



## **Reforming State-Owned Enterprises in Central Asia: Challenges and Solutions**

### **Workshop Proceedings**



**26–27 September 2019  
Bishkek, Kyrgyzstan**

In cooperation with the Asian Development Bank Institute (ADBI) and the American University of Central Asia (AUCA), the CAREC Institute has organized a workshop for senior personnel of state bodies in charge of managing state-owned enterprises (SOE) and public-private partnerships (PPP) from CAREC countries to discuss existing SOE practices and reform strategies in Bishkek, Kyrgyzstan, during 26-27 September 2019.

The 17th Ministerial Conference of the CAREC countries highlighted the issue of the SOE functionality and the public sector reform as a priority in November 2018. This workshop was arranged to respond to the priority agenda of the CAREC Ministerial Conference.

The participants shared new research, country experiences, best practices, risks and opportunities, information about ongoing reforms, SOE impact on economy, current policy issues in SOE management, global trends, role of governance, legal framework, performance evaluation models, and many more. The workshop enhanced dialogue and network among government agencies, academic institutions, and international organizations.

It was discussed how SOEs address certain types of market failures, that they account for 15% of GDP in OECD countries and 20-30% of GDP in transition economies, for 20% of investment and 5% of employment globally. In 2017, 102 of the world's largest 500 enterprises were owned by sovereign governments. However, the participants also highlighted transparency and performance issues in relation with SOEs. Research was shared where low productivity SOEs make business environment more severe for the private sector due to non-performing loans, influence on collateral requirements for the business, and making their access to finance more difficult. A comprehensive evaluation framework was proposed for SOEs which can help improve policy decision making.

The resource persons were distinguished experts of the related field and mainly authors of chapters in the forthcoming book titled: *Reforming State-Owned Enterprises in Asia* (edited by Farhad Taghizadeh-Hesary, Naoyuki Yoshino, Chul Ju Kim, and Kunmin Kim).

Welcoming and opening remarks were made by Dr. Bambang Susantono, Vice-President for Knowledge Management and Sustainable Development of the ADB; Mr. Bekbolot Aliyev, the Chairman of the Kyrgyzstan State Property Management Fund; Mr. Chul Ju Kim, Deputy Dean (Capacity Building and Training and Special Activities) of the ADBI; Mr. Eisa Khan Ayoob Ayoobi, Senior Knowledge Services Officer of the CAREC Institute; and Dr. Chyngyz Shamshiev, AUCA Vice-President and Chief Operating Officer.

This paper presents the workshop proceedings prepared by Prof. Farhad Taghizadeh-Hesary of Waseda University.

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## Abbreviations

SOE	State Owned Enterprise
PRC	People's Republic of China
GDP	Gross Domestic Product
OECD	Organization for Economic Cooperation and Development
ADB	Asian Development Bank Institute
SPM	State Property Management
EBRD	European Bank for Reconstruction and Development
CCI	Competition Commission of India
NOC	National Oil Companies
DMC	Developing Member Country
IPO	Initial Public Offering
KASE	Kazakhstan Stock Exchange
BHR	Buy and Hold Return
LSE	London Stock Exchange
ROE	Return on Equity
SASAC	State-Owned Assets Supervision and Administration Commission (the PRC)
CNY	Chinese Yuan

## Background

State-owned enterprises (SOEs) play a key role in the economy of many countries when they are managed effectively to improve social welfare. At the same time, their relatively low performance poses several problems, including slowing down economic growth in countries where such firms represent a large share of the economy (Taghizadeh-Hesary, et. al., 2019).<sup>1</sup>

The SOEs often dominate key sectors in the economy as significant borrowers and trade controllers of major exports and imports. They also command a sizable share of public resources in many countries. For example, in current and/or former socialist economies, SOEs make up a significant portion of the economy. These enterprises actively provide social services (Forfas 2010)<sup>2</sup> and preserve social stability (Huang, Li, and Lotspeich 2010).<sup>3</sup>

The SOEs often dominate sectors such as finance and telecommunications. In 2015, the 51% of global SOE activity (except for the PRC) was concentrated in electricity, gas, transportation, telecom, and other utilities, representing around 70% of total employment in SOEs<sup>4</sup>. In the PRC, particularly, financial firms (such as banks) accounted for over half of the SOEs' value. Manufacturing, electricity, gas, transportation, and the primary sector each accounted for at least 5% of the SOEs' value.

