. For some countries, SOEs may not be the best choice for push development, there should be conditions decided by the development stage and Institution environment

**• Condition for Development stage:**
- Relatively lagged behind development level, or weak economy——strong incentive for development
- Shortage of finance, shortage of skills
- Imperfect market mechanism
- Strong needs to overcome shortage of public goods providing, weak investment in externality industries, and weak industry regulation.

**• Conditions for government:**
- Strong Catch-up goals set by government
- Rather large sum of resources (including nature resources) controlled by government yet under being exploited
- Weak government capability in term of legislation, regulation and market mechanism building, but perhaps strong in administration power in some countries.

**• Conditions for SOEs:**
- Strong ownership peering from government department rather that weak or dispersed ownership rights.
- Efficient corporate Governance mechanism
- Profit or value oriented for most SOEs in general industries sector, clear separation between commercial and non commercial objectives in one SOEs in term of accounting, operation objectives and clear accountability.
- Hard budget constraint and market competition pressures, competition neutrality important
8. Challenges of relying on SOEs to support development

- In long term, SOE’s low efficiency will become a real problem;

- Whether Government can improve its capability, and quickly go through the lower development stage;

- Whether SOEs can be driven by strong ownership and good corporate governance, at same time avoid being intervened by government;

- Whether SOEs can face real pressures: private sector development, neutrality of government in allocating national resources and franchise.
Thank you!

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Ownership steering of SOE’s with special assignments in Finland

The OECD Network on the Governance of State Owned Enterprises in Southern Africa

Midrand, South Africa
8-9 October 2012

Mr. Arto Honkaniemi
Senior Financial Counsellor
THE STARTING POINT

- Finland is a small, open economy
- Owning companies is not one of the essential functions of the State
- The ultimate aim of the Government in the long run is to own no commercial companies
- Still there are several state-owned companies in Finland
WHY IS THE STATE OF FINLAND OWNER IN COMPANIES?

- No nationalized industries
- No “investor portfolio”

1. The state has made investments to support industrialization of the country or specific regions
   - heavy industry

2. Parts of the state organization have been turned into state enterprises, then incorporated, then listed
   - utilities

3. The state has organized certain specific tasks in corporate form
   - Often 100 % owned, sometimes state monopolies

4. State ownership as a consequence of the banking crisis in late 90’s
   - financing, real estate
# CATEGORIES OF STATE-OWNED COMPANIES

62 companies

## Investor Interest

- **Commercial companies** (20 companies)
  - 8 non-listed companies
  - 12 listed companies
    - State in minority
    - Delegated to holding company
  - May be privatized

## Strategic Interest

- **Commercial companies with strategic interest** (18 companies)
  - 3 listed companies
    - Majority holding by the State
  - 15 non-listed companies
    - Infrastructure
    - Security of supply
    - General performance obligation
  - Only partial privatization possible

- **Companies with special assignment** (24 companies)
  - All non-listed
  - Most 100 % state-owned
  - Some non-profit
  - Regulatory monopolies
  - Policy tools
  - In-house suppliers
  - Cannot be privatized

## Prime Minister’s Office

- 3 listed companies
  - Majority holding by the State

## Several Ministries
OWNERSHIP STEERING DEPARTMENT
PRINCIPAL TASKS

- Established through reorganisation in 2007
- Ownership steering of 26 commercial companies and 3 companies with special assignments
  - 12 listed companies delegated to Holding Company
  - creation and continuous update of ownership strategies
  - continuous follow-up and analysis of the performance
  - execution of all transactions affecting the ownership
  - representation at AGM’s
- Separation of ownership steering and regulation
  - OECD Guidelines I.A!
- The Prime Minister’s office is a “neutral” Ministry, with no regulatory tasks
- The Prime Minister is not, himself, responsible for Ownership Steering
- Another Minister, with no conflicting regulatory tasks, is appointed to the Prime Minister’s Office with responsibility for Ownership Steering
CATEGORIES OF STATE-OWNED COMPANIES
62 companies

