



HUNGARIAN PRIVATIZATION
AND STATE HOLDING COMPANY

ADVISORY GROUP ON PRIVATISATION
Fourteenth Plenary Session
Managing Commercial Assets under State Ownership

FINAL AGENDA

19-20 September 2000
Budapest, Hungary
The Danubius Hotel Gellert

Managing Commercial Assets under State Ownership

Day 1 – Tuesday 19 September 2000

Registration

8:30 – 9:00

9:00 – 9:15

WELCOMING REMARKS:

Mr Istvan Stumpf, Minister, Prime Minister's Office, Hungary

Mr William Witherell, Director, Fiscal, Financial and Enterprise Affairs, OECD

Session I

DEFINING THE BOUNDARIES OF PRIVATISATION AND THE SCOPE FOR ASSET MANAGEMENT BY THE STATE

9:15 – 10:15

Chair: Mr Péter Kaderják, Chief Director, Hungarian Energy Office

◆ Presentation:

Mr Michael Klein, Director, the World Bank

◆ General discussion

10:15 – 10:30

Coffee break

Session II

INSTITUTIONAL FRAMEWORK FOR MANAGING STATE ASSETS

10:30 – 13:00

Chair: Mr. William Witherell, Director, Fiscal, Financial and Enterprise Affairs, OECD

◆ Presentations:

Mr. Péter Székács, Managing Director of the Capital Markets Department of ÁPV Rt

Prof. Armando Castelar Pinheiro, Chief Economist, Banco Nacional de Desenvolvimento Economico e Social (BNDES), Brazil

Mrs. Pelin Erdemli, Project Group Head, Privatisation Administration, Turkey

◆ General discussion

13:00 – 14:30

Lunch

Session III

14:30 – 18:00

THE STATE AS A CORPORATE GOVERNANCE PRINCIPAL IN COMMERCIAL ENTERPRISES WITH STATE PARTICIPATION

Chair: Prof. Armando Castelar Pinheiro, Chief Economist, BNDES, Brazil

◆ **Presentation:**

Mr Dag Detter, Director, Ministry of Industry, Employment and Communications, Sweden

◆ **Discussants:**

Mr Richard Woodworth, Chief Economist, Merrill Lynch, Pierce, Fenner & Smith Limited, UK

Mr Markku Tapio, Director General, Ministry of Trade and Industry, Finland

◆ **General discussion**

16:15 – 16:30

Coffee break

16:30 – 18:00

◆ **Panel:**

Mr Yuri Medvedev, Deputy Minister, Ministry of the State Property of the Russian Federation

Prof. Bistra Boeva, Bulgarian State Securities Commission

Mr. Ruyin Hu, Director, Research Centre, Shanghai Stock Exchange

◆ **General discussion**

19:00

Reception

Day 2 – Wednesday 20 September 2000

Session IV

9:00 – 10:15

METHODS FOR MANAGING RESIDUAL STATE HOLDINGS

Chair: Mr Dag Detter, Director, Ministry of Industry, Employment and Communications, Sweden

◆ **Presentation:**

Mr Kuei-Lin Chang, Director General, Sectoral Planning Department, Council for Economic Planning & Development, Chinese Taipei

◆ General discussion

10:15 – 10:30

Coffee break

Session V

10:30 – 12:15

GOVERNMENTS IN THE MARKET: CASE STUDIES

Chair: Mr Stilpon Nestor, Head, Corporate Affairs Division, OECD

◆ **Case studies:**

Ms Alena Zemplerova, Center for Economic Research and Graduate Education, Economics Institute (CERGE- EI), Czech Republic

Prof. Vittorio Grilli, Director, the Treasury, Italy

◆ General discussion

12:15 – 14:00

Lunch

Session VI

14:00 – 15:30

LESSONS FROM THE RECENT EXPERIENCE WITH PUBLIC PRIVATE PARTNERSHIPS (PPPs)

Chair: Mr Michael Klein, Director, the World Bank

◆ **Presentations:**

Mr Harry Bush, Deputy Director, HM Treasury, UK

Mr Daniel Loschacoff, Senior Advisor of the PPP Knowledge Centre, Treasury Financing Directorate, The Netherlands