In Central Asia, government's large role in the economy, reflected in the dominance of SOEs in local markets, impedes efficiency and entrepreneurship. For example, in Kazakhstan, SOEs account for about half of the total value added, one-third of employment, and hold assets equal to nearly one-half of GDP. In Uzbekistan, SOEs account for about half of total value added, 20% of the employment GDP (World Bank 2018; OECD 2018)<sup>5</sup>.

In the countries where SOEs dominate the economy, management of these enterprises presents a significant issue requiring new approaches and methods to improve the quality and effectiveness. The issue of SOE efficiency is relevant both for the central government and the society. Therefore, civil society oversight is recommended.

The state property management (SPM) is one of the tools for regulating and managing SOEs. However, the SPM framework must meet the following criteria: ensure integrity, security, proper use, development and improvement of quality parameters; and effective functioning

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<sup>1</sup> Taghizadeh-Hesary, F., N. Yoshino, C. J. Kim, and A. Mortha. 2019. A Comprehensive Evaluation Framework on the Economic Performance of State-Owned Enterprises. ADBI Working Paper 949. Tokyo: Asian Development Bank Institute. Available: <https://www.adb.org/publications/comprehensive-evaluation-framework-economic-performance-state-owned-enterprises>

<sup>2</sup> Forfas. 2010. The Role of State-Owned Enterprises: Providing Infrastructure and Supporting Economic Recovery.

<sup>3</sup> Huang, Xianfeng, Ping Li, and Richard Lotspeich. 2010. Economic Growth and Multi-Tasking by State-Owned Enterprises: An Analytic Framework and Empirical Study Based on Chinese Provincial Data. *Economic Systems* 34(2): 160–77.

<sup>4</sup> Organisation for Economic Co-operation and Development (OECD). 2017. The Size and Sectoral Distribution of State-Owned Enterprises. Paris: OECD Publishing. <https://dx.doi.org/10.1787/9789264280663-en>.

<sup>5</sup> World Bank. 2018. Kazakhstan Systematic Country Diagnostic: A New Growth Model for Building a Secure Middle Class. Washington, DC.

Organization for Economic Co-operation and Development (OECD). 2018. "Reforming Kazakhstan: Progress, Challenges and Opportunities." Paris.

and rational use of the entire set of state-owned objects in the interests of the state and society or the country as a whole.

In Central Asia, like in other regions, where SOEs are dominant, it remains an issue to ensure objectivity and transparency of indicators of the results of financial and economic activities of SOEs. In the management of SOEs, the political component prevails over the economic. The civil society and other stakeholders also have the right to raise concerns regarding effective management of SOEs. Hence, it becomes necessary to introduce holistic and transparent mechanisms for improving the efficiency of SOEs.

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## Overview

The presentation on “Overview of SOE Reforms: Current Issues, Challenges, and Possible Reforms” was made by Mr. Chul Ju Kim, Deputy Dean of the Capacity Building and Training and Special Activities of the ADBI.

In his presentation, Mr. Chul Ju Kim noted numerous existing definitions of SOEs. At times, SOEs are referred to as governmental corporations, government-linked companies, public enterprises or public sector enterprises. Some of the definitions include:

- **Organization for Economic Co-operation and Development (OECD):** “All autonomous government entities that generate at least half of their income through the sale of goods and services and have autonomous budgets and balance sheets.”
- **World Bank Group (WBG):** “Commercial SOEs at the national level [are entities] in which the government has significant control through full, majority, or substantial minority ownership. SOEs across a range of sectors - such as manufacturing and



- services, utilities, banks and other financial institutions, and natural resources - are included.”
- **International Finance Corporation (IFC):** “A legal entity where majority [is] owned or controlled by a national or local government whether directly or indirectly.”
  - **Asian Development Bank (ADB):** “A SOE includes, but is not limited to, any entity recognized by the borrower’s national law as an enterprise in which the state or government exercises direct or indirect (whole or partial) ownership or control.”

About the importance of SOEs, Mr. Kim added that SOEs account for 15% of GDP in OECD countries and 20-30% of GDP in transition economies. SOEs account globally for 20% of investment and 5% of employment. In 2017, 102 out of the world’s largest 500 enterprises were completely or partially owned by sovereign governments. The SOEs are active in various sectors including infrastructure (telecom, utilities, transportation), public services (welfare, postal), and strategic sectors (defense, steel, oil).

