

CVM - COLUMBIA UNIVERSITY DIALOGUE

GOVERNANCE OF STATE-OWNED COMPANIES

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A Contemporary Issue

- **State capitalism remains important** after over two decades of reform and privatization.
- But SOEs now are becoming **different**
- Some are among the **largest and fastest expanding** multinational companies.
- They now **compete with private firms**.
- **10% of the world's largest** firms are state-owned controlled (204 firms)
- Their **joint sales amount to \$3.6 trillion** in 2011



Source: **State-owned enterprises in the global economy: Reason for concern?**, Max Büge, Matias Egeland, Przemyslaw Kowalski, Monika Sztajerowska, May 2013.

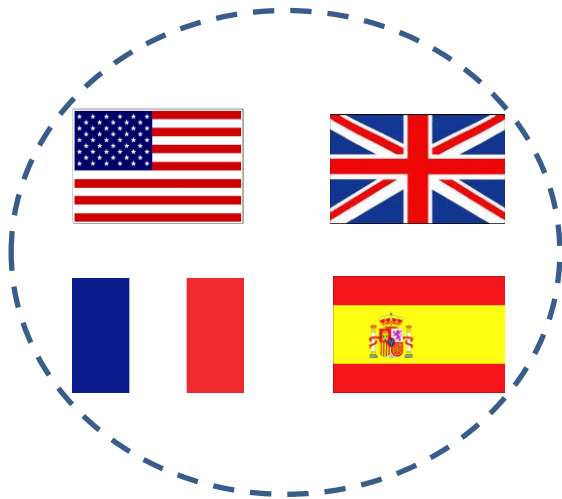
Leviathan in Business: Varieties of State Capitalism and Their Implications for Economic Performance, Aldo Musacchio; Sergio G. Lazzarini, Jun, 2012

International Scene

Global **top 15 firms** (2010-2011)

11

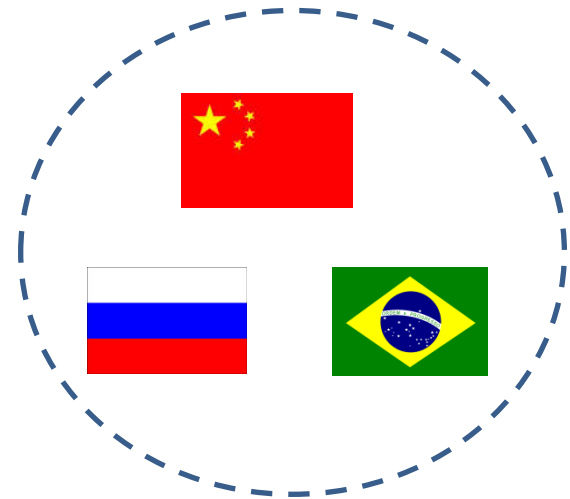
Private Enterprises



OECD Countries

4

State-Owned Enterprises



BRIC

Source: *State-owned Enterprises: trade effects and policy implications*. OECD, 2013. Adapted from *Forbes Global 2000*.

International Scene

Global **top 5 SOEs** (2010-2011)

PetroChina



ICBC

China Construction Bank

Gazprom



Petrobras – Petróleo Brasil

Source: *State-owned Enterprises: trade effects and policy implications*. OECD, 2013. Adapted from *Forbes Global 2000*.

Challenges to State-Owned Enterprises

- **Limited autonomy** due to political influence
- Protection from takeover and bankruptcy, **diluting accountability and undermining SOE financial discipline** as losses can be absorbed by the state
- **Complex chain of government ownership** can further **dilute accountability**
- Most SOEs also **lack the scrutiny of capital markets and shareholders**, which may reduce pressures for financial discipline and efficiency

Governance Issues in State-Owned Enterprises

- Ensuring an Effective Legal and Regulatory Framework for SOEs
- The State Acting as an Owner
- Equitable Treatment of Shareholders
- Relations with Stakeholders
- Transparency and Disclosure
- The Responsibilities of the Boards of State-Owned Enterprises

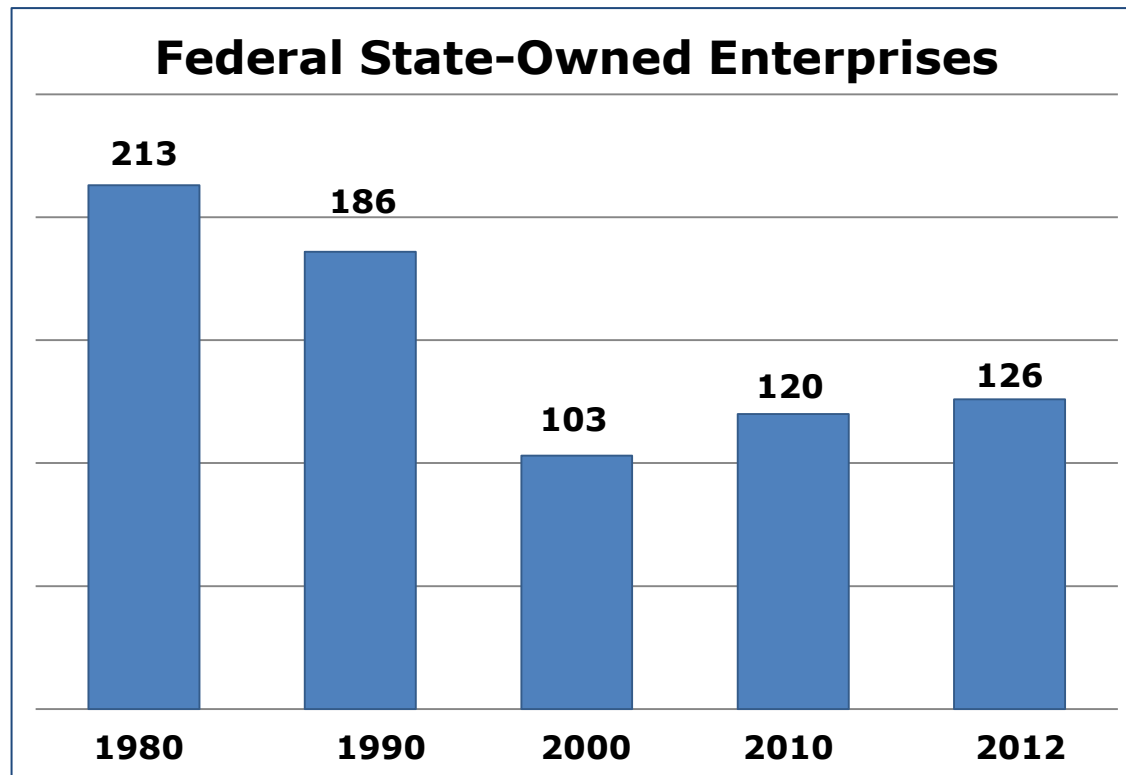


Source: OECD Guidelines on Corporate Governance of State-owned Enterprises. OECD, 2005.

Brazilian Scene

Since the National Privatization Program in 1991, several companies and federal state shareholdings were privatized

- mostly in steel, chemicals and petrochemicals, fertilizers and electricity



Source: Departamento de Coordenação e Governança das