

Current Model of Korean SOE Governance Structure

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Outline of Presentation

I Corporate Governance in Theories

II Past SOE Reform in Korea

III Corporate Governance in Korean SOEs

IV Policy Implications

I. Corporate Governance and SOEs

II. Past SOE Reform in Korea

III. Corporate Governance in Korean SOEs

IV. Policy Implications

I. Corporate Governance in Theories

- Corporate Governance: the entire set of institutions through which the objectives of the firm is set and executed and the performance of the firm monitored
- Public provision: “public interest” set through political (administrative) process → non-quantifiable + multiple objectives
- Private provision: “profit” set by (private) shareholders → often single objective
- Monitoring system in each sector different
 - Private sector by capital market
 - Public sector by other public institutions + citizens
- The most effective incentive mechanism is to link managerial rewards to firm objective for both public and private

I. Corporate Governance in Theories

- Problems of Corporate Governance when ownership and control are separated
- Problematic for both public and private institutions due to incomplete contract & asymmetric information
- The degree of 'Agency Problem' differs between Public and Private Provision
- The superiority of private provision depends on capital market efficiency and product market competition → privatization alone does not guarantee improved SOE performance

I. Corporate Governance in Theories

- The degree of SOE governance problem = f(administrative traditions, the recent history of reforms, the degree of liberalization)
- SOE Governance problems arise with no clear owner but competing owners and stakeholders with different objectives → multi-principal problem
- A complex agency chain with multiple and sometimes remote principals involving various ministries, the Parliament or interest groups, and the SOE itself.
- Structuring this complex chain of agency problem a key to SOE reform
- Accounting and management information disclosure also problematic

I. Corporate Governance in Theories

- The essence of SOE (corporate governance) reform is to establish effective incentive mechanism

Effective
incentive
mechanism

The diagram features a large blue semi-circle on the left containing the text 'Effective incentive mechanism'. A light blue line curves from the top of this semi-circle to the right, where it connects to five yellow circular nodes. Each node contains a number from 1 to 5. From each node, a horizontal light blue bar extends to the right, containing the corresponding step's text. The steps are: 1. minimize political and administrative interference; 2. clarify the firm's objectives (performance indicators); 3. increase managerial autonomy to meet these objectives; 4. evaluate managerial performance and link reward; 5. Clarify ownership rights and structure.

1

minimize political and administrative interference

2

clarify the firm's objectives (performance indicators)

3

increase managerial autonomy to meet these objectives

4

evaluate managerial performance and link reward

5

Clarify ownership rights and structure

I. Corporate Governance in Theories(OECD)

- Improvements in the governance of state-owned enterprises promote growth through better performance and increased productivity
- Better SOE governance lead to a more transparent allocation of resources and a more effective supervision and management of enterprise
- Better Corporate governance facilitate access to capital and lead to the allocation of internal resources to their most productive use
- Better corporate governance of state-owned enterprises improve the competitive process in those sectors open to entry by the private sector and where price controls have been lifted or reformed

I. Corporate Governance in Theories

- The structure of the exercise of ownership rights within the state administration varies and is very much dependent on the traditional administrative organization
- The most traditional is the decentralized model where SOEs are under the responsibility of relevant sector ministries
- The dual model is the most prevalent one, where the responsibility is shared between the sector ministry and a central Ministry or entity, usually the Finance Ministry or the Treasury
- A centralized model, in which the ownership responsibility is centralized under one main ministry, also popular

- I. Corporate Governance and SOEs
- II. Past SOE Reform in Korea
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II . SOE Reform in Korea

1. Government-Invested Enterprise (GIE) Act of 1984

- Introduced a German-type dual board at each GIE, establishing a supervisory board made up of non-standing directors (except CEO) who were essentially representatives from ministries and a executive board composed of internally promoted executives
- Streamlined government control to increase managerial autonomy
- Established an inter-ministrial committee to evaluate SOE performance and link reward to performance
- Performance evaluation system was introduced in 1984 which provided management with clearer managerial objectives + sought to formalize the relationship between state and SOEs