- ◆ Panel
- ◆ General discussion

15:30 – 16:00

CONCLUDING DISCUSSION

Chair: Prof. Vittorio Grilli, Director, the Treasury, and Chairman of the OECD Privatisation Network, Italy

NOTES TO THE AGENDA

SESSION I **DEFINING THE BOUNDARIES OF PRIVATISATION AND THE SCOPE FOR ASSET MANAGEMENT BY THE STATE**

Following the implementation of large-scale privatisation programmes, the volume of state assets in most OECD Member countries and many emerging economies has significantly decreased. However, the state still appears to be among the largest domestic shareholders in many countries with holdings in various businesses, utilities and infrastructure. The first session of the meeting will discuss the limits of privatisation. It will also analyse the reasons for keeping assets in state hands and the scope for asset management by the state.

Issues:

Is privatisation appropriate for all types of state-owned enterprises or assets? Does ownership matter for the development of competition? Should the ability to bear certain types of risk be a criterion of privatisation?

What reasons prevail in deciding to keep state-ownership of certain assets: economic or political? What is the rationale for keeping assets under temporary state ownership? Under permanent state ownership?

Are there any meaningful tools to assist policy makers in making decisions on the above issues? How can the performance of state-owned assets be measured/benchmarked against those in private ownership?

SESSION II **INSTITUTIONAL FRAMEWORK FOR MANAGING STATE ASSETS**

Session two will focus on the institutional aspects of state asset management. It will explore the comparative experience with institutions entrusted with the performance of this task. The discussion will also attempt to identify what are the prerequisites for effective oversight by the state shareholding bodies in ensuring that state-owned companies function and evolve in accordance with market principles. The political sensitivity and the need for accountability of state asset management are important factors and will be taken into consideration in assessing the effectiveness of institutional arrangements.

Issues:

Should state property be managed by existing line ministries, central agencies (e.g., Treasury) or by new institutions specifically created to fulfil this task? What should the relationship be with the Treasury? What are the pros and cons of each approach?

What should be the mandate or objective of the institutions managing state shareholdings? Should they have a limited mandate to manage or should they also be asked to privatise? In the former case how can the process be linked to future privatisation?

How specific should the mandate be? What is the proper balance between flexibility and transparency in this situation?

Are commercial/holding company structures more effective than more traditional state institutions or agencies in managing state property? What is the proper balance between accountability concerns and efficiency?

SESSION III

THE STATE AS A CORPORATE GOVERNANCE PRINCIPAL IN COMMERCIAL ENTERPRISES WITH STATE PARTICIPATION

Governments are entrusted with overseeing state enterprises. It is increasingly felt that a primary task for the state is to ensure that such companies can react to market changes and reach value maximisation objectives. Session three will analyse country experience and identify what approaches and tools can be used to this end. Two panels will examine the issues arising in the context of OECD and emerging economies.

Issues:

What are the main objectives in governing state enterprises? What are the main concerns facing governments and how are they dealt with? Are they any different in commercial enterprises with state participation and in ones with specific public policy objectives? If so, what are the corporate governance characteristics of the latter?

Is transparency of special importance in governing state enterprises? How can the state/shareholder ensure that decisions are made on commercial rather than political grounds? What corporate governance standards are to be applied? Are the methods for reporting by managers any different in a state-owned enterprise than in any other commercial company? How should the state act regarding take-overs, shareholder agreements, proxy fights, participation in general shareholder meetings?

Is the implementation of a state policy on dividend distribution important for disciplining management? What are the possibilities for a state-owned enterprise to raise capital? What is the rationale behind the design and implementation of performance-based incentive systems? How are objectives/targets and criteria for evaluation designed? What incentives are included in such schemes? Should only managers be included? How can the systems ensure efficient flexibility for managers to react to market changes? What are the key impediments to success?

