



Reforming State-Owned Enterprises – International Perspective –

By Hubert René Schillinger
Resident Representative
FES Namibia Office

NES-Breakfast Meeting, Windhoek 1.3.2006



Contents

- **Typical Problems with SOEs?**
- **Root Causes of SOE problems**
- **A framework for SOE reform**
- **Reform Options**
- **Enterprise Reform**
- **Governance & Management Reform**



Typical problems with SOEs

- Take on a life of their own and pursue objectives independent of gov policy
- Fail to perform efficiently & effectively the functions for which they were created – and more often than not provide shoddy & unreliable services
- Become another bureaucracy, plagued by inefficiency, ineffectiveness, corruption & incompetence, draining resources from public treasury

Result: Privatization of SOE since 1980 worldwide:

- During 1980s alone in more than 70 countries more than 7,000 SOE sold or liquidated
- 2270 Privatization transactions in Africa (1991-2001)
- Share of total SOEs divested: 40% on Average/ country (Africa)

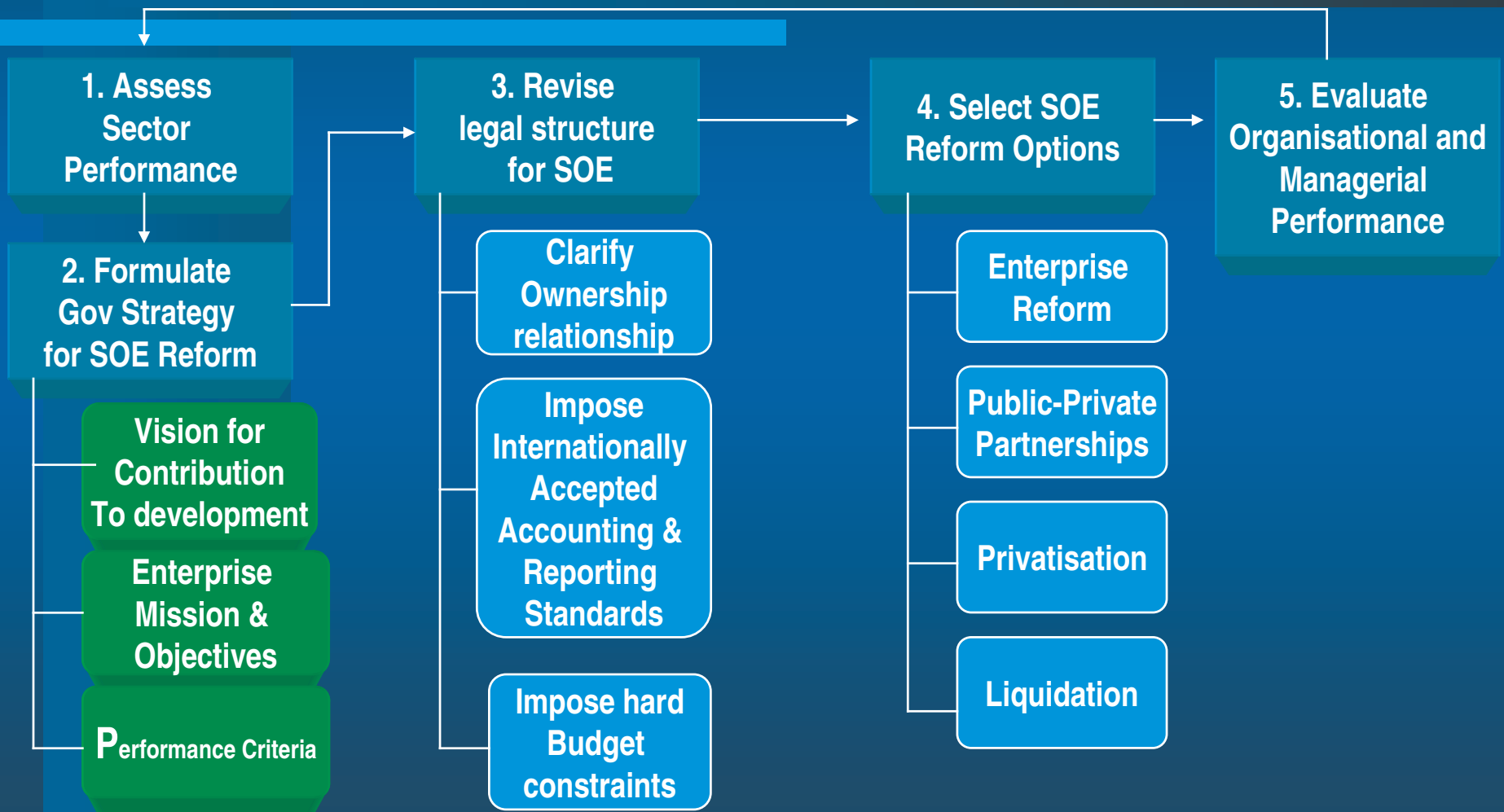


Root Causes of SOE Problems

- Undue hands-on politically motivated ownership interference
- Political intervention & strenuous gov controls inhibit from fulfilling mission
- Use for purposes not directly related to ec & soc development
 - E.g. to locate surplus labour, use directorships & senior management positions as political patronage positions
- No infusion of a strong developmental mission by government
- Totally passive ownership by the state
- Lax governance & oversight
- Complex web & dilution of accountability without clearly identifiable, or remote, principals (multiple principles)
- Unclear & multiple objectives without prioritisation & dealing with trade-offs
- Protected from major threats (like takeovers or bankruptcy) due to protected or monopoly status
- No hard budget constraints (treasury is covering losses at the end), therefore able to survive as “loss-maker”
- Restrictions on / weak incentives for innovation / technological change