II . SOE Reform in Korea

2. Privatization Program(1983–97)

- With liberalization and economic growth + maturation of market, the “public interest” argument for SOEs began to weaken and privatization began to emerge as realistic policy options in the 1980’s
- The Government took measures to improve corporate governance of SOEs and partially sold its share in SOEs while retaining control(KT, POSCO, KT&G, KEPCO)
- Due to bureaucratic resistance as well as public concern over turning ‘public’ monopolies to ‘private’ monopolies, the government exercised caution in pushing ahead with the privatization program → limited success + increasing pressure to reform the SOE sector through governance reform

II . SOE Reform in Korea

3.The Act on the Managerial Structure Improvement and Privatization of SOEs(1997)

- Sought to improve managerial efficiency while pushing ahead with full and partial privatization
- A Shareholding cap of 7% to prevent the chaebols from acquiring controlling interests
- Introduced an Anglo–Saxon style corporate governance structure, involving active participation of institutional investors with significant but non–controlling interests + removed directors from government ministries
- Introduced Management Contracts for CEOs to align their objectives to long term profits
- Sought to protect the rights of minority shareholders in SOEs that were partially privatized

II . SOE Reform in Korea

4. Privatization Program(1997–2002)

- The Economic Crisis in 1997 provided a new sense of urgency to privatization policy
- The implementation of institutional reforms to reduce moral hazard, improve corporate governance, and enhance competition supported privatization drive
- Most large-sized privatization plans were drafted with a view toward establishing Anglo-Saxon style corporate governance (K T, POSCO, Korea Heavy Industry, and KT&G)
- Increased awareness of the importance of competition and regulation in the process of privatization
- Of 11 SOEs targeted for privatization in 1997, only 3 (power, gas, and district heating) remain as SOEs

II . SOE Reform in Korea

5. Public Entity Management Act (2007)

- Devised an integrated old PES by combining two different types of PESs – but three separate evaluations were set: Institutional Evaluation, CEO Evaluation, and Board/Auditor Evaluation
- A new SOE typology: three different categories depending on their size, functions, and commercial income
- A clear line of responsibilities among relevant government stakeholders were set to strengthen ownership function
- Internal corporate governance system introduced
- New transparency and disclosure rules were set up

I. Corporate Governance and SOEs

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III. Corporate Governance in Korean SOEs

1. What is a public Entity(PEs)?

- Institutions which are established or financially supported or contracted by the government to provide public services + 50% income derived from government businesses
- A new framework for public institutions introduced in 2007 clarified their operational practices by creating taxonomy for determining what entities shall be considered as SOEs and whether or not SOEs are considered as “commercial”
- With an own-revenue share of more than 85%, SOE would be further categorized as a “commercial SOE”, otherwise it would be a “semi-commercial SOE”

III. Corporate Governance in Korean SOEs

2. Public Entity Classification

- 286 PEs under the Act on the Management of Public entities in 2011
- Classified into 3 types based various financial and non-financial standards

| | Public Corporations | Quasi-governmental organizations | Other public entities |
|-----------------------|--|---|--|
| Number (Total 286) | 27 | 83 | 176 |
| Requirements | Own revenue exceed a half of total revenue with more than 50 employees | Own revenue less than a half of total revenue with more than 50 employees | Designated as neither public corporation nor Quasi-governmental organization |
| Examples | Korea Electrical Power Corporation Korea Highway Corporation | National Pension Service, KOTRA | Government think tanks, hospitals affiliated with national universities |

