Fifth Regional Roundtable

Task Force on Corporate Governance of State-Owned Enterprises

in the Middle East and North Africa

Meeting Agenda

2-3 July, 2013

Avantgarde Hotel

Istanbul, Turkey

Hosted and organised in partnership with the Turkish Treasury and the Corporate Governance Association of Turkey

Organised in the framework of the MENA-OECD Investment Programme
Background

In view of an increasing recognition of the need to improve the efficiency and corporate governance arrangements of regional state-owned enterprises (SOEs), the Task Force on Corporate Governance of State-Owned Enterprises in the Middle East and North Africa was established in 2008. 18 countries from the Middle East and North Africa region participate in the work of this Taskforce, to which OECD acts as a Secretariat.

The Taskforce comprises representatives of holding companies, state audit institutions, relevant Ministries, regulatory authorities, individual SOEs and academics. The objectives of the Taskforce are to:

- raise the awareness of all concerned constituencies regarding the importance of good governance of SOEs;
- discuss and evaluate SOE corporate governance policy frameworks and practices, comparing those against the international good practice outlined in the OECD Guidelines on Corporate Governance of SOEs;
- provide a forum where policymakers can share experience among themselves and with their OECD colleagues;
- support effective reforms in SOE governance, by discussing and analysing policy options, developing relevant recommendations and agreeing on priorities for reforms.

So far, the Taskforce has held four consultations. The first was held in Paris on March 1, 2010 and acted as a launching meeting of the Taskforce. The second regional meeting took place in Cairo 23-24 June, 2010 and focused on issues related to ensuring an effective legal and regulatory framework for SOEs and the responsibilities of the state acting as an owner. The third meeting of the Taskforce was held on 5-6 April, 2011 in Rabat, Morocco and focused on issues related to nomination, structure and responsibilities of SOE boards. The fourth meeting of the Taskforce was held on 9-10 April 2012 in Kuwait and focused on transparency and disclosure issues.

Fifth meeting of the Taskforce

As agreed by the Taskforce during its last meeting, the fifth meeting of the Taskforce will focus on the interface between SOE governance and SOEs' role in economic development, competition and fiscal policy. Specifically, the next Taskforce meeting will examine the following issues:

- SOEs in supporting competitiveness;
- SOEs in developing capital markets;
- SOEs and subsidy reform;
- SOEs and the anti-corruption challenge;
- Addressing employment challenges in SOEs;
- Fostering effective competition with SOEs.

The meeting will provide an opportunity for meeting participants to present and discuss the latest global and regional developments related to corporate governance of SOEs, benefitting from the presence of regional experts and members of the OECD Working Party on State Ownership and Privatisation Practices. The Taskforce meeting will be structured as to allow for a maximum exchange of views and experiences.
The meeting will be conducted in Arabic and English. All panels will be moderated. Participants are kindly asked to refrain from making power point presentations in order to keep the discussions interactive. A summary of discussions will be disseminated to all participants after the meeting.

Background documents will be made available to participants in advance of the meeting. Background materials will include:

- Competitive Neutrality Guide for SOEs;
- Balancing Commercial and Non-Commercial Priorities of State-Owned Enterprises;
- The Size and Composition of the SOE Sector in OECD Countries;
- Towards New Ownership Arrangements in the Middle East and North Africa.

In addition, a first of a kind report on the developmental and social objectives pursued by MENA SOEs **MENA SOEs: Engine of Development and Competitiveness?** will be launched on the occasion of this meeting.

This meeting is organised in the framework of the MENA-OECD Investment Programme. The meeting is kindly hosted by the Turkish Treasury and the Corporate Governance Association of Turkey, for which they are thanked. In addition, the Swedish International Development Cooperation Agency is also thanked for its financial support of this work.

Participation in the meeting is by invitation only and discussions are confidential (subject to Chatham House rules). The meeting will be closed to media and public participation. To register for this roundtable or for any logistical inquiries, please contact Ms. Katrina Baker **(katrina.baker@oecd.org)**.
8:30-9:00  REGISTRATION AND COFFEE

9.00-9:30  WELCOME REMARKS

Mr. Burhanettin Aktaş, Deputy Undersecretary, Undersecretariat of Treasury, Turkey
Dr. Murat Doğu, Board Member, Corporate Governance Association of Turkey; Vice President Financial Affairs of Dogan Holding
Mr. Mats Isaksson, Head of Division, Corporate Affairs, OECD

9.30-10.30  PRESENTATION AND DISCUSSION OF THE OECD REPORT

MENA State-Owned Enterprises: Engine for Development and Competitiveness?