**Investor Interest**
- Commercial companies (20 companies)

**Strategic Interest**
- Companies with special assignment (24 companies)
  - All non-listed
  - Most 100% state-owned
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  - In-house suppliers
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**Prime Minister’s Office**
- 8 non-listed companies
- 12 listed companies
  - State in minority
  - Delegated to holding company
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**Several Ministries**
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COMMERCIAL COMPANIES (20 COMPANIES)
- Commercial companies
- With strategic interest
- (18 companies)
- Companies with special assignment
- (24 companies)

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

14/11/2012
<table>
<thead>
<tr>
<th>Ministry</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Transport and Communications</td>
<td>3</td>
</tr>
<tr>
<td>Ministry of Education and Culture</td>
<td>4</td>
</tr>
<tr>
<td>Ministry of Social Affairs and Health</td>
<td>1</td>
</tr>
<tr>
<td>Ministry of Employment and the Economy</td>
<td>2</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>1</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>9</td>
</tr>
<tr>
<td>Prime Minister’s Office</td>
<td>3</td>
</tr>
<tr>
<td>Ministry of Environment</td>
<td>1</td>
</tr>
</tbody>
</table>

**TOTAL**

8 Ministries 24 companies
A FEW EXAMPLES

Alko Inc.
- Ministry of Social Affairs and Health
- monopoly over retail sale of alcoholic beverages
- Law on alcohol 1143/1994
- 350 outlets
- 3,500 employees
- annual sales (without alcohol tax) € 600 mio

Finavia Corp.
- Ministry of Transport and Communications
- ownership and management of 24 regional airports
- former state enterprise, “natural monopoly”
- 3,000 employees
- annual sales € 350 mio

Hansel Ltd.
- Ministry of Finance
- Government in-house procurement unit
- non profit-enterprise
- 70 employees
- value of annual purchases € 700 mio

Veikkaus Oy
- Ministry of Education and Culture
- monopoly over lotteries, gambling, football pools etc.
- Law on lotteries 1047/2001
- 300 employees
- annual sales € 1,800 mio
- annual profit € 500 mio
- distributed to more than 3,000 beneficiaries
- arts, sports, science, youthwork
POLICY TARGETS

- Commercial companies operating on market terms
  - Good dividend yield and increase of value
  - Expected to be profitable

- Companies with special assignments
  - Good overall social and economic result
  - Efficiency in executing the special assignment
  - Self-sustaining
OWNERSHIP STEERING OF SOE’S WITH SPECIAL ASSIGNMENTS (1)

- All Finnish SOE’s are limited liability companies organized under the Companies Act
- Combination of state administration in a corporate form and business
- The role of the owner is clearly stronger than in commercial companies
- Corporate governance less important
- In addition to the governing Ministries the companies have a close contact with the respective regulatory authorities
OWNERSHIP STEERING OF SOE’S WITH SPECIAL ASSIGNMENTS (2)

- The special assignment is imposed on the Company by the Government, likewise the effects of the assignment on the operational targets of the Company.
- The governing Ministry gives instructions regarding the special assignment using regulatory and economic tools where necessary.
- The Board of Directors and the management of the Company define the commercial strategy how the business of the Company is run.
- The special assignment and the commercial strategy should be fitted together well in advance, as a part of target setting. The governing Ministry should not be brought in a situation where it has to interfere with the operations and the business of the Company.
The Ownership Steering Department of the Prime Minister’s Office is the “center of excellence” within the Finnish State administration regarding the corporate governance of SOE’s.

Each governing Ministry has the powers of the Shareholder in each Company under its administration and is the custodian of the special assignment:
- decides upon matters of the Annual General Meeting
- defines the special assignment
- follows the implementation of the special assignment and the performance of the Company in general.
COOPERATION BETWEEN OWNERSHIP STEERING DEPARTMENT AND MINISTRIES GOVERNING SOE’S WITH SPECIAL ASSIGNMENTS (2)

- Rulings by the Government require the governing Ministries to cooperate with the Ownership Steering Department
  - to coordinate the policies and practices of ownership steering in all SOE’s, both commercial and those with special assignments
  - to take advantage of the expert capacity of the Ownership Steering Department
    - general experience in corporate governance
    - financial analysis
    - pool of directors
- Company-specific coordination committees
  - 2 + 2
  - at least twice a year
  - to be called by the governing Ministry
CATEGORIES OF STATE-OWNED COMPANIES