He then discussed several market failures and reasons which provide conditions for emergence of SOEs:

- ✓ public goods (non-rival and non-excludable consumption)
- ✓ externalities (negative or positive)
- ✓ information asymmetries, moral hazard, and adverse selection
- ✓ incomplete markets (can’t obtain optimum products)
- ✓ natural monopolies (one provider, undersupply or overpricing)

The solutions include but are not limited to taxation, regulation, and direct provision. Solutions for each country depend on market structure and ability of the state. The negative expected impacts of SOEs on economy include state capture, lack of capacity, and the crowding out effect on the private sector.

Kyrgyzstan, Afghanistan, Azerbaijan, and the PRC representatives at the workshop



Another challenge for SOEs is efficiency, however, this aspect cannot be generalized to all SOEs. The 25 largest SOEs in the Fortune 500 (2012) were more profitable than their private peers (Musacchio, 2015). There are many SOEs being labelled as “national champions” with majority/minority shareholdings, listed at stock exchanges, with good governance structures, and performance-oriented operation (e.g. 13 biggest oil firms, Gazprom, China Mobile, Saudi Basic Industries, Russia Sberbank, Dubai Ports, Emirates). But generally, SOEs are perceived to have low performance compared with their private-owned peers.

The main goal of the SOE reform is establishing mechanisms to ensure efficiency/effectiveness, transparency and accountability. As for the solutions, Mr. Kim mentioned that SOEs need to be evaluated by their effectiveness (e.g. achievement of objectives), not just by efficiency (e.g. profitability). Careful assessment of SOEs could lead to state ownership reforms and/or privatization. State ownership reform includes a clear ownership policy, market and regulatory framework, transparent and accountable governance, and incentive-oriented operational reforms. Finally, Mr. Kim argued that successful privatization (full or partial) requires a proper regulatory framework that is well placed, and careful consideration shall be given to the process management.

### The Role of Corporate Governance and Strategy

The second session had four presenters, namely Ms. Chung-a Park (made via skype) from the Organization for Economic Co-operation and Development (OECD); Dr. Pornchai Wisuttisak, Chiang Mai University; Mr. Umidjon Abdullaev, European Bank for Reconstruction and Development (EBRD); and Dr. Vijay Kumar Singh, UPES School of Law, India. The objective of this session was to provide an overview of the role of corporate governance and strategy as well as the reform cases of countries based on theoretical and empirical framework of SOE.

### Transparency and Accountability

Ms. Chung-a Park’s presentation was on enhancing the transparency and accountability of SOEs. She provided an overview of national practices for improving the accountability and performance of SOEs by examining relevant legislations, policies, and practices applicable to SOEs in Asia and other economies. Ms. Park assessed these against internationally agreed good practices exemplified by the OECD Guidelines of Corporate Governance of SOEs. Nine Asian countries were reviewed in her work that differ in terms of their degree of efforts and progress to develop and implement legal and regulatory framework for SOE disclosure and transparency.

According to Ms. Park, some have made progress in terms of developing improved information disclosure by SOEs with an accelerated corporatization process of SOEs and application of adequate accounting standards. She also highlighted that more governments are establishing information reporting and performance evaluation systems through which they obtain financial and non-financial information from SOEs. However, some of the reviewed countries lack comprehensive mechanisms for detecting fiscal risks associated with SOEs. A few SOEs have no internal audit function and thus their financial statements are not subject to independent external audits. In her conclusion, Ms. Park claimed that most of the countries do not produce aggregate ownership reports and therefore accountability is hampered and public oversight of SOE performance is hindered.



Dr. Pornchai Wisuttisak's presentation was titled "Thailand and Malaysia's Incentive and Regulatory Design for SOE Performance." According to him, SOEs play a significant role in providing public goods and services, such as utilities and infrastructures. They also play a considerable role in promoting a country's national programs, such as providing employment opportunities, promoting national champions, and implementing socio-economic and industrial policies.

Since the states are owners of the SOEs, the state backing helps SOEs enjoy a monopolistic position in the market and have a competitive advantage over private enterprises. This creates many unintended market consequences such as inefficiency, non-transparency and weak governance. Various regulatory and institutional frameworks to reform SOEs have been adopted by countries around the world in order to stimulate competition, increase efficiency, and improve the level of their performance. However, the outcomes of the reform are rather mixed. In Asia, for example, many SOEs are still operating in less efficient manner due to their complacent position in the market leading to poor performance.