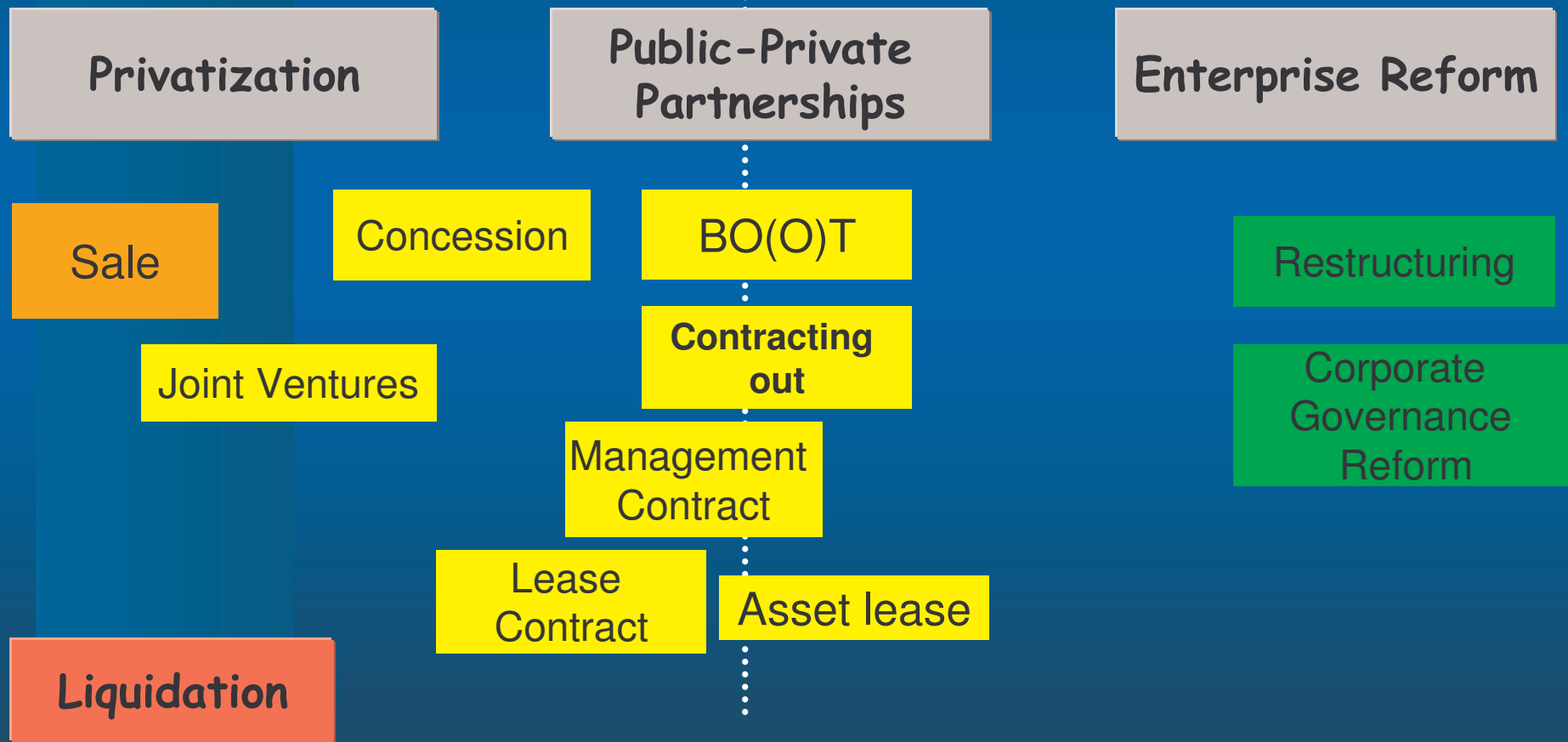


A framework for SOE Reform





Reform Options





Enterprise Reform

Restructuring

Legal
Restructuring

Financial
Restructuring

Operational
Restructuring

Role of Government

Ownership Policy

Ownership Structure

Competent Management

Performance Monitoring

Corporate Governance Reform



Governance & Management Reform

Role of Government ¹⁾

Ensure effective legal & regulatory framework:

E.g. Clear separation of ownership function and other state functions (market regulation, etc.)

SOE obligation in terms of public services to be mandated by law or regulation (plus compensation by state budget)

State Acting As Informed and Active Owner:

- ❖ Develop & Issue Ownership Policy
- ❖ Ensure Transparency & Accountability of SOE Governance
- ❖ Ensure professionalism & effectiveness of SOE Governance



Governance & Management Reform

State as Owner ¹⁾

- A. Ownership Policy
- B. Operational autonomy for SOE
- C. Respect for Board Independence
- D. Centralisation of Ownership Function (Shareholder Agency or at least Co-ordinating Entity)
- E. Accountability of Ownership Entity to Parliament & Defined Relationship with relevant public bodies (e.g. state supreme audit institutions)
 - Actively exercising ownership rights:
 - Participate & vote in shareholder meetings
 - Obtain relevant & sufficient information timely & on regular basis
 - Elect & remove board members
 - Approve extraordinary transactions

1) OECD-Guidelines on the Corporate Governance of State-Owned Enterprises (2005)



Governance & Management Reform

Ownership Policy

It is virtually impossible improve SOE performance unless there is a clear understanding what the enterprise is expected to achieve....