62 companies

**Investor Interest**
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- Policy tools
- In-house suppliers
- Cannot be privatized

**Several Ministries**
- 3 listed companies
- 15 non-listed companies
  - Infrastructure
  - Security of supply
  - General performance obligation

OWNERSHIP STEERING
PRIME MINISTER’S OFFICE

14/11/2012
COMMERCIAL COMPANIES WITH STRATEGIC IMPORTANCE

- The Ownership Steering Department has the Powers of the Shareholder but another Ministry has been appointed as the Custodian of the strategic interest

- A few examples:
  - Ekokem Oy
    - handling of hazardous wastes
    - Ministry of Environment
  - Itella Corp.
    - postal services
    - general service obligation
    - Ministry of Transport and Communications
  - Neste Oil Corp.
    - oil refining and marketing
    - security of supply
    - Ministry of Employment and the Economy

- Company-specific coordination committees
  - 2 + 2
  - at least once a year
  - to be called by the Ownership Steering Department
  - mainly to discuss the continued existence and the definition of the strategic interest
For further information please visit our website

www.stateownership.fi
State Owned Enterprises and Development in Turkey

Ayşenur YİĞİT
09.10.2012

ayse.yigit@hazine.gov.tr
Outline

I. General Outlook to Turkey and Turkish Economy
   - Location of Turkey
   - Population
   - Economic information

II. General Outlook for Turkish SOE System
   - SOEs in the Turkish economy
   - Classification of public enterprises
   - Major aspects of SOEs

III. Role of SOEs in Turkish Economy
   - Market Regulation and Support
   - Enhancing Regional Development
   - Policy Implementation
   - Using Monopolistic Rights
I. General Outlook to Turkey and Turkish Economy
Geographic Location of Turkey:
Turkey: Population Prospects (Milon People)

Source: TURKSTAT
World’s Biggest Economies
(GDP based on Purchasing Power Parity, Trillion Dollar, 2011)

Source: IMF, World Economic Outlook, April 2012
Europe’s Biggest Economies
(GDP based on Purchasing Power Parity, Trillion Dolar, 2011)

Source: IMF, World Economic Outlook, April 2012
Per Capita GDP (USD)

Source: TURKSTAT
Comparison of Europe and Turkey: Real GDP Growth (2001=100)

Source: OECD
II. General Outlook for Turkish SOE System
In the 1990s...

- More than 60 different SOEs
- Significant share in GDP and public investments
- 660 thousand employees
  now reduced to...

- 19 SOEs
- A lower share in GDP and public investments
- 140 thousand employees
  as a result of mergers and privatizations.
SOEs in the Turkish Economy

Significant drop in gross sales...

Gross Sales as % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Treasury Portfolio</th>
<th>Privatization Agency Portfolio</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>10.83%</td>
<td>6.89%</td>
<td>17.72%</td>
</tr>
<tr>
<td>1999</td>
<td>12.00%</td>
<td>7.85%</td>
<td>19.85%</td>
</tr>
<tr>
<td>2000</td>
<td>12.68%</td>
<td>7.13%</td>
<td>19.81%</td>
</tr>
<tr>
<td>2001</td>
<td>14.88%</td>
<td>10.07%</td>
<td>24.95%</td>
</tr>
<tr>
<td>2002</td>
<td>14.30%</td>
<td>9.09%</td>
<td>23.38%</td>
</tr>
<tr>
<td>2003</td>
<td>12.27%</td>
<td>8.75%</td>
<td>21.02%</td>
</tr>
<tr>
<td>2004</td>
<td>8.12%</td>
<td>10.07%</td>
<td>18.19%</td>
</tr>
<tr>
<td>2005</td>
<td>6.80%</td>
<td>4.56%</td>
<td>11.36%</td>
</tr>
<tr>
<td>2006</td>
<td>7.31%</td>
<td>3.91%</td>
<td>11.21%</td>
</tr>
<tr>
<td>2007</td>
<td>5.28%</td>
<td>2.66%</td>
<td>7.94%</td>
</tr>
<tr>
<td>2008</td>
<td>6.40%</td>
<td>2.69%</td>
<td>9.10%</td>
</tr>
<tr>
<td>2009</td>
<td>6.61%</td>
<td>2.29%</td>
<td>8.90%</td>
</tr>
<tr>
<td>2010</td>
<td>6.32%</td>
<td>1.84%</td>
<td>8.16%</td>
</tr>
<tr>
<td>2011</td>
<td>6.11%</td>
<td>1.40%</td>
<td>7.51%</td>
</tr>
</tbody>
</table>
SOEs in the Turkish Economy