### SOEs in Uzbekistan

Mr. Umidjon Abdullaev's presentation was titled "SOEs in Uzbekistan: Taking Stock and Options for the Future." He reported that the state is the main owner of industrial and commercial enterprises in Uzbekistan. SOEs dominate and have significant influence on the performance of most sectors in the economy including natural resources, energy, manufacturing, telecommunications, transport, and agriculture.

Mr. Abdullaev reviewed the economic weight and degree of SOEs' share in the economy of Uzbekistan and presented the details of the governance mechanisms currently employed by the Uzbek government to manage its portfolio of commercial enterprises. He also discussed the scope of Uzbekistan's past and ongoing privatization initiatives. Several recommendations for addressing key issues included:

- ❖ SOE performance monitoring system should prioritize SOE efficiency and its degree of transparency should be improved. Presence of a number of recurring government decrees and programs influencing SOE operations and performance (state investment and sector development programs, annual production and supply targets set by supply-and-use balances, localization projects and recurring cost-cutting initiatives) appear to result in a wide range of quantitative targets imposed on SOEs.
- ❖ The scope of future privatization programs should be gradually expanded. The government should reconsider its approach to privatization and consider expanding the scope of future programs. Analysis of reasons of failure of past ambitious privatization initiatives should also help design adequate future programs and increase the likelihood of their success.

Uzbekistan, Turkmenistan, and Tajikistan representatives at the workshop



## Lessons from Competition Law in India

Dr. Vijay Kumar Singh's presentation was titled "Reforming SOE in Asia: Lessons from Competition Law and Policy in India." India is one of the most significant countries of Asia, particularly in terms of its population and growing economy and market. India has rapidly moved from a "command and control" economy to free market principles and in this regard, one of the major reforms revamped the competition law. The new competition law introduced the principle of "competitive neutrality" by bringing SOEs under the purview or limitation of competition law regulation by virtue of defining "enterprise" to include government departments engaged in economic activities. The Competition Commission of India (CCI) has penalized big SOEs like Coal India for violation of the Competition Act.

Looking from a reform perspective, generally there have been bias towards SOEs by the governments in giving concessions, relaxing norms, and promoting finances. The biggest example is Air India – the national carrier. Other sectors would be Railways including the container transport, state-owned banks, health sector, and the energy sector. Dr. Singh in his presentation, overall examined the impact of competition law and policy on reforming SOEs in India. He did so by looking at the lawsuits against SOEs in India and their impact on changing behavior of SOEs vis-à-vis competition and reforms in general terms.

## SOE Reform in Afghanistan

In addition to the academic presentations, the government representatives of Afghanistan, Kyrgyzstan, and Mongolia made presentations covering the current status of SOEs in their countries. Among which, Mr. Shafiqullah Naziri Shahrani from the Ministry of Finance of Afghanistan reported that, in the past, more than 70 SOEs accounted for about 60% of government revenue. Due to developments in the last three decades, the SOEs reduced to 35

entities and, nowadays, generate less than 1% of state revenues. The number of employees has also declined rapidly. However, SOEs have significant opportunities in the economy of the country.

The challenges of the SOE sector in Afghanistan include:

- Inadequate legal base for new investments in state-owned enterprises
- Lack of qualified human resources
- Absence of strategic business plans
- Lack of latest technology
- Lack of awareness programs for investors
- Lack of coordination
- Political decisions, and government departments as shareholders

To address issues associated with SOEs, the ongoing activities in Afghanistan include:

- Preparation of the adequate legal base
- Meetings with different investors, financial institutions, embassies
- Studying lessons and experiences of other countries
- Designing awareness program
- Developing strategic business plans

### Evaluation of Productivity and Performance

In the third session, three research papers were presented by Dr. Farhad Taghizadeh-Hesary, Waseda University, Japan; Dr. Youngho Chang, Singapore University of Social Science, Singapore and Dr. Serik Orazgaliyev, Nazarbayev University, Kazakhstan. The objective of this session was to explore the desirable and effective evaluation system for better productivity and performance of SOEs based on the empirical analysis as well as theoretical consideration of problems of current management evaluation systems. This session was chaired by Dr. Steven C. Kessel from the American University of Central Asia, Kyrgyzstan.