Ms. Alissa Amico, Programme Manager, Middle East and North Africa, Corporate Affairs Division, OECD
Dr. Steffen Hertog, Senior Lecturer, London School of Economics and Political Science, United Kingdom

10.30-11.00  COFFEE BREAK

11.00-12.30  SOEs IN SUPPORTING COMPETITIVENESS

State-owned enterprises play an important role in all MENA economies, notably in strategic industries such as hydrocarbons, banking, telecommunications and utilities. Hence, their role in supporting economic competitiveness, growth and development is not negligible. In many countries of the region, SOEs are charged with social mandates for which they are usually compensated, directly or indirectly. Indeed, in many strategic sectors, SOEs enjoy monopoly rights, direct or indirect subsidies and other more or less transparent advantages such as access to cheap capital, land or other resources. Ensuring that SOEs are effective in delivering on their developmental mandates is therefore essential for the fulfillment of socio-economic objectives of MENA governments, to the provision of quality services to the citizens and to ensuring the sustainability of these companies. While governments may be well justified in supporting the development of "national champions", the ownership and governance arrangements of these strategic companies need to be further reviewed and optimised.

Moderator: Ms. Alissa Amico, Programme Manager, Middle East and North Africa, Corporate Affairs Division, OECD

Speakers:

Mr. Tamer Elmahdy, Advisor to Minister, Ministry of Investment, Egypt
Mr. Samir Tazi, Director, Public Enterprises and Privatisation Department, Ministry of Economy and Finance, Morocco
Ms. Denise Sumpf, Programme Manager, UN Economic and Social Commission for Western Asia, Lebanon
Dr. Zhengjun Zhang, Chief, Enterprise System Division, Development Research Centre of the State Council, China
Issues for discussion:

1. What role can SOEs play in regional and industrial development? What role can they play in developing certain sectors (aviation, infrastructure)?
2. What are the risks and the fiscal costs to the state of endowing SOEs with non-commercial mandates? For commercially oriented SOEs, what are the risks of endowing SOEs with developmental objectives?
3. Why has using SOE banks to support other industrial activities has proven largely unsuccessful in the region? How can related lending by SOE banks be addressed?
4. What are the governance and oversight mechanisms for strategic companies in hydrocarbons, banking and other sectors? How might they differ and what is the rationale for such differences?
5. Does the presence of national champions in strategic industries promote or stymie the development of these sectors and the emergence of private sector competition?
6. What regulatory and governance mechanisms can be put in place to ensure adequate oversight of SOEs operating in strategic sectors or those with important developmental mandates?

12.30-14.00 LUNCH

14.00-15.30 SOEs in Developing Capital Markets

In the MENA region, the presence of state owned enterprises is particularly notable in strategic industries such as hydrocarbons, banking, telecommunications and utilities. Indeed, in many strategic sectors, SOEs enjoy monopoly rights, direct or indirect subsidies and other more or less transparent advantages such as access to cheap capital, land or other resources. While the presence of SOEs in strategic sectors is not per se a problem, an important policy objective is to ensure that SOEs operating in these sectors are in effect economically efficient and deliver the goods or services to the population at a competitive price. It is also important to ensure that the presence of SOEs in these strategic sectors does not stunt the development of private sector enterprises in the same and related sectors. How these strategic champions should be appropriately overseen and restructured or privatised, if necessary, are also potential questions to consider.

Moderator: Mr. Mustafa Baltaci, Executive Vice President, Borsa Istanbul; Secretary General, Federation of Euro-Asian Stock Exchanges

Speakers:

Mr. Serdar Celik, Economist, Corporate Affairs Division, OECD
Mr. William Mako, Lead Specialist, Finance and Private Sector Development, MENA, World Bank
Ms. Lamees Al Baharna, Head of Risk Management, Mumtalakat, Bahrain
Dr. Mohammed Omran, Chairman, Egypt Stock Exchange, Egypt

Issues for discussion:

1. What are the steps leading up to the decision to list SOEs? Which sectors/companies ought to be given priority?
2. To what extent has the listing of SOEs contributed positively to capital market development and economic growth in the region?
3. It further attention to regulation of bond issues by SOEs/SWFs required?
4. What method might be preferred to broadening state ownership and under what circumstances? (i.e. listing, block sale, etc.)

5. Has the listing of bond or equity of SOEs been positive to their internationalization, growth and ability to contribute to national competitiveness?