III. Corporate Governance in Korean SOEs

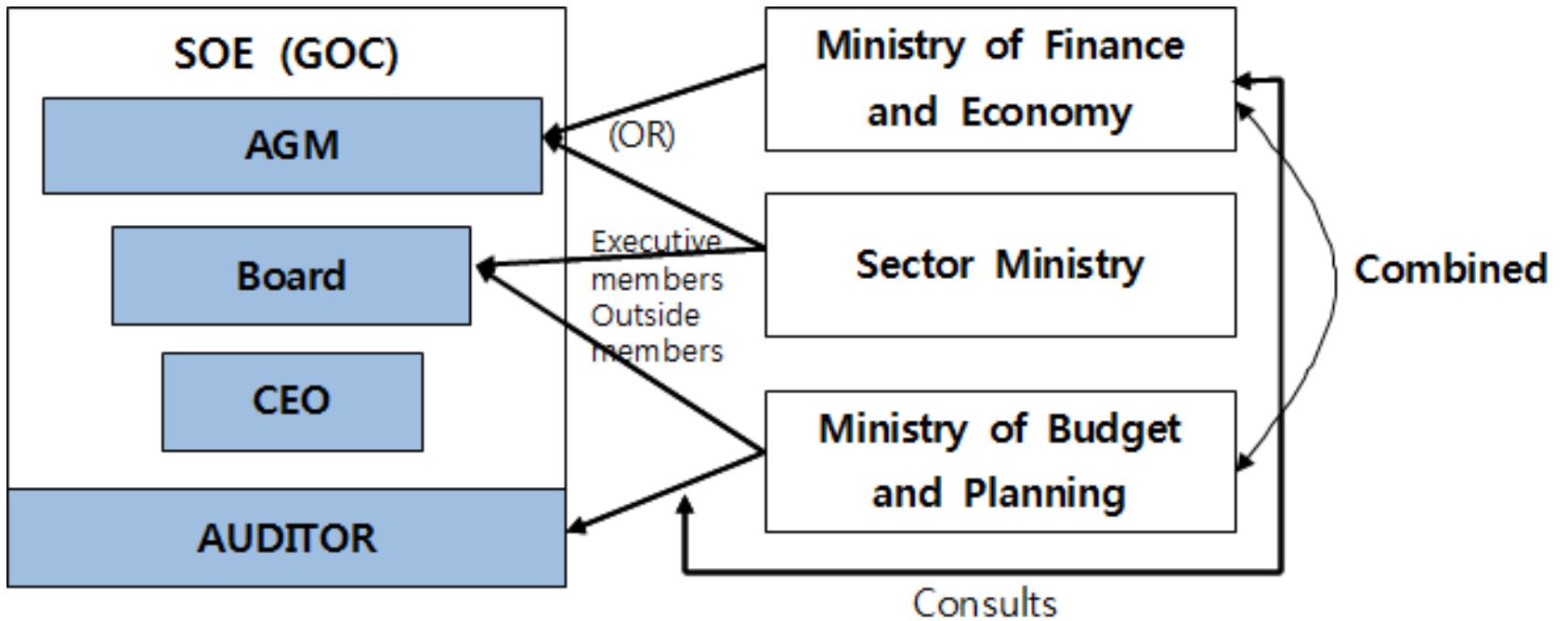
3. Public Entities' status (2010)

| | Workforce (‘000) | Budget (Bn. won) | Asset (Bn. won) | Debts (Bn. won) | Net profits (Bn. Won) |
|-----------------------|---------------------|---------------------|--------------------|--------------------|--------------------------|
| Public corporations | 93 | 181.5 | 444.6 | 271.8 | 5.0 |
| Quasi-govt entities | 67 | 173.9 | 183.7 | 104.5 | 1.1 |
| Other public entities | 88 | 108.9 | 25.7 | 10.3 | 1.1 |
| Total | 247 | 464.3 | 654.0 | 386.6 | 7.2 |

III. Corporate Governance in Korean SOEs

- The Korean SOE governance model is a dual organization one where the Ministry of Strategy and Finance and the sector ministries share the ownership rights in SOEs
- An independent Committee(CMPE) set up to strengthen ownership rights of the government
- Relevant players = (the Ministry of Strategy and Finance, the CMPE, the sector ministries, the Board of Audit and Inspection, the National Assembly)

III. Corporate Governance in Korean SOEs



III. Corporate Governance in Korean SOEs

4. Current Management Control System (MOSF, 2012)

| Management Control by Ministries by Types | | | |
|---|--|---|-----------|
| Management Areas | | Public corporations + quasi-governmental entities | Other PEs |
| Government | Budget formulation and enforcement (MOSF) | o | △ |
| | Performance evaluation(CMPE) | o | △ |
| | Recommendation for dismissal of PE executives(CMPE, MOSF) | o | △ |
| | Guideline on executive remuneration(CMPE, MOSF) | o | △ |
| | Restructuring and reorganization of Pes(MOSF) | o | o |
| Internal corporate governance | Board of directors | o | x |
| | Executive appointment process | o | x |
| Disclosure | Management information disclosure, customers satisfaction survey | o | o |

