

# Second Meeting of the OECD Global Network on Privatisation and Corporate Governance of State-Owned Enterprises

## Ownership Function and the Board of State Owned Enterprises (SOEs)

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# Structure

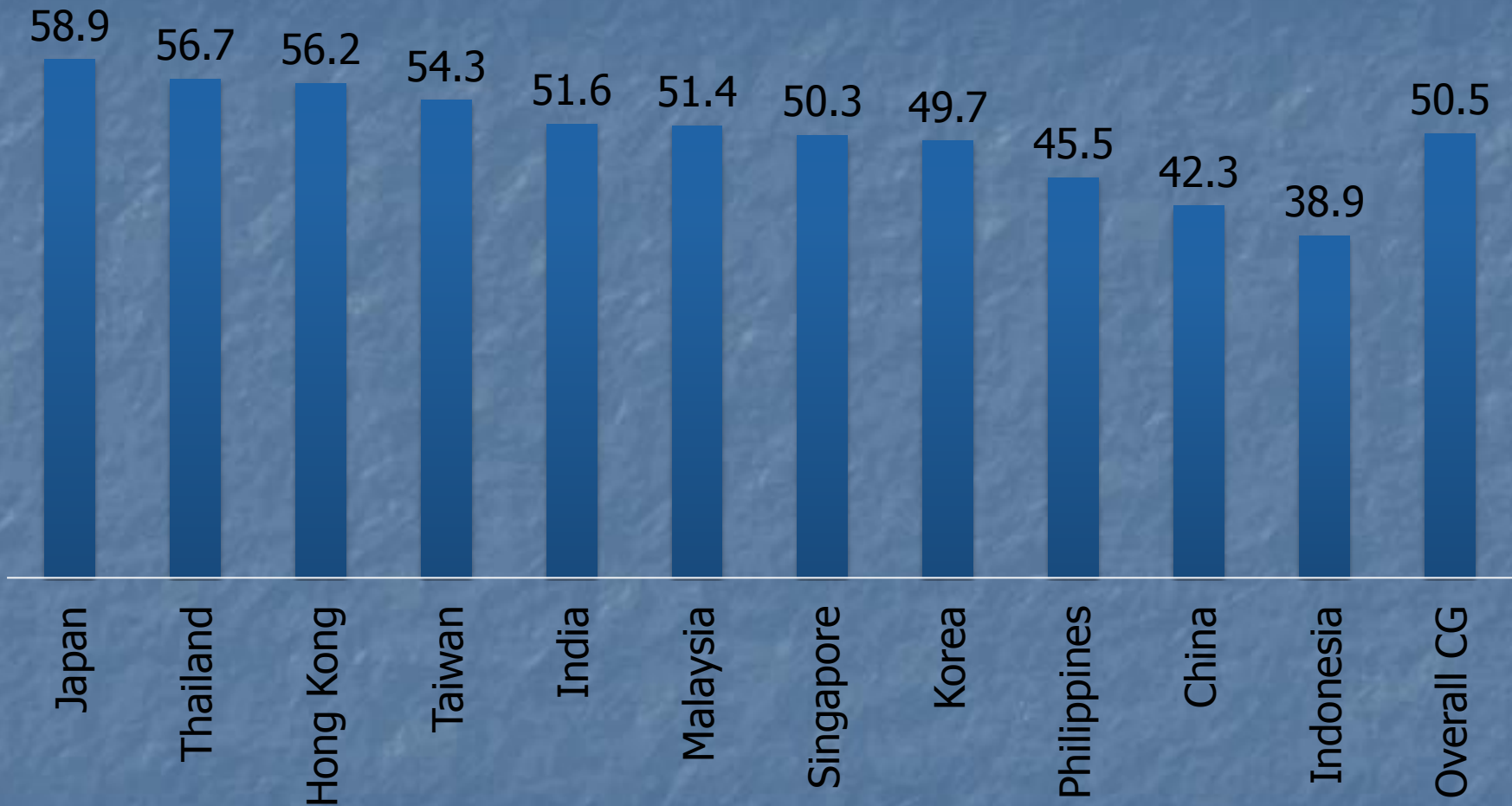
- State Owned Enterprises (SOEs): Non-OECD member countries
- Corporate Governance (CG) scores in Asia
- CG of the SOEs in Asia: Key Reform Measures
- CG of the SOEs in Asia: Challenges
- Key elements to improve SOEs governance
- Ownership Function and Board of the State-Owned Enterprises:  
Bangladesh Perspective