Lower share of public investments...

Share of SOE investment in Total Public Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>SOE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>28.80%</td>
</tr>
<tr>
<td>2000</td>
<td>27.32%</td>
</tr>
<tr>
<td>2001</td>
<td>28.59%</td>
</tr>
<tr>
<td>2002</td>
<td>24.34%</td>
</tr>
<tr>
<td>2003</td>
<td>19.79%</td>
</tr>
<tr>
<td>2004</td>
<td>18.59%</td>
</tr>
<tr>
<td>2005</td>
<td>18.35%</td>
</tr>
<tr>
<td>2006</td>
<td>16.69%</td>
</tr>
<tr>
<td>2007</td>
<td>13.71%</td>
</tr>
<tr>
<td>2008</td>
<td>11.53%</td>
</tr>
<tr>
<td>2009</td>
<td>12.37%</td>
</tr>
<tr>
<td>2010</td>
<td>11.71%</td>
</tr>
</tbody>
</table>
SOEs in the Turkish Economy

Employment in SOEs

Lower levels of Employment

<table>
<thead>
<tr>
<th>Year</th>
<th>Treasury Portfolio</th>
<th>Privatization Agency Portfolio</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>379,07</td>
<td>78,021</td>
<td>457,09</td>
</tr>
<tr>
<td>1999</td>
<td>375,92</td>
<td>73,227</td>
<td>449,15</td>
</tr>
<tr>
<td>2000</td>
<td>374,03</td>
<td>60,618</td>
<td>434,65</td>
</tr>
<tr>
<td>2001</td>
<td>325,80</td>
<td>95,078</td>
<td>420,87</td>
</tr>
<tr>
<td>2002</td>
<td>286,12</td>
<td>97,975</td>
<td>384,10</td>
</tr>
<tr>
<td>2003</td>
<td>270,35</td>
<td>90,743</td>
<td>361,09</td>
</tr>
<tr>
<td>2004</td>
<td>224,02</td>
<td>105,68</td>
<td>329,71</td>
</tr>
<tr>
<td>2005</td>
<td>159,73</td>
<td>87,530</td>
<td>247,26</td>
</tr>
<tr>
<td>2006</td>
<td>156,65</td>
<td>69,095</td>
<td>225,74</td>
</tr>
<tr>
<td>2007</td>
<td>156,07</td>
<td>66,941</td>
<td>223,01</td>
</tr>
<tr>
<td>2008</td>
<td>150,91</td>
<td>59,019</td>
<td>209,93</td>
</tr>
<tr>
<td>2009</td>
<td>151,06</td>
<td>49,224</td>
<td>200,29</td>
</tr>
<tr>
<td>2010</td>
<td>147,18</td>
<td>32,863</td>
<td>180,05</td>
</tr>
<tr>
<td>2011</td>
<td>139,10</td>
<td>15,810</td>
<td>154,91</td>
</tr>
</tbody>
</table>
Classification of Public Enterprises

Public Enterprises

Financial Enterprises
- Central Bank
- Public Banks

Non-Financial Enterprises
- State Owned Enterprises
  - Enterprises in Privatization Program (Former SOEs)
  - Other Institutions (Lottery C., Housing Inst. etc.)
- Municipality Enterprises
- Enterprises of Savings Deposit Insurance Fund
- Enterprises of Housing Inst.
- Enterprises of Turkish Armed Forces Foundation
Some Major SOEs