III. Corporate Governance in Korean SOEs

5. External Governance Reform: The Committee for Management of Public entities(CMPE)

- The CMPE, which integrated two similar committees set up for different types of PEs, put in charge of setting policy directions, especially over PES and executive appointments

| Area | Committee for the Management of Public Entities | |
|-------------|---|---|
| Composition | Appointed private members + ministries (chaired by the Minister of Strategy and Finance) | |
| Functions | Executive appointments and evaluation | Institutional Performance Evaluation |
| | Setting Management/Pay Guidelines | Setting PES Guidelines |
| | Public disclosure of PE Performance | Restructuring and reorganization of PEs |

III. Corporate Governance in Korean SOEs

5. External Governance Reform: Clarifying responsibilities of sector ministries vis-a-vis the MOSF and the CMPE

- MOSF provides general budget/pay guidelines + require approval by the CMPE on major business and budgeting issues while (daily) operational issues were continued to be monitored by sector ministries

| Reference | Before | After |
|----------------------------|--|--|
| Business and Budget Issues | -Sector ministries (Annual and LT Plans) -Ministry of Budget & Planning (Budget/pay guidelines) | The Committee for Management of Public Entities |
| Operational Issues | Sector ministries (monitoring operational aspects) | Sector ministries (monitoring operational aspects) |

III. Corporate Governance in Korean SOEs

5. External Governance Reform: Establishing the Executive Nominating Committee

- Candidates for CEOs, executives, auditors are now nominated by the Nominating Committees which mainly consist non-standing directors and outside experts from the private sector
- Based upon the recommendation, the CMPE or sector ministries make relevant personnel decisions

| | Public corporation | | Quasi-governmental Entities | |
|--|--------------------|--|-----------------------------|------------------|
| | Before | After | Before | After |
| Recommendation for CEOs | Sector ministers | After being delivered by the CMPE → Sector ministers | Sector ministers | Sector ministers |
| Appointing and dismissing standing directors | | CEOs | | |
| Appointing and dismissing non-standing directors | Minister of MOSF | CMPE | | CMPE |
| Recommendation for auditors | | | | |

6. Internal Governance Reform : The role of the board of directors and Internal Audit Office

- Sought to enhance the responsibilities and authorities of the board of (non-standing) directors by clarifying the functions of the board
- The 2007 reform mandates that the Chair of the board in a commercial PI must be designated from among the external Directors
- Major management decisions including annual plans, LT plans, budgeting decisions were subject to approval from the board
- The board determines the extension of tenure for CEOs
- Internal management monitoring function works effectively
- Internal monitoring system was enhanced as 1) market-based public corporations are obligated to establish the audit committees, and 2) audit office were given more power over institutional personnel and remuneration policies

III. Corporate Governance in Korean SOEs

6. Internal Governance Reform : Transparency and Disclosure

- Management disclosure: Established an internet-based “open information system for public entities” (Korean acronym ALIO) which works as an integrated service provider for the information of PEs
- PEs are mandated to disclose operational data according to 33 standardized categories of financial and non-financial information on web-sites, made accessible to the general public
- Annual monitoring of the validity of management information disclosed by PEs
- Performance Evaluation System: TBC

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IV . Policy Implications

- SOEs in developing nations have room to adopt market-based reforms without resorting to full or partial privatization
- Another policy option is corporate governance reform and introduction of performance evaluation system (PES)
- Aligning external and internal corporate governance structure very hard
- Preventing opportunistic intervention by the state and political institutions
- Balancing external and internal governance structure: More emphasis on internal while performance monitored and rewarded
- Need to develop a consistent & coherent strategy of SOE reform + country-specific corporate governance program

IV . Policy Implications

- The role of lead SOE ministry to strive for efficiency–increasing reform measures + constant monitoring
- Need to simplify PES: commercial objective over quasi–public objectives
- Apply market rules including anti–competition and other regulatory issues
- Align various government policies including competition, regulatory, and industrial policies to provide SOE managements with clear + consistent goal
- Privatization as a policy option

IV . Policy Implications

- Formalization of relationship between government and SOEs
- Performance management + control system
- Constant Monitoring and Review → Incentive to intervene
- Prerequisite: Infrastructure in place including accounting and other managerial information system + parallel reform to increase managerial autonomy + adequate skills to supervise and evaluate + political will to sustain
- Empowerment a key to success

Thank You !