# State Owned Enterprises (SOEs): Non-OECD member countries

|   |  |
|---|--|
| <b>State Ownership</b>  | 12% of output in Asia, 20% of output in Africa, and 10% of Latin America   |
| <b>Contribution of SOEs value added to GDP:</b>                   | 8% of GDP in Asia, 15% in Africa, and 6% in Latin America  |
| <b>Countries where SOEs play a very important role</b>            | China, India, Russia, Brazil and South Africa  |
| <b>Prominent sectors</b>  | Air and Railway transport, electricity, gas and water supply, banking and insurance, broadcasting, natural resource extraction, and post and telecommunication etc     |
| <b>Reform methods to improve the SOEs performance since 1970s</b> | Restructuring, downsizing, new capital infusions, organization and legal form, privatizations, changes in administration and performance incentives for top management |

(Source: CG of SOEs: A survey of OCED countries (2005))

## Corporate Governance (CG) scores in Asia (overall-%)

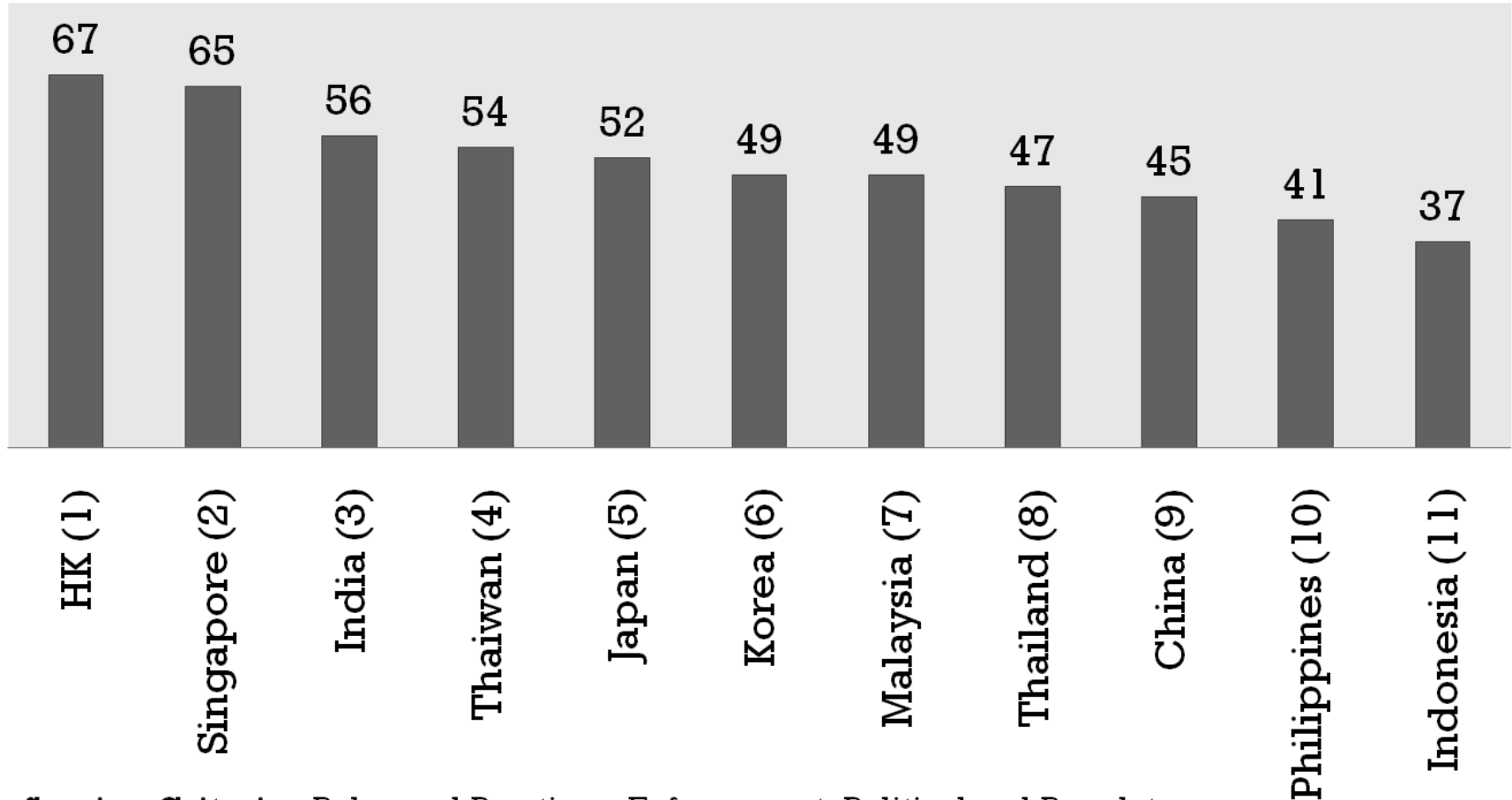


**Category:** Discipline, Transparency, Independence, Accountability, Responsibility, Fairness, and Clean and Green (C&G)