General Directorate of State Owned Enterprises

- **Transportation**
  - Turkish Railways (TCDD)
  - Turkish Post (PTT)
  - Airport Authority (DHMİ)
  - Coastal Safety (KEGM)
  - State Supply Office (DMO)
  - Arms Manufacturer (MKEK)

- **Energy**
  - Electricity Production (EÜAŞ)
  - Electricity Transmission (TEİAŞ)
  - Natural Gas Distribution (BOTAŞ)
  - Oil Extraction (TPAO)
  - Hardcoal Mining (TTK)
  - Electricity Transmission (TKİ)

- **Agriculture**
  - Grain Board (TMO)
  - Tea Company (ÇAYKUR)
  - Agricultural Enterprises (TİGEM)
  - Grain Board (TMO)
  - Tea Company (ÇAYKUR)
  - Agricultural Enterprises (TİGEM)
Major Aspects of SOEs

- 100% Treasury share (SOE), (Privatization Administration portfolio not accepted as SOE)
- Ownership represented by Treasury
- Subject to a special decree rather than Commercial Code
- Capital injections and duty loss payments by Treasury
- Investment approval: High Planning Council (secretariat performed by Ministry of Development)
- Audit: Turkish Court of Accounts, inspection of certain issues by Treasury and line ministry
- Similar personnel and procurement legislation with general government units
- Members of board appointed by a joint decree (Line Minister, Prime Minister and President)
- Approval of financial statements: Grand National Assembly
III.

ROLE of SOEs in

TURKISH ECONOMY
ROLES of SOEs in TURKISH ECONOMY

SOE system is used for different reasons

- Market Regulation and Support
- Enhancing Regional Development
- Policy Implementation
- Using Monopolistic Rights
- Duty Loss Mechanism
ROLES of SOEs in TURKISH ECONOMY (II)

– Market Regulation and Support

Turkish Grain Board monitors the agricultural market

- Buys products from the market to support farmers.
- Sells products at the market to protect consumers.
ROLES of SOEs in TURKISH ECONOMY (III)

– Policy Implementation

Railways Company

- High Speed Train Investments

State Airports Authority

- Airport investments

Electricity Generation Co

- Electricity production sources
ROLES of SOEs in TURKISH ECONOMY (IV)

Using Monopolistic Rights

Post and Telegraph Organization (Letter)
Eti Mine Company (Boron)
Coastal Safety (Pilotage services)
Turkish State Railways
ROLES of SOEs in TURKISH ECONOMY
(V)

– Enhancing Regional Development

– Keeping The Economy Alive:
  – Turkish Coal Enterprise (Capital Injections)
  – Tea Company (Supporting Farmers)
  – Turkish Railway Machines Corporation

– Creating Additional Positions
  – Turkish Locomotive Corporation (Outsourcing)
  – Turkish Wagon Corporation (Outsourcing)
ROLES of SOEs in TURKISH ECONOMY (VI)

- Duty Loss Mechanism

Duty Loss mechanism is used by the government to make social transfers to the community through the SOEs. But the cost is met by the central government budget.

- How the Mechanism Work

- Council of Ministers’s decision gives a duty to a SOE for selling products for a certain price.
- SOE calculates the cost of merchandise sold and adds 10% profit
- The total cost is approved by Treasury Controllers
- The amount is given to the SOE in the following years budget.
According to the decree No:233 an SOE could be assigned for a duty by the Council of Ministers.

SOE fulfills the duty.

When the duty is fulfilled, the SOE reflects the economic impact of the duty into its financial statements*.

The SOE demands payment from Treasury as the compensation for the duty loss.

The SOE's duty-relevant accounts are audited by the Treasury controllers and the inspectors of the relevant Ministry to verify the amount.

In some situations (especially when the SOE is in trouble in terms of cash position) the duty loss payment could be made before the verification report of the Treasury controllers. (If there exists a difference between the advance payment and the confirmed amount, the difference is paid back by the relevant party.)

When the duty loss is not paid from the budget, then it is subject to offsetting (i.e., the duty loss receivable by the SOE and its dividend debt to Treasury are simultaneously written-off.) It could also be made against the guaranteed or on-lend arrears to Treasury, but that would be in the limits of central government budget.

