



private sector | development

# Corporate Governance Department World Bank Group

## SOE Corporate Governance in Bhutan (and elsewhere)

Asia SOE Network

Delhi

June 25, 2008

- The World Bank's work in this area
- Some Main Findings:
  - The special case of Bhutan
  - The “Owner”
  - Performance
  - Disclosure
  - Recent Reform

# The World Bank...

- World's largest provider of development assistance (in 2005, \$22.3 billion).
- Invented to lend to SOEs.
- Assessing corporate governance of SOEs
- Just starting to incorporate “good practice” into own operations

## The “Approach Statement”

- IFC helped initiate.
- 31 DFIs with assets ~\$1 trillion agree to:
  - “...adopt...policies...on the role of corporate governance considerations in...investment”
- Big Implications for WB

# Reports on SOE Corporate Governance

- 6 Pilot Assessments: **Bhutan, Egypt (forthcoming), Peru, Poland, Senegal, Zambia**
- Forthcoming coming in Africa (with WB Region): Mali, Mauritania, DRC
- More in the Pipeline: **Azerbaijan, India**, maybe Croatia, Kenya, Vietnam, Yemen...

# Reports on SOE Corporate Governance

- Report has 3 parts
  - Assess SOE framework against the OECD Guidelines,
  - Provide recommendations,
  - Help develop an “Action Plan” for implementation

- Specific government requests (Mexico, Kuwait)
- Proposed work at the company level
  - IFC
- “Mainstreaming” into ongoing WB Group
  - The Approach Statement

## The Special Case of Bhutan

- Two reports requested by the Ministry of Finance
- Corporate Governance ROSC
  - ROSC: Report on Standard and Code
  - Focused on listed companies (which included SOEs)
  - Published and available
- Report on SOE CG
  - (somewhat) custom
  - Focus on SOE specific issues
  - Confidential and will not be published (in current form)

## The Special Case:

- Major SOE reform launched after assessment
- Major political change after assessment

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  - » .....but not completely different

Will talk about

- The old system
- Other countries with similar arrangements
- Some of the recent changes

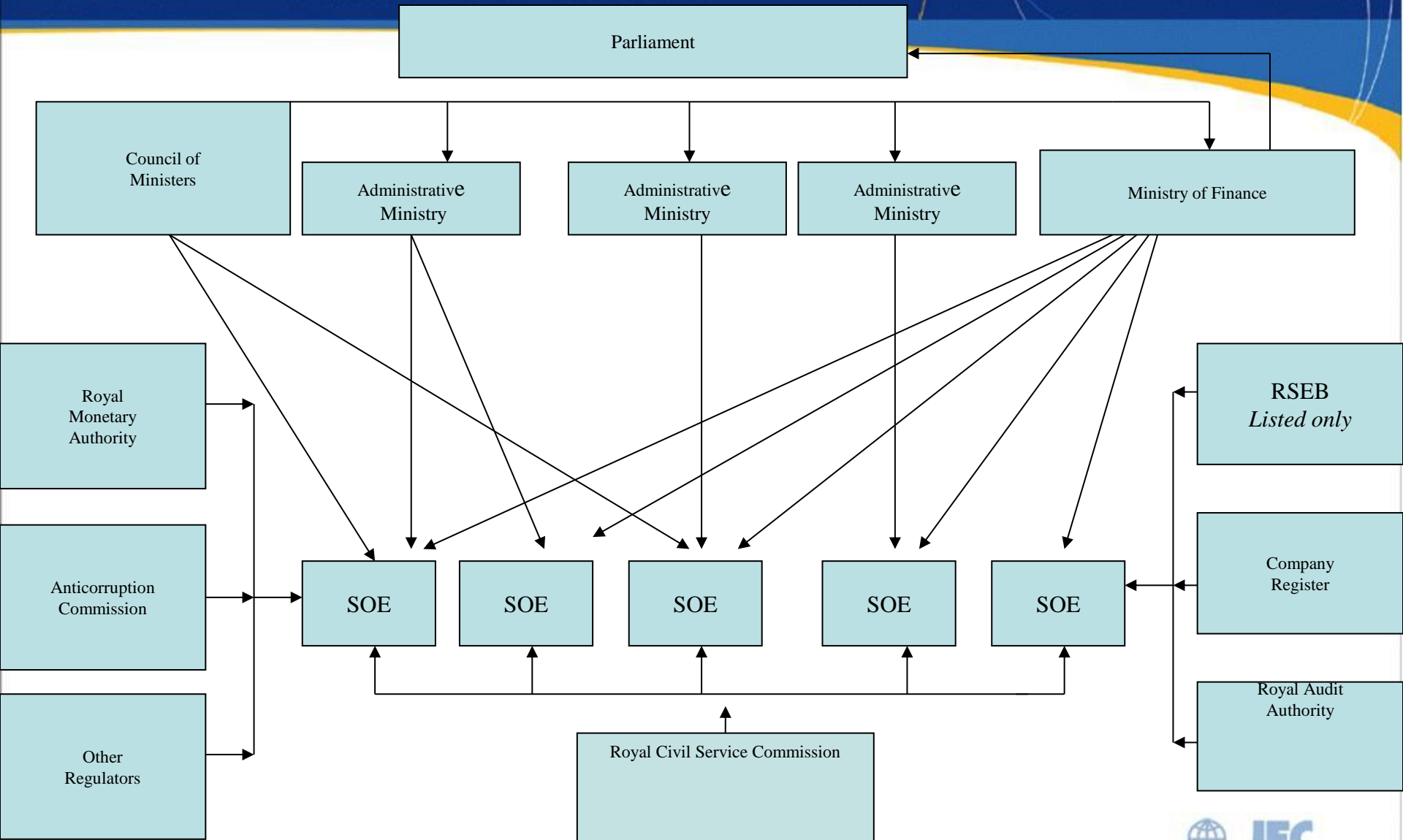
## The “Owner”