A Critique of the Hybrid Model of Governance

K. R. S. Murthy

Governance

Governance is a legal framework for legitimization of an individual's power to take decisions and to hold them accountable

Public and private governance models approach governance differently

Combining the two in a hybrid model creates incompatibilities for decision making in the SOE

Differences in the Basic Models

| Design Characteristic | Public Governance | Private Corporate |
|-----------------------|-------------------------------------|------------------------------------|
| Objectives | Prevent Abuse of Power | Provide Enterprise Autonomy |
| Structure | Autonomous Statutory Institutions | Regulatory Bodies |
| Methodology | Enforce Roles, Rules and Procedures | Monitor Competition and Compliance |
| Safeguards | Checks & Balances | Penalties for violations |
| Outcomes | Socio Political Context | Corporate Capabilities |

Hybrid Model

Combines two basic governance models
one developed for public governance, and
the other for private sector corporations

Objective

SOE to be fully accountable to Government
SOEs to perform efficiently in private corporate governance model

SOE

a public limited liability company with a Board of Directors, owned and managed by the government

Experience with Hybrid Model

Experience with implementation in different countries shows that the hybrid model for SOEs has fallen short of expectations

Today the hybrid model is not seen as an efficient alternative to private enterprise, which is subject to competition and well-enforced regulation.

Questions

Why has the experience with the hybrid model been poor?

Does the hybrid model combine incompatible features?

If so, what are the implications?

Attributes of Good Governance

Attributes of good governance--autonomy, transparency, prompt and complete disclosure of conflicts of interest and accountability--are common to both the basic models

However, the attributes operate differently in each model

Combining the two leads to Incompatibilities in the working of the SOE under the hybrid governance model

Working of the Hybrid Model in SOEs

Subordination of Objectives

Instrument for the objectives and interests of the government in power and the decision making authority

Arbitrariness and lack of consistency

SOE enmeshed in Socio-Political Environment

Incompatibilities in the working of the Hybrid Model

Arising Out of

Culture

Operations (Example: Purchase)

Transparency

Rigidity in governance

Statecraft determines the outcomes of
governance models

Requirement for SOE success

quality leadership that respects and supports the mission,

enduring non-controversial political support for the mission, and

effective coordination of technical, financial and administrative functions.

Conclusion

The assumption that the hybrid model for SOEs would comfortably combine the good features of the two basic models--accountability and objectives and interests pursued in the public governance model and the autonomy, efficiency and initiative of the private corporate governance model--appears unrealistic

Public governance and statecraft dominate and determine the functioning of the hybrid model

Implications

Separate non-commercial objectives, if any, from SOEs

Implement non-commercial objectives through other alternatives

Supervise profit making SOEs through the Board of Directors

Wind up and not revive loss making SOEs

Governance Structure of Indian State Owned Enterprises

International Workshop on Performance Evaluation and
Management of State Owned Enterprises, New Delhi
14th January 2015

SOEs in India

- ❖ Historical Context
- ❖ Set up for Public Purpose
- ❖ Strong & Diversified Industrial Base
- ❖ SOEs – Both Government of India & State Governments
- ❖ Central SOEs
 - ❖ Coordinating Department DPE &
 - ❖ Administrative Subject Ministries/ Departments

SOEs & DHI

- ❖ Experience of DHI
 - ❖ Core Manufacturing Industries
- ❖ Range of SOEs
 - ❖ Size, Turnover, Profitability
 - ❖ Ownership pattern, Status

Government as Owner

- ❖ Intend to achieve public purpose with commercial orientation & financial autonomy
- ❖ Guidelines for Good Governance - DPE
- ❖ Governance Mechanisms: Managerial
 - ❖ Board Representation
 - ❖ Government & Independent Directors
 - ❖ Senior Appointments – Role of PESB
 - ❖ Vigilance set up – Anti Corruption

Governance Mechanisms

- ❖ Governance Mechanisms: Commercial & Financial
- ❖ Approval of Major Investments
 - ❖ Degrees of financial autonomy based on track record – Maharatna, Navratna, Miniratna system
- ❖ Negotiated MoUs – Deptt. Of Public Enterprises
 - ❖ Improve Performance
 - ❖ Enable Autonomy in Functioning
 - ❖ Foster Accountability
- Compliances with Legal & Regulatory Framework
 - ❖ Laws of the Land
 - ❖ Companies Act – Corporate Governance
 - ❖ SEBI, Sector Regulators
- For Listed Companies – Stock Market signals