15.30-17.00 SOES AND SUBSIDY REFORM

It is well known that a number of SOEs in the region receive direct or indirect subsidies from the state or have access to land, capital, natural or other resources at a preferential rate. In some countries in the region, the cost to the state of operating inefficient SOEs exceeds 10-15% of the GDP. In some instances, subsidies are justified by the need to develop national champions, in others by social mandates that these SOEs are endowed with. Subsidy reform is gaining prominence on the agenda of policymakers, as fiscal budgets in some countries are under pressure and as it becomes clear that the current subsidy system does not effectively target the groups that the state wishes to protect by providing certain goods or services below market rates. This panel will aim to discuss how subsidies to SOEs could be better structured and how their transparency can be increased.

Moderator: Dr. Steffen Hertog, Senior Lecturer, London School of Economics, United Kingdom

Speakers:

Dr. Bassam Fattouh, Professor, Finance and Management for the Middle East, SOAS, United Kingdom
Ms. Rola Rizk, Head, Economic Unit, Basil Fuleihan Institute, Lebanon
Mr. Nabil Khoweiter, Business Development Consultant, Saudi Arabia
Mrs. Zehra Şahin İlkorkor, Senior Treasury Expert, Directorate General of SOEs, Undersecretariat of Treasury, Turkey

Issues for discussion:

1. What are the mechanisms to subsidise SOEs? In what sectors and under what circumstances has subsidisation of SOE activities been especially prominent and has it achieved the desired objectives?
2. How transparent are the non-commercial objectives of SOEs and the subsidies that they receive in compensation?
3. What mechanisms could be helpful in making the cost of all subsidies more transparent to the state as the owner and the public?
4. How can the state manage SOEs to ensure that the amount of subsidies is pre-determined and agreed upon, limiting the possibility of SOEs to negotiate ad-hoc compensation?
5. What are the alternatives to subsidizing SOEs and how can such alternatives be evaluated and compared to determine the most efficient one?
6. What are the mechanisms to prevent wasteful consumption of goods and services provided by SOEs at subsidised rates?

19.00 BOSPHORUS CRUISE AND DINNER
9.00-9.30 WELCOME COFFEE

9.30-11.00 SOES AND THE ANTI-CORRUPTION CHALLENGE

The events of the Arab spring have highlighted the risks of corruption and crony capitalism in the SOE sector. Evidence that has recently emerged indicated that some SOEs were sold through trade sales to parties affiliated with the state below market rates. Experience also demonstrates that the risk of corruption in the procurement process by the state in general and SOEs in particular can be high and warrants the introduction of specific mechanisms to ensure that integrity in the public procurement process is preserved. Considering the increasingly international nature of operations of some SOEs and SWFs in the region, these mechanisms need to ensure that SOEs or their officers do not receive or give bribes to officials in other jurisdictions in order to secure a contract or benefit from other advantages, either in their personal capacity or in acting on behalf of the company. This session will consider specific risks of corruption in the day to day operation of SOEs, in their procurement and outsourcing activities, in their privatisation and in the establishment of private-public partnerships.

Moderator: Ms. Gina Chammas, Partner, Tomorrow's Company, former head of the Certified Public Accountants Association, Lebanon

Speakers:

Mr. Samir Annabi, President, Anti Corruption Commission, Tunisia
Mr. Kamal Daoudi, President of Chamber, Supreme Audit Institution, Morocco
Dr. Abdulhameed Hussain, Member of the Supreme Council for Privatisation, Council of Ministers, Kuwait
Mr. Abdesselam Aboudrar, Chairman, Central Body for the Prevention of Corruption, Morocco

Issues for discussion:

1. What mechanisms are in place to address the risk of corruption of SOE board members and management? Are they sufficient and if not, how can they be reinforced?
2. How can the risks of nepotism and political patronage in SOEs but also in the entities that oversee them be addressed?
3. What regulations and institutional oversight is required to limit corruption in privatisation of SOEs?
4. Has the oversight of SOEs by state audit bodies been sufficient in order to address corruption risks in SOEs?
5. How can the risk of bribery be addressed in procurement and outsourcing by SOEs?
6. What are the particular corruption risks that may arise in public-public partnerships and what entities/mechanisms are required to address these?