*Source: CG Watch 2007*

# Ranking of Macro-Determinants of CG in Asia

**Market Ranking: CG Quality in Asia (Total Score %)**



**Scoring Criteria** : Rules and Practices, Enforcement, Political and Regulatory Environment, IGAAP, and CG Culture



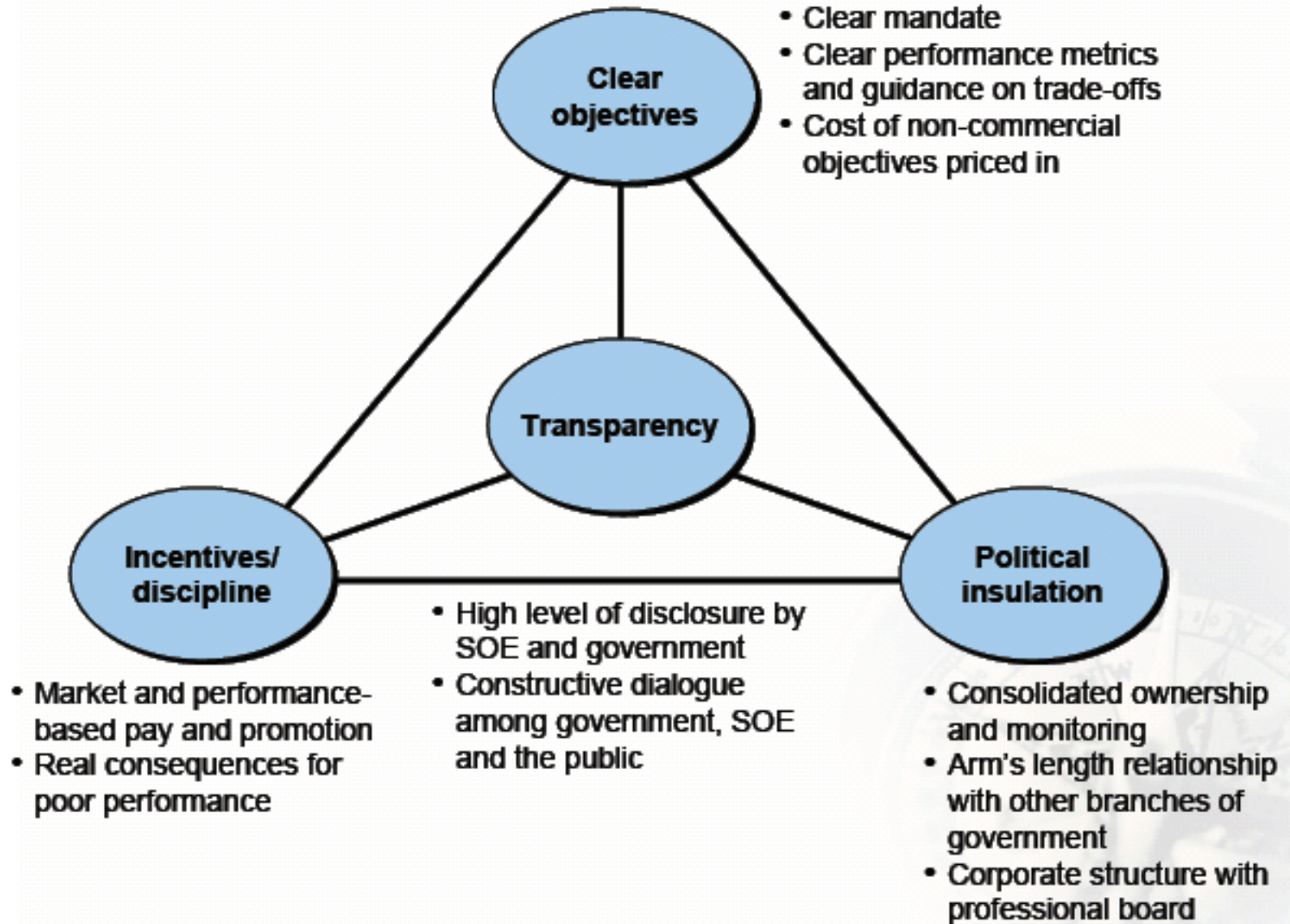
# CG of the SOEs in Asia: Key Reform Measures