### Framework for SOE Performance Assessment

Dr. Farhad Taghizadeh-Hesary's presentation was titled "A Comprehensive Evaluation Framework on the Economic Performance of SOEs." He started his presentation by arguing that SOEs play a key role in the economy of many countries when they enhance social welfare effectively. At the same time, relatively low performance of SOEs poses several problems, including slowing down economic growth. This effect is especially pronounced in countries where such firms represent a large share of the economy. Therefore, it is crucial for central governments to implement a comprehensive evaluation method to assess the performance of SOEs.

In his presentation which was based on the recent research, principal component analysis technique was utilized to translate data of 1,148 SOEs, mostly from European countries. The study aimed at providing a comprehensive framework for assessing SOE performance that includes various factors. Five selected factors were:



- 1) profitability
- 2) per capita productivity
- 3) per capita costs
- 4) debt due days
- 5) solvency

The results of the empirical study showed that solvency, per capita costs, and per employee productivity have more deterministic power over the success or failure of SOEs, compared with profitability. While profit making of SOEs is important, focusing on profitability as the sole assessment criterion will mislead policy makers, keeping in mind that the nature of many SOEs is to generate social welfare and not only profit.

Kyrgyzstan representatives at the workshop



## SOEs in Singapore

Dr. Youngho Chang's presentation was titled "Analysis of the Performance of SOEs in Singapore and Policy Implication." The Singaporean model for development, as exemplified by the approach adopted by its SOEs has often been held up as a model for governments in other countries to emulate (Chua, 2016). For example, Temasek Holdings, Singapore's main state holding company, is often presented as an exemplary model for the PRC SOEs, amongst other countries, in terms of corporate governance as well as strategy. This model has, however, not been without detractors, meaning that there is no one-size-fits-all approach to every context since different varieties of capitalism apply to different institutional contexts (Hall and Soskice, 2001).

Dr. Chang's presentation aimed to trace the history, founding, as well as trajectory of growth for Singapore's SOEs. Subsequently, he examined Temasek's performance from the angle of replicating the Singaporean approach to economic development via SOEs. He concluded with

recommendations how to improve performance and management of Singapore's SOEs in an ever-changing, globally challenging environment, and use such models in other countries.

### State Participation in Kazakhstan's Energy Sector: Kazmunaigas

Dr. Serik Orazgaliyev's presentation was titled "State Intervention in Kazakhstan's Energy Sector: The Role of Kazmunaigas National Company." He noted that SOEs have been declining in numbers in most industries in Kazakhstan. However, in the oil and gas industry, state-owned national oil companies (NOCs) continue to secure dominant positions.

In some instances, energy-exporting countries conducted nationalization of their resources, while in other cases they tightened control over the privately-owned firms. His presentation began with broader questions of why countries choose to have state-owned enterprises and why energy-rich states prefer to nationalize their oil and gas industries.

Next, he explored the case of nationalization policies in Kazakhstan's oil and gas industry in the post-Soviet period. Although, the full nationalization of the energy sector did not happen, the government's intervention in the industry had become more prevalent, according to him. As a result, multinationals had to form partnerships with Kazmunaigas in major oil and gas projects.

The presenter further explored the role of Kazmunaigas as a NOC in Kazakhstan's hydrocarbon sector. At the beginning of the 2000s, Kazakhstan consolidated its dispersed SOE in the energy sector to create Kazmunaigas. Since then, Kazakhstan set an objective to ensure more active participation of the domestic NOC in big-scale energy projects. Although Kazmunaigas is shaped as a fully integrated NOC with an increasingly visible role in the industry, it has to deal with challenges that many NOCs face globally. These challenges include improving technological capabilities, access to capital and financial independence, as well as strategic human resource management.

### SOEs in Azerbaijan

Additionally, in this session, the government representatives of Azerbaijan, Pakistan, and Tajikistan made presentations covering the current status of SOEs in their countries. Among which, Mr. Amir Shirinbayli from Azerbaijan Ministry of Economy remarked that SOEs play a major role in the national economy of Azerbaijan. SOEs have significant contribution to national wealth and are providers of essential goods and services, engaged in activities of national importance, including extraction of natural resources (oil & gas), infrastructure, transport, communications, water, and energy. The SOEs contribute about 40% to the Azerbaijan GDP. However, Azerbaijan needed significant SOE reforms in 2016 to reduce the reliance on the state budget after drop in oil prices.