Parliamentary Oversight

- ❖ SOEs responsible to Parliament & its Committees
- ❖ Subject to Government Audit
- ❖ Committees on
 - ❖ Public Accounts
 - ❖ Public Undertakings
 - ❖ Industry
 - ❖ Affirmative Action
- ❖ Public Money

Future Directions

- Trend Over the Years – Towards Greater Autonomy, Financial Independence, Profitability
- Development of Private Sector Capacities
- Likely Future Scenario
 - ❖ Hard budget constraints
 - ❖ Competing Domestic Market Alternatives
 - ❖ Make in India
 - ❖ Fittest to Survive, with High Degree of Freedom in Decision Making
 - ❖ Some will become Global Champions

Thank You

Rajan Katoch
Secretary
Government of India
Department of Heavy Industry

Existing Models of SOE Governance

Lessons from the Bangladesh Experience



Rehman Sobhan

Dhaka: January 2015



CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

Contents

- Section A.
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- Section B.
 - SOE's in Bangladesh: A historic contextualization
- Section C.
 - SOE's in Bangladesh: An agenda without a policy



Section A. The Scope of the Paper

- My presentation is premised on the proposition that SOE governance is heavily influenced by the underlying political economy in a country within which SOE's have to operate.
- SOE governance as distinct from SOE management thus needs to move beyond evaluating the small print of management manuals designed to improve SOE performance.
- The discussion needs to be broadened to take account of the political and societal context which influence the policy regime governing SOEs, their mission and management practices.



Section A. The Scope of the Paper

- The Bangladesh experience suggests that the fate of its SOEs has been influenced by the changing political economy which has governed the approach and role of SOEs.
- These changes have, however, failed to provide any clear guidance for the governance of SOEs.
- What remains in place is an agenda for marginalizing SOEs without a policy which clearly operationalizes this agenda, a recipe for endemic malgovernance.
- If SOE governance is at all to be improved then some serious re-thinking about the role of the state needs to be explored.



Section B. SOE's in Bangladesh: A Historic Contextualization

- SOE's in Bangladesh originated largely in response to market failure across much of the economy.
- Market failure originated in the incapacity of private entrepreneurs to respond to a genuine need by people for particular goods and services.
- This failure owed in most cases to a perception of deficiency in effective demand where insufficiency of income or purchasing power among prospective customers provided inadequate market incentives for profitmaking private investments.



Section B. SOE's in Bangladesh: A Historic Contextualization

1. Critical areas of market failure

- **Physical infrastructure**

- Power
- Communications
- Telecommunications
- Ports

- **Social infrastructure provision for low income households**

- Education
- Healthcare
- Quality deficiencies in public service delivery
- Private sector services for elites
- Inequitable impact of investments in human development



Section B. SOE's in Bangladesh: A Historic Contextualization

1. Critical areas of market failure (*cont.*)

- **Financial services for low income households**
 - Credit
 - Insurance
 - Financial intermediation
- **Large scale manufacturing**
 - Capital intensive projects
 - Non-traditional industries



2. Public intervention as a compensation for market failure

- **Physical infrastructure**
- **Education**
- **Healthcare**
- **Manufacturing**
 - Responding to entrepreneurial failure (PIDC)
 - Responding to ethnic dimensions of entrepreneurial failure (EPIDC)
- **Term financing for private sector**



Section B. SOE's in Bangladesh: A Historic Contextualization

2. Public intervention as a compensation for market failure (*cont.*)

■ Modes of ownership

- Government departments (social infrastructure)
- Public Corporations (physical infrastructure)
- Profit seeking SOEs (PIDC/EPIDC)

■ Management issues

- Bureaucrats vs Corporations
- Incentive structures
- Political control
- Issues of pricing policy and cost recovery



3. Financing public intervention

- **Public financing of public investment**
 - Public financing of infrastructure
 - Issues of allocative priority in public expenditure
 - ODA financing for public investment
- **Issues of pricing and profit seeking for SOEs**



4. The legacy at Bangladesh's independence

- **Inherited role of state from Pakistan period**
 - The intellectual tradition
 - The over developed state
 - The colonial legacy
- **Exit of Pakistani entrepreneurs and fate of abandoned enterprises**
 - Manufacturing
 - Banking and insurance
 - Foreign trade
 - Domestic trade



