ISSUES IN SOE REFORMS AND CORPORATE GOVERNANCE

Opening Remarks
ADB Forum on Governance and Institution
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Distinguished guests, colleagues, and participants, welcome to the 2018 Forum on Governance and Institutions. This, I understand, is the third time we are having this Forum, and already I cannot help but express my eagerness to witness the discussions that will unfold in this three-day program. The theme of the Forum is particularly significant as ADB is now about to implement Strategy 2030—a new strategic framework that will shape ADBs targets toward a prosperous, inclusive, resilient and sustainable Asia and the Pacific. Embedded in these targets are a renewed commitment to strengthen public service delivery in the region by improving financial sustainability and internal governance of SOEs, and increasing their access to financing facilities.

Asian Development Bank, like many multilateral development banks, such as World Bank (WBG), Inter-American Development Bank (IADB), and European Bank for Reconstruction and Development (EBRD), continues to recognize the importance of SOEs in many of its developing member countries' economy[1].

According to a World Bank report[2], SOEs contribute significantly to the growth of both developed and developing countries. Just to give you a flavour of the importance of SOEs, in PRC, for example, SOEs contributed 30% of GDP. In Viet Nam, it's 38%; in India and Thailand 25%; in Malaysia 15%; in Tajikistan, Turkmenistan and Uzbekistan more than 50%; and in other Central Asian countries 20-40%. Also, it's been said that 10% of the world's largest firms can be classified as SOEs with a net worth of $3.6 trillion—that is, if firms with more than 50% state ownership are included in our definition of SOEs.

While we see the value of SOEs in the pursuit of economic development, we also acknowledge that inefficiency continues to hound many SOEs, and this poses significant problems that are too costly. From ADB experience in engaging SOE in the Pacific DMCs, we recognize three primary issues[3]. One, SOEs absorb large amounts of capital but generate little revenue. Two, SOEs tend to eliminate competition from the private sector, as most SOEs depend heavily on government subsidies, which encourage them to be complacent and ignore the need to set strategic targets. And three, government transfer to inefficient SOEs deprive social sectors of much needed funds to accomplish development goals, leaving, for example, many children unschooled and women's health needs unmet.

Corporate governance holds the key to solving inefficiency among SOEs. In this respect, we are delighted to see some progress. Through corporate governance reforms, we can significantly improve SOE performance. Again, going back to our engagement with the Pacific DMCs, we have come to validate that ADB support for SOE policy and regulatory requirements works, as they (i) require SOEs to be managed commercially, (ii) strengthen corporate governance, and (iii) establish processes for sustainable public service delivery[4].

The Pacific Private Sector Development Initiative (PSDI) of ADB has reported progress aimed at reducing political influence in decision making in SOE governing boards. In 2010, 43% of SOE directors in Samoa, Solomon Island, and Tonga, were also elected officials or public servants. That figure was greatly reduced to 6% in 2016. In addition, PSDI has recorded an increased percentage of SOE board directors who are women in Fiji, Marshall Islands, Papua New Guinea, Samoa, Solomon Islands, and Tonga. They (women) now comprise 17% of total number of SOE board directors in these countries. That’s a lot, considering centuries of marginalization women suffered in this region. And this, of course, is very encouraging. It cannot be denied that companies with greater number of women participating in critical decision making perform better than those with less. Finally, progress is also made in terms of promoting transparency and accountability, as more and more SOEs are now required to publish summary annual reports in local newspapers.

While these achievements are significant, much remains to be done to (i) stop SOEs from draining limited public funds and dragging economic growth, and (ii) help them become more financially sustainable. State-owned enterprises continue to be “a material source of financial risks for governments, including substantial risks emanating from contingent liabilities on the public budget.[5]” It’s time the capital markets were made more accessible to SOEs. But that is easier said than done. We should address these financial risks, with us working together and patiently collaborating. We should broaden our accomplishments in terms of SOE reforms and corporate governance. And I hope to this all of us in this room will contribute and bring their significant knowledge and experience to the table to help us have a better, fresher, and broader perspective of the theme of this event.

On behalf of ADB's Governance Thematic Group, I welcome you to this event with great optimism. In as much as the organizers expect you to learn from this forum and discover pathways to collaboration, my personal expectation is that our discussions would feed into ADB's priority action planning for effective implementation of Strategy 2030, specifically for ADB's support for strengthened public service delivery through improved corporate governance of SOEs in Asia and the Pacific.

Before I close, let me thank our partners, ADBI and KDI, for helping make this learning event happen. Thank you, and I wish all us a fruitful experience.

Sources:

[1] IED. 2017. *Evaluation Approach Paper Thematic Evaluation Study: Asian Development Bank's Support for State-owned Enterprise Reforms*. Manila: ADB.

[2] ADBI. 2017. *In Efficient Management of State-owned Enterprises: Challenges and Opportunities.* Manila: ADB.

[3] ADB. 2016. *Reforming State-owned Enterprises*. Manila: ADB.

[4] Ibid.

[5] Welcome Remarks by G. Bhatta during the forum on corporate governance held in ADB on 20 November 2017.