Within the limits of central government budget, the amount is transferred to the SOE by the UT. If an advance payment was occurred, the advanced payment amount is subtracted from the finalized amount of the duty loss.

Treasury controllers and the inspectors of the relevant Ministry establish a report in order to finalize the duty loss amount.
Examples of Duty Losses

- Government distributes free coal to the poor people,
- The Railway company runs non-economic trains for meeting public service obligation
- Grain Company exports grain at international market prices. But the pays higher prices to national farmers for supporting them.

Effect of duty loss mechanism to development

- SOEs can use outsourcing while making the production and this creates additional employment opportunities
- Transportation services works in all over the country and it improves mobility of workforce
Vision and Future Prospects of Treasury in Terms of SOE Management

- State’s new role in the economy:
  - A strong regulatory and supervisory role
  - No production & trade activity in the long run
  - Strengthened ownership of the State

- Adoption of corporate government principles for public enterprises (best practices)

- Creating more autonomous managerial environment

- Clear distinction between financial and policy objectives

- Linking appointment processes to institutional and executive performance
What is the role for SOEs in supporting development

Mr. Mike Muller
National Planning Commission
South Africa
What is the role for SOEs in supporting development

• Learn from history
  ▪ A conceptual structure
  ▪ Some examples

• Current focus
  ▪ The NPC National Development Plan 2030
  ▪ The Presidential Review Commission on SOEs
  ▪ SOEs in a Capable and developmental state
Role of SOEs

- Strategic (military and national security)
- Financial (development finance)
- Economic infrastructure (especially networks)
- Business (market failure, industrial policy... )
Learning from examples

- South Africa
  - Strategic SOE
    - SASOL, fuel security,
    - now private company, regulated prices
  - Development Finance SOE
    - DBSA, conditional sub-sovereign for former regime
    - Now refocusing on new development finance needs
- Network infrastructure
  - Rand Water, 1906, meeting infra needs of rapid growth
- Mozambique
  - Careful with categorisation
    - FIPAG, strategic, dev finance, network infra
Current focus – NDP 2030
The objectives of the plan is the elimination of poverty and the reduction of inequality through

- **Uniting South Africans** of all races and classes around a common programme to eliminate poverty and reduce inequality
- **Citizens to be active in their own development**, in strengthening democracy and in holding their government accountable
- **Raising economic growth**, promote exports and make the economy more labour absorbing
- **Focusing on key capabilities** of both people and the country
  - Capabilities include skills, infrastructure, social security, strong institutions and partnerships both within the country and with key international partners
- Building a **capable and developmental state**
- **Strong leadership** throughout society to work together to solve our problems
We require an acceleration, step change to meet our objectives

- On the present trajectory, we are not likely to meet our targets
Key messages in the National Development Plan
Economy and employment

- New growth path priorities
  - Lowering the cost of living and improving the business environment
  - Increasing infrastructure investment
  - Focusing on sectors with strong domestic linkages
  - Wage moderation in middle and top of income spectrum
- NDP supports these priorities, calls for enhancement through
  - Better coordination within government
  - More explicit understanding that we need higher exports to finance higher investment
  - Some reforms to improve the functioning of the labour market to reduce tension and ease access for young people
Economic infrastructure

- Need to raise public infrastructure spending to 10% of GDP
- Key priorities include
  - Energy and water security
  - Freight logistics
  - Public transport
  - Support to the mining value chain
  - Urban reticulation systems
  - ICT and broadband
- Plan sets out principles on financing, cushioning the poor, lessons on sequencing and prioritisation and institutional and regulatory matters
Greater regional economic integration is necessary for long term development
Many of our problems such as energy and food security can be solved taking a regional perspective
Obstacles include infrastructure, border post corrosion, protectionism and weak regional institutions
Plan also covers global linkages and need for break into fast growing markets
Capable and developmental state

• We need a capable and developmental state that acts to resolve historical inequities through delivering better public services and facilitating investment
  ▪ Key failings in the state include the administrative – political interface, long term skills planning, strengthening accountability and improved coordination for implementation
  ▪ Accountability is critical at all levels, starting with parliamentary oversight
Critical success factors for implementing the plan

- Focused leadership over a long period of time
- The continued assertion that this is a plan for all South Africans, and that everyone in society has a role to play in implementing the plan
- **The need for institutional reform**
  - More than half of the plan is dedicated to the type of institutional reform needed to raise capability to implement the plan
- The need to mobilise resources and agree on trade-offs
- The willingness to prioritise and the need for careful sequencing
- Clarity on responsibility in each area
Summary NDP SOE proposals

- **Objectives**
  - Clear governance structures and stable leadership enable state-owned enterprises (SOEs) to achieve their developmental potential.