How is the government represented in the boards of directors and supervisory boards? What are the 'pros' and 'cons' of officials sitting on boards? What is the experience with appointing independent board members? What solutions have yielded positive results? Should management of state enterprises be independent? If so, how is this reconciled with state objectives and industrial policy concerns? Is state interference in the day-to-day operation of managers justified? On what occasions do governments bring outside portfolio managers? Why do they subcontract to specialised asset management companies? What is the experience in this respect until now?

In what way can the state ensure that the state enterprises are transforming in the e-business?

SESSION IV

METHODS FOR MANAGING RESIDUAL STATE HOLDINGS

Governments retain residual stakes in privatised enterprises to address political, strategic or revenue concerns. In most cases, initial sales are followed by secondary ones, bringing these residual shareholdings to the market. The original purpose of retaining such assets often determines the way the secondary transactions are shaped.

Issues:

What methods for residual privatisation are most often used? Does the method of secondary sales differ depending on the sector? Does it differ depending on the objective or goal to be achieved by the sale? What have been the government strategies to date? What have been the methods employed?

What has been the experience with residual sales when compared to the previous primary offerings, in terms of market valuation? How has the market discounted the fact of existing state shareholding?

Should the state follow special rules for transparency when selling residual stakes? Do such sales call for more transparency?

When do governments decide to divest their holdings? Should there be specific procedures regarding residual sales or should the shareholding institutions be able to react to the market as any private owner?

SESSION V

GOVERNMENTS IN THE MARKET: CASE STUDIES

The purpose of this session is to explore the issues associated with the state's role as a shareholder of partially privatised enterprises in a contest situation that arises in the market; or when there is a conflict between the state and other private shareholders in the context of secondary sales. This will be done through one or two case studies and their discussion.

Issues:

What has been the role of the state in shaping alliances and mergers in partially privatised companies? Does the ownership of potential partners matter? What has been the rationale for state decisions in cases of take-over threats?

What has been the impact of special or "golden" shares or other similar provisions embedded in a company's articles? Have they been exercised often by the state, implicitly or explicitly? Should they be used as a wider governance instrument (i.e. as an anti-take-over device)? Should they have strict sunset provisions?

How does the method of sale affect existing shareholders? Do incumbent large shareholders have an advantage over outsiders? How are minority shareholders' rights protected? Are their pre-emptive rights respected, especially in the case of a capital increase? Are they given an opportunity to exit fairly?

SESSION VI

LESSONS FROM THE RECENT EXPERIENCE WITH PPPs

In addition to privatisation, private sector participation, both financial and managerial has been sought to develop new infrastructure as well as to develop existing assets where the state could not cede ownership for different reasons. This session will focus on the latter case of using public private partnerships for upgrading existing infrastructure assets. This session will also look at selected case studies, reflecting the issues of risk and its allocation, financing and institutional/governance structures. The case studies may draw upon the experience of member and non-member countries.

Issues:

What are the different methods available to structure private/public partnerships? How do they differ, and what are their strengths and weaknesses? Are there any sectoral and financial/legal infrastructures more suited to the use of these techniques than others? What has been the experience in selected sectors in both member and non-member countries?

How should contracts be structured to address/identify risk, its allocation, and moral hazard issues ex ante. Ideally, the allocation would be based on who can control the risk best, with private sector assuming project and performance risk, with government assuming risks arising from resulting policy and macro environment. How to use contract design to minimise the potential for opportunistic behaviour. Should contract design focus on outputs rather than inputs as means of dealing with such issues.

What are the main financing issues? What is the appropriate mix of debt and equity? Should the private sector provide the financing for the projects, or should it issue debt/equity to undertake the project? What are the main financial market related barriers to financing of such projects? What is the role of government guarantees, should they be adopted? Even if these reduce financing costs? Should governments assume contingent liabilities? Given the longer time horizon of institutional investors and their growing importance, what role can they play in financing PPP contracts?

What are the key governance and institutional issues in PPPs? What is the best institutional approach: line ministries in charge of the sector to examine the PPP option, and manage these projects on behalf of government, centralise the responsibility in a central agency such as Treasury, or establish a dedicated agency? Should the responsibility itself be privatised? What has been the experience to date? Are there any regulatory issues that need to be addressed?