5. Policy responses in an independent Bangladesh

- **Filling the entrepreneurial vacuum**
 - Managing abandoned enterprises
 - Issues of retention and disinvestment of abandoned enterprises
- **Extending the public sector**
 - Political compulsions
 - Social assumptions
 - Policy framework



6. Managing the SOEs

- **Ownership structure**
 - Sector corporations – the corporate model
 - Relations with Ministry (NID)
- **Issues of managerial autonomy**
 - Prioritizing corporate leadership
 - The rules of business debate
 - Corporation-enterprise relationships
 - Regime change and the ascendancy of the bureaucrats



6. Managing the SOEs (*cont.*)

■ **Mission for SOEs**

- Political importance of SOE success
- Enhancing output and investment
- Modernization
- Profit maximization vs public service
- Labour force participation

■ **Political economy of pricing policy**

- Subsidizing public service at cost of SOE profitability
- SOE profits versus profits for trading intermediaries



7. Issues of SOE profitability

- **Policy failures**
 - Bureaucratization
 - Incentive failures
- **Management failures**
 - Inappropriate management choices
 - Failure to explicitly set targets
 - Lack of accountability for performance failure
- **Issues of political economy**
 - SOEs as patronage instruments
 - SOE failure as self fulfilling prophecies
 - The road to privatization of SOEs



Section C. SOE's in Bangladesh: An Agenda Without A Policy

8. Role of Bretton Woods Institutions

■ Policy agenda

- Attempts to reduce SOE presence in economy
- Use of policy conditionality
- Improving SOE management
- Restructuring SOEs
- Getting prices right
- Financing private entrepreneurship

■ Getting bureaucrats out of business

- The ideological agenda
- Ending support for ODA financing for manufacturing sector
- Using policy conditionality to promote privatization
 - ✦ banking sector:
 - ✦ irrigation assets:
- Divesting shares in SOEs
- Financing private entrepreneurship



8. Role of Bretton Woods Institutions (*cont.*)

- **Privatization of infrastructure sector**
 - No more ODA for power generation
 - Corporatization of service delivery in public utilities sector
- **Promoting Public-Private Partnership (PPP)**
 - IFC financing
 - Use of public financing institutions for underwriting PPP
- **Privatization of social sector**
 - Education
 - Healthcare
- **Service delivery through NGOs**



9. Where do we stand today

- **Conceptual issues**

- Principal-agent problems
- Diminishing the state
- Political economy underwriting policy change

- **SOEs are a dying institution**

- No agenda defining role of SOEs
- Indiscriminate privatization
- Minimizing public investment in the manufacturing sector
- SOE withdrawal and structural atrophy
- Liquidating SOE assets
- Disinvestment of SOE to workers without financial support
- Performance of privatized SOEs



Section C. SOE's in Bangladesh: An Agenda Without A Policy

9. Where do we stand today (cont.)

■ **Demotivation of SOE management**

- Privatization of profitable SOEs
- Withholding of new investments in SOEs
- Using SOE financial institutions as instruments of state patronage
- Corruption within the SOEs

■ **The ascendancy of the private sector**

- Private sector active in every area of economy where state was once active
- Private bank consortiums now resourced to underwrite large scale capital intensive private investments
- Private sector major player in power generation
- PPPs used to invest in communications sector
- Private sector active in tertiary health care and education at all levels
- Supportive role of state policies and financing for private sector



9. Where do we stand today (*cont.*)

■ **The endgame**

- Get the state out of all economic activity including physical and social infrastructure
- Today there is no SOE model in place because there is no certainty whether SOEs will remain as transient institutions or are to be retained at all.
- Within such a policy vacuum the scope for improving SOE performance is negligible.



10. Visualizing a more optimistic future for SOEs

- **Redefining the role of the state**
 - Restoring pragmatism in the policy discourse
 - Democratizing governance
 - Reaching out to missing markets
 - Broadening asset ownership
 - Re-defining SOE mission to serve a re-defined state
- **Broadening SOE ownership**
 - Worker ownership
 - Community ownership
 - Broadening PPP



10. Visualizing a more optimistic future for SOEs (*cont.*)

- **Redefining SOE management**
 - Clarifying the mission
 - Calibrating targets to the redefined mission
 - Accountability to owners, consumers and citizens
 - Incentivizing the new management



Thank You