- **Achieve developmental potential of SOEs**
  - 100. Develop public interest mandates for SOEs.
  - Improve coordination between policy and shareholder ministries by making them jointly responsible for appointing the board.
  - Ensure appointment processes are credible and that there is greater stability in appointments.
Consultation with Presidential Review Commission on SOEs

- Rich and helpful discussion
- Focusing on right issues
- Challenge, political context
Emerging ideas on the role of SOEs

- Overcoming a number of these challenges will require an important role for SOEs.
- There needs to be a transparent mandate that sets out the role of each SOE and how its activities serve the public interest.
- This mandate should be used to ensure SOEs remain focused on their core purpose and are not overburdened by too many competing priorities.
- A clear and realistic mandate could ease some of the governance challenges facing SOEs.
Some of the key governance challenges facing SOEs

- Consistency – the governance architecture has led to split reporting relationships in some cases and a proliferation of different arrangements for SOE oversight in others.

- Policy continuity & organisational stability - changes in political leadership can have a destabilising effect on the wider governance structures. Lack of clarity about the role of the Board compared to the shareholder and policy ministers.

- Staffing - instability in policy approaches and organisational structures aggravates the difficulty of attracting and retaining appropriate people. High salaries may not be the best response.

- Prioritisation – the governance of SOEs becomes more difficult when they have to grapple with too many competing policy objectives.
Emerging ideas on the governance of SOEs - structure

- Governance structure should be clear and straightforward.
- Identification and management of government’s different roles in policy making, ownership of utility assets, and regulation of prices and quality of utility services to ensure:
  - a sustainable balance between short-term and long-term priorities, and
  - coordination between different and sometimes competing policy priorities.
- Key issue is whether split between DPE and policy ministries creates a positive or negative tension:
  - a positive tension would see DPE looking at the commercial and financial sustainability of SOEs while policy ministries focus on the role of SOEs in meeting policy objectives in line with their public interest mandate.
  - a negative tension would arise where the split of responsibilities makes it more difficult to align the commercial and public interest objectives of SOEs.
- Is the Companies Act appropriate for SOES?
Emerging ideas on the governance of SOEs - Capacity

- As in other areas of the public sector, skills and capacity are a major issue.
- Where all parties are operating within severe capacity constraints, we need to work towards finding models that are tailored to existing levels of capacity even as we seek to build capacity over time.
- This includes being sensitive both to the burden regulatory structures can place on SOEs, and to the difficulties that those with an oversight function face in ensuring SOEs operate in a transparent and accountable way.
Regulation

- Regulatory capacity cannot be built overnight. To be effective the regulator must have:
  - the power to collect information, engage providers, and make and enforce effective pricing and rules of conduct,
  - appropriate human resources to exercise these powers,
  - adequate financial resources.
- Where these conditions are not met, the creation of an independent regulator may lead to greater uncertainty and impose a strain on already limited capacity:
  - Reforms are most effective when implemented gradually. A transitional arrangement could initially give regulators bounded discretion (such as quality of supply), and their powers be increased gradually increased as their capacity and experience develops.
  - Alternative arrangements which provide some buffer against the political desire to avoid price increases and ensure a reasonably competent and objective oversight have been established in many parts of the world.
Desired end state

- South Africa in 2030 needs to be served by a set of efficient, financially sound and well governed SOEs that address the country’s critical developmental objectives in areas where neither the executive arms of government nor private enterprises are able to do so effectively. These enterprises must deliver a quality and reliable service at a cost that enables South Africa to be globally competitive. To live up to these expectations SOEs will require a clear public interest mandate, which is enforced consistently.