The SOE reforms of Azerbaijan comprise 12 strategic roadmaps, and are categorized in three groups:

- 1) Strategic roadmaps: diversification of the economy and reduction of State's participation in the existing SOEs. Establishment of good governance practices in SOEs to improve activity and attract private sector investment. Revival of inactive enterprises, and public-private partnerships.



- 2) Creation of Azerbaijan Industrial Corporation: central management of inactive industrial and agricultural SOEs, raising effectiveness in the management of government properties.
- 3) Privatization of small and medium-sized SOEs.

### State-Owned Enterprise Reforms in Asia

The fourth session was dedicated to the ADB's forthcoming book on SOE reform in Asia. This book was introduced by Dr. Kaukab Naqvi, ADB Economist, and chaired by Dr. Rana Hasan, ADB Director.

Pakistan and the PRC representatives at the workshop



### ADB's Forthcoming Book on SOE Reform in Asia

Governments in developing countries initially created SOEs to achieve primarily import–substitution industrialization and promote domestic production of industrial goods, in effect forming companies that produce steel, chemicals, and electricity. Several arguments have been offered to justify or oppose state participation in economic affairs. Advocates claim that government involvement in the economy expedites the resolution of market failure. Some say that SOE may be better placed to tackle the external influences associated with the provision of public goods. The social perspective underscores the achievement of societal objectives, which depart from purely profit-maximizing goals. Others often argue that without government regulations, markets encourage short-term profit seeking at the cost of the long-term investments necessary for sustainable economic development. Still, others favor SOE involvement in the production of basic commodities such as water, health care, and education while not necessarily trading them for profit. Governments also provide basic services on

equity considerations, such as universal access to essential services, and job creation in backward areas.

On the other hand, many argue against SOE involvement. The so-called principal -agent argument, for example, suggests that a SOE is not run by its owner, but by a manager who has less incentive to manage the enterprise efficiently. Others assert that SOEs are often statutory monopolies - their products are not subject to market competition and they have easy access to government finances. In addition, they are not subject to market discipline.

Additionally, the lack of competition and frequent government bailouts during crises, they claim, may lead to inefficient performance and poor public service delivery of the SOEs. Despite large-scale privatization in the 1980s and 1990s, SOEs in emerging markets have remained active at domestic and global levels. Episodes of financial crisis have led some governments to expand the role of SOEs to further developmental and policy goals. However, despite their involvement in different sectors, SOEs in emerging markets lag in the consistent application of corporate governance standards.

Poorly performing SOEs incur high financial and economic costs and impede competitiveness and growth, in many countries becoming a fiscal burden and a source of fiscal risk, as they weaken the financial system. Continued lending to unprofitable companies can create contingent liabilities and can likely destabilize the macro economy.

The SOE policy is therefore a key component of any reform agenda, and it can take many forms - from outright divestment, partial divestment, and privatization to improve efficiency while retaining state ownership. For example, after considering the adverse impacts of the financial crisis, some governments are reasserting ownership over strategic sectors. Due to the fact that SOEs are active internationally, many countries employ them to reap the benefits of economies of scale in the race for finance, talent, and resources.

The ADB's forthcoming book posits that government agenda, in developing countries, should focus on reforming SOEs and making them an efficient driver of growth, particularly during Asia's transition to high-income status. It provides insightful understanding of the importance of SOEs in selected DMCs and an in-depth assessment of key issues relating to the SOE reform.

## Privatization: Challenges and Solutions

Session five had three presenters Dr. Kamila Mateeva and Sultan Khalilov, American University of Central Asia, Kyrgyzstan (joint presentation); Dr. Keun Jung Lee, KIMEP University, Kazakhstan and Dr. Minchang Lee, Chosun University, Republic of Korea. This session focused on the mechanisms to attract private investment in the management of state-owned enterprises, and the challenges and solutions regarding privatization of SOE.