11.00-11.30 COFFEE BREAK

11.30 -13.00 ADDRESSING EMPLOYMENT CHALLENGES IN SOEs

The state in general and SOEs in particular are significant employers in the region, accounting for about a third of the overall employment. In many countries of the region, there is an ongoing expectation that the
state should provide jobs, at least for those who are not able to find employment in the private sector. This results naturally impacts the competitiveness of SOEs which are at times forced to create excess employment opportunities that do not lead to improved economic outcomes for the enterprise. For this reason, restructuring or privatisation of loss-making SOEs has been particularly difficult as these projects often imply significant lay-offs. An additional complication is that employees of SOEs which are made redundant often cannot find employment in the private sector due to a gap in skills and training or the fact that SOEs are located in geographically isolated areas where other employment opportunities may be difficult to access. This panel will therefore focus on the treatment of employers, who are one of the key stakeholders in the company.

Moderator: Dr. Mohammad Al Zuhair, Member of the Council and Executive Committee, Supreme Council for Privatization, Kuwait

Speakers:

Mr. George Kyriakos, Partner, Octane; former member of the OECD Working Party on Privatisation and Corporate Governance, Greece
Dr. Jamal Naji Mahasneh, Head of Industrial Policies Division, Ministry of Industry, Trade and Supply, Jordan
Ms. Günden Peker Çınar, Head of Project Group, Privatization Administration, Turkey
Dr. Ali Saleh Alarussi, General Manager, Central Organisation for Control and Auditing, Yemen

Issues for discussion:

1. How can the expectation that the state continue to act as an employer of last resort be addressed? Is there scope for rationalizing existing workforce in MENA SOEs?
2. Is there a scope for SOEs to support the development of a skilled workforce? What responsibility of the state, the board and management in this process be?
3. What mechanisms can be put in place to facilitate the transition of employees in cases of privatisation or re-structuring?
4. How does employee ownership of a stake or employee representation on boards affect the operation of SOEs, including their privatisation or re-structuring?
5. What are the advantages and disadvantages of outsourcing (e.g. through PPPs or other means) the tasks fulfilled by the workforce of SOEs?

13.00-14.30 LUNCH

14.30-16.00 FOSTERING EFFECTIVE COMPETITION WITH SOEs

Ensuring that SOEs can remain financially viable is important, but it is equally important to ensure that private sector enterprises can compete fairly with SOEs. For this to occur, a regulatory level playing field between private and public sector enterprises is required – that is, no entity operating in the economic market should be subject to any competitive advantages or disadvantages. The main economic rationale for competitive neutrality is that it enhances allocation of resources – where economic agents are put at an undue disadvantage, goods and services are no longer produced by those who can do it most efficiently. The political rationale is linked to governments’ role as universal regulators in ensuring that economic actors are "playing fair", while ensuring that public service obligations are being met. This panel will be dedicated to
examining whether SOEs in the region are bestowed with particular advantages that stifle competition, and also whether the non-commercial obligations placed on SOEs disadvantage them vis-à-vis their private sector competitors.

**Moderator:** Dr. Metin Toprak, Professor, Istanbul University; former Deputy Chairman, Turkish Competition Authority, Turkey

**Speakers:**

Mr. Mohammad Halaiqa, Vice Chairman, Jordan Transparency Association; former Deputy Prime Minister, Jordan
Ms. Racha Omar, Undersecretary of State, Ministry of Investment, Egypt
Mr. Abderrahmane Benkalfa, Member of the Monetary Authority, Former Secretary General, Association of Banks and Financial Organisations, Algeria
Dr. Oleg Shvyrkov, Director for Corporate Governance, Deloitte CIS, Russia

**Issues for Discussion:**

1. What benefits might SOEs in the region enjoy that impact on their ability to compete with their private sector competitors? How can these be phased out?
2. What is the role of sectoral regulators and competition agencies to ensuring that SOEs and their private sector competitors operate on a level playing field?
3. How have public service or other social obligations impacted the ability of SOEs to compete with private sector companies and how should subsidies be structured to address this challenge?
4. How can the preferential access to finance or the presumed state guarantees enjoyed by some SOEs be addressed to ensure that SOEs have access to finance on market terms?
5. How can a proper balance between the costs and benefits of adoption of competitive neutrality frameworks be established? In view of substantial regional differences and limited country examples, is it possible to develop recommendations and good practices in this regard?

16.00–17.00 **CONCLUDING REMARKS AND NEXT STEPS**

This concluding panel will allow participants to exchange views on the next steps for the Taskforce and propose areas of work for the Taskforce that they would consider useful. All participants are invited to contribute their requests or suggestions for future work of the Taskforce.

Mr. Mutlu Koç, Head of Department, Directorate General of SOEs, Undersecretariat of Treasury, Turkey
Ms. Alissa Amico, Programme Manager, Middle East and North Africa, OECD