## Ministry of Finance:

- Nominal Shareholder
- Represented on SOE boards
- Issued Guidelines for SOEs and their boards
- Issued guidelines on compensation
- Reports to Parliament on SOEs

- Each SOE also has an **Administrative Ministry**
  - Sets “Sectoral Policy”
  - In practice, main source of oversight
- The **Council of Ministers** (Cabinet) makes key decisions:
  - Foreign investment
  - Selling shares to private sector
  - Some decisions on compensation
  - Influence on MD choice

# The Owner



## The “Dual-Ministry of Finance Model”

- Kenya, Mexico, Senegal, Zambia...
- Egypt: Ministry of Investment “ownership entity”, MoF nominal owner
- Variations found in many other countries
- MoF often “budget focused”
  - Limit spending and borrowing
- More active in Bhutan

## Main Issues:

- Limited Focus on CG
- Little private sector “culture” or experience
- “Close” to political influence
- But better than some...

## Performance

## Who's on the Board?

- The Minister
  - Chairs
  - Even when less than 50% state ownership
- The Ministerial Secretary (or Director)
- Other “Representative” Directors
  - Investors
  - Localities and “quasi-governmental”
  - No “independent director”

## Who's on the Board: other pilots?

- Ministers not so common
- Ministry secretaries more common
  - Usually delegate
- More private sector involvement
  - But this requires the right people

## Human Resources

- Managing Directors often civil servants
  - Until recently chosen by “Royal Civil Service Commission”
  - 14 of 22 civil servants
- Compensation set by civil service rules
  - Formal system for MDs
  - In practice for all employees
- Promotion only reward for performance
- Pay scales “compressed”

## Human Resources: Other Countries

- SOEs often under implicit or explicit civil service rules
- SOE managers may have:
  - technical
  - ministerial, or
  - (outright) political backgrounds
- SOE CEOs not from business

## “Performance Management”

- No formal performance contracting
  - No compact, MoU, etc
- Not unusual: Egypt, Senegal, Zambia...
- Lack of clarity on social objectives
  - Including fiscal ramifications
- Again, not unusual

## Listing

- Listing brings:
  - \$
  - Rules, including transparency (next topic)
  - Information in the stock price
  - Private sector participation
- Major global trend
- Problem private sector corporate governance

## Disclosure

## Basic Requirements

- Set by Companies Act (for all companies)
- MoF SOE Guidelines some additional requirements
- Annual Report
  - Accounting standards: local+international+Indian GAAP
  - Limited non-financial information
- Registrar enforces CA requirements for SOEs

## Basic Requirements: elsewhere

- Source: CA, special law, listing
- Annual reports: mostly listed
- Standards: muddled (in practice)
- Enforcement: ?

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- Limited internal audit (or risk management...)
- Not just Bhutan

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  - But Bhutan is different:
    - Auditors from India
    - Accountants trained here
      - Limited domestic capacity
- ...Maybe not so different

## External Auditing

- In Bhutan
  - 1) External auditor
  - 2) Royal Audit Authority
  - 3+) Other Audits
  - A lot of auditing
- Elsewhere: one, other, both, none
- How should it work
  - Different auditors different competencies
  - Internal audit internal

## The Big Reform

## Druk Holdings and Investment

- Established November 2007
- Holding company with 14 SOEs (of 22)
  - Including Hydropower
- DHI exercises its authority under the CA
- Corporate governance part of its mandate

# Thank you!

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Corporate Governance

World Bank

Washington, DC