- Clarifying and prioritising objectives as an owner
- Translating them into measurable and quantifiable targets;
- Few objectives as possible; Key objectives related to efficiency
- Costs of non-commercial objectives should be made explicit and compensated in some manner;
- Ownership policy & assoc. company objectives should be public documents
- Avoid modifying objectives too often



Governance & Management Reform

Ownership Structure

Sectoral Min.

Holding
Company

Ministry of PE

Specialized
SOE Unit

Sectoral Min.

Lessons from experience:

- ❖ Ownership functions not to be exercised by Sectoral / Line Ministries
- ❖ Holding companies have not proved to be effective owners of SOE either
- ❖ Better: SOE Unit responsible for
 - ❖ Pushing PE reform process, coordinating gov efforts in this area
 - ❖ Provide technical expertise in monitoring & info about SOE perfor.
 - ❖ Exercise ownership function plus supervision of SOE sector
 - ❖ Report to inter-sectoral committee,
 - ❖ Attach it to the PM's or President's Office



Governance & Management Reform

SOE Unit ¹⁾

- *It is critical for the ownership function within the administration to be clearly identified. To achieve this, it can be centralised in a single entity.*
- *Helps in clarifying ownership policy & ensure consistent implementation*
- *Allows for bringing together relevant competencies by organising “pool of expert” on key matters (financial reporting – board nomination)*
- *Facilitates aggregate reporting on state ownership*
- *Effective way of separating ownership functions from market regulation, industrial policies etc.*
- *Probably most relevant for SOEs in competitive sectors*
- *Minimum requirement: Establishment of strong co-ordinating Unit*