|                  |   |
|------------------|---|
| <b>Bhutan</b>    | <ul style="list-style-type: none"> <li>Establishment of the Druk Holding and Investments (DHI) in 2007 as the SOE ownership entity.</li> </ul>  |
| <b>China</b>     | <ul style="list-style-type: none"> <li>Shareholder reform- non-tradable shares converted to tradable stock. Eliminated two-tiered structure</li> <li>Amendments the Company law and the securities law in 2005 including some key corporate-governance elements.</li> </ul>   |
| <b>India</b>     | <ul style="list-style-type: none"> <li>A new code and guidelines on Corporate Governance for Central Public Sector Enterprises (CPSEs) by Ministry of Heavy Industries &amp; Public Enterprises</li> <li>Revised clause 49 (SEBI) that includes appointment of independent directors, audit committee, CEO/CFO certification, risk minimization, legal compliance reporting, code of conduct, discloser, others compliance and subsidiary companies.</li> </ul> |
| <b>Indonesia</b> | <ul style="list-style-type: none"> <li>A new body – National Committee on Governance and a new code on corporate governance introduced.</li> <li>Central bank has issued separate governance standards for the banks.</li> </ul>  |
| <b>Japan</b>     | <ul style="list-style-type: none"> <li>Amended Corporation Law to permit adoption of US-style board structure</li> <li>Financial Instrument and Exchange Law (FIEL) for investor protection</li> <li>Review of the listing rules-Tokyo Stock Exchange</li> </ul>  |
| <b>Korea</b>     | <ul style="list-style-type: none"> <li>Enhanced board independence, transparency (quarterly reports, accounting standards) and shareholder rights</li> <li>Amendments to the Commercial Code 2006 i.e. directors duties and accountabilities</li> </ul>   |
| <b>Malaysia</b>  | <ul style="list-style-type: none"> <li>Amendments to the company act 2007 to improve the CG practices</li> <li>Capital Markets and Services Act (CMSA) 2007 for investor protection, effective regulation etc.</li> </ul>   |
| <b>Singapore</b> | <ul style="list-style-type: none"> <li>Revised disclosure requirements (including quarterly reports), Revised takeover code,</li> <li>Strong link between the Regulator and ministry of Finance to improve CG practices</li> </ul>  |

# CG of the SOEs in Asia: Challenges

| Challenges   | Countries                             |
|--|---------------------------------------|
| <ul style="list-style-type: none"> <li>• Implementation and enforcement of CG law</li> </ul>   | <p><b>China, India, Indonesia</b></p> |
| <ul style="list-style-type: none"> <li>• Multiple ministries in exercising the ownership rights of SOEs</li> </ul>   | <p><b>Korea</b></p>                   |
| <ul style="list-style-type: none"> <li>• Disclosure on directors' remuneration</li> </ul>  | <p><b>China</b></p>                   |
| <ul style="list-style-type: none"> <li>• Clear vision and a plan of action before centralization, Shareholder engagement, and to identify a strong champion to push through reforms</li> </ul>   | <p><b>Bhutan</b></p>                  |
| <ul style="list-style-type: none"> <li>• Weak regulatory system, and little cooperation between regulators</li> </ul>  | <p><b>Indonesia</b></p>               |
| <ul style="list-style-type: none"> <li>• Conflict on Financial Instrument and Exchange Law (FIEL) between reform and investor protection on the one hand versus the status quo and protection of management on the other</li> <li>• Minority Shareholder protection in New Company Law i.e. the power of the shareholders to approve dividends has been removed</li> </ul> | <p><b>Japan</b></p>                   |
| <ul style="list-style-type: none"> <li>• Weaker minority shareholders protection</li> <li>• Status of CG of Small and Medium size companies</li> </ul>   | <p><b>Singapore</b></p>               |