## SOEs in Kyrgyzstan

Dr. Kamila Mateeva and Sultan Khalilov, American University of Central Asia, Kyrgyzstan (joint presentation) was titled "SOE in Kyrgyzstan: Regulation, Privatization and Reforming Prospects." The presentation looked into the legal and regulatory aspects of privatization and SOE reform. In addition, it provided recommendations for improving the corporate governance of SOEs, such as:

- a) obligating SOEs to have development strategies (including financial models, etc.)
- b) establishing relevant procedure for selecting highly qualified candidates to the board of directors
- c) electing/appointing independent members of the board of directors
- d) establishing relevant committees within the board of directors (for strategic planning, human resources and remuneration, budget, audit, etc.)
- e) privatization (selling more than 50% of shares of SOE to private investors who will come with new ideas)

As for the legal prospect, the presenters proposed amending the law on “State Property Privatization” of 2002 to identify specific objectives.

### The Effects of Privatization of SOE in Kazakhstan

Dr. Keun Jung Lee’s presentation was titled “The Effects of Privatization and Corporate Governance of SOE in Transition Economy of Kazakhstan.” This presentation focused on the relationship between corporate governance and corporate performance by Initial Public Offerings (IPO) of Kazakhstan SOEs. He argued that privatization has different effects depending on the type of owners and form of corporate governance.

This presentation was based on the recent study by the presenter and looked into the long-run stock performance of Kazakhstan companies listed on London Stock Exchange (LSE) and Kazakhstan Stock Exchange (KASE) in order to clarify whether the IPO of SOEs are underperforming or overperforming in the long run and identify their determinants. The data analyzed included about 536 observations in a listed non-financial company with the board size, independent directors, CEO/chair duality, institution ownership, government shareholding and managerial ownership. The results showed that Return on Equity (ROE) is significantly affected by the ownership structure (institutional ownership and managerial ownership) of Kazakhstan firms listed on LSE. Mineral, oil, and gas industries indicated high relationship of buy and hold return (BHR) with market return, firm size, ROE, and initial return on long term performance.

### SOE Reform and Privatization in Korea

Dr. Minchang Lee’s presentation was titled “SOEs Reform and Privatization in Korea.” Dr. Lee firstly introduced the structure, status and classification of Korean public sector institutions. The types of institutions in the Korean public sector are:

- 1) government sector institutions (government organization, responsible administrative agencies, etc.)
- 2) general government institutions (government sector and quasi-governmental organizations)
- 3) SOEs and QGOs (quasi-governmental organizations, corporate-type responsible administrative agencies, government enterprises, and SOEs)

Next, he introduced the performance management system of public agencies of the Republic of Korea, its evolution and current situation. The system is for assuring the public, ensuring accountability of public agencies while maintaining management autonomy; covering public agencies including public corporations and quasi-governmental agencies;

reducing unnecessary interference by ensuring accountability and responsibility of public agencies.

Based on the Law of Management of Public Agencies, public corporations and quasi-governmental agencies are evaluated annually on their performance. The objective of this system is:

- a) to establish a clear relation between government and public agencies
- b) to encourage their creativity and entrepreneurship
- c) to provide motivation to chief executives and members of public agencies to achieve targets
- d) to prevent moral hazards due to principal-agent problems
- e) to bring about competition to otherwise monopolistic public sector
- f) to get feedback and encourage improvements in management
- g) to enhance transparency of public agencies through regular reporting to the National Assembly

### SOEs in the PRC

Subsequently, in this session, the government representatives of the PRC, Turkmenistan, and Uzbekistan made presentations covering the current status of SOEs in their countries. Among which, Mr. Yu Jianhong of the PRC SASAC brought up figures on the role of SOEs in the Chinese economy. There are 134,000 SOEs in the PRC, of which 96 are central SOEs and the remainder are local SOEs. The amount of the total assets of all Chinese SOEs equals 178.7 trillion CNY (26.0 trillion USD) where the share of the central SOEs is 32.6% or 58.2 trillion CNY (8.5 trillion USD). The total operating income of all Chinese SOEs is 58.8 CNY (8.6 trillion USD) where almost half comes from central SOEs.

The 89 Chinese SOEs, including Sinopec and State Grid Corporation of China, are listed in Fortune Global 500 (2019). The SOE activities in the PRC are accounting for 1/5 of the national fiscal revenue, 1/7 of the GDP and 1/10 of the employment (40 million).

The main activities in the SOE reform include enhancement of the classified evaluation, strengthening of the board of directors, promotion of the mixed ownership reform, promotion of the market-oriented operation mechanism, and enhancement of the efficiency of state assets oversight.