# Key elements to improve SOEs governance





# Ownership Function and Board of the State-Owned Enterprises: Bangladesh Perspective

# State-Owned Enterprises (SOEs): Bangladesh

|  |   |
|--|---|
| Number of SOEs                         | <b>45</b> State-Owned Corporation (SOEs) and about 200 subsidiary enterprises   |
| Sectors                                | <b>7</b> (Industry, Power, gas and water, Transport and Communication, Trade, Agriculture, Construction and Service)  |
| SOEs Contribution to GDP               | 2%  |
| Number of SOEs listed on Stock Markets | <b>27</b> (out of 236)  |
| Market capitalization of SOEs          | 10.30%  |
| SOEs Employment                        | <b>7%</b> of total employment   |
| Ownership Structure of SOE             | <p><b>No central authority. As many as 19 ministries own the SOEs in Bangladesh</b></p> <p>Performance is monitored by the holding corporation, the budget is controlled by the Ministry of Finance, Appointments of CEO&amp; Directors is controlled by the Ministry of Establishments, Wage Commission is controlled by the Ministry of Labour, Company Law and Insurance is controlled by the Ministry of Commerce, and finally the relevant administrative Ministry is in charge of the SOE</p> |

# SOE Ownership Function in Bangladesh: Practices and Key Reform Measures

| Practices  | Reforms   |
|--|---|
| <ul style="list-style-type: none"> <li>▪ No clear <b>Policy Statement</b> on Ownership</li> <li>▪ The Statute spell out <b>SOE objectives</b>, but not very specific &amp; comprehensive</li> <li>▪ <b>Ownership rights &amp; duties</b> is not very specific in any document</li> <li>▪ <b>Privatization Programme:</b> Since the establishment of the Privatization Board in 1993 and thereafter the Privatization Commission in 2000, <b>74</b> state owned enterprises (SOEs) have been privatized. <b>54</b> were privatized through <b>outright sale</b> and <b>20</b> through <b>offloading of shares</b></li> <li>▪ <b>Method of Privatization:</b> Tender, Share Off Load, Management Contract, Leasing Out, and Restructuring Method etc.</li> </ul> | <ul style="list-style-type: none"> <li>▪ <b>Legal Framework:</b> Privatization Act 2000, Privatization Policy 2007</li> <li>▪ Reconstitution of the <b>Board of Privatization Commission:</b> 17 members board (6 from the parliament members)</li> <li>▪ <b>Share Off-load: recently</b> 5 SOEs are listed in the Stock Market and 39 SOEs are in the process for listing in the stock market</li> <li>▪ As of January 2010, <b>22 SOEs</b> have been shortlisted for Privatization</li> <li>▪ <b>Three month Programme</b> of Privatization Commission (January 15, 2010-April 2010)             <ul style="list-style-type: none"> <li>▪ To make divestment process easier and faster</li> <li>▪ To monitor the performance of the sold out enterprises</li> <li>▪ To end post transfer problem</li> </ul> </li> </ul> |

# SOE Board in Bangladesh: Practices and Key Reform Measures

## Practices

- **Nomination of directors:** No specific rules or policy guidelines. Administrative ministries appoint the bureaucrats. Political consideration is a usual practice.
- **Conduct of the directors:** Company Act, SEC guideline and Bangladesh Bank's regulation generally provides a framework without any specific instruction to the govt. nominated directors.
- **Powers of the Board:** Statute spell out the powers, but influenced by the ministry
- **Board Composition:** 7-13 members (average)
- **Selection of CEO and top managers:** appointed from civil service on deputation, or on contract, or as political affiliation
- **Remuneration:** Except a few, almost majority follows government pay scales.
- Absence of **Performance Evaluation** of the Board

## Reforms

- **Re-constitution** of the SOEs including State-Owned Commercial Banks (SCBs)
- **Corporatization** of the SCBs
- **Terms limit** on Board duration and limits to the **size** of the boards
- Implementation of BASEL II Framework from January 2010
- Separate **Banking Division** under the Ministry of Finance
- **Separate pay scale** for the SCBs and Bangladesh Bank (BB)-(Proposed)
- **Banking Reform Law** (proposed)
- **Financial Reporting Council 2008** (in process)



# Ownership Function and Board of SOEs in Bangladesh: Challenges

## SOEs Ownership

- Developing a Policy Statement on SOE Ownership
- Setting Clear SOE Objectives
- Convergence on ownership of the SOEs
- Prolonged Privatization Process
- Absence of in-depth research findings on the privatization results
- Absence of an effective privatization policy
- Political consensus
- Negative Perception on privatization

## SOEs Board

- Political appointment of the members on SOE board instead of considering skills, experience and competence
- Frequent **rotation** of the Board member
- Multiple reporting authorities
- Absence of independent director on the Board
- Shortage of Experienced, Qualified and Competent Board member
- Absence of board self evaluation
- Capacity building initiative of the Board members is not an usual practice
- Mindset on capacity building initiative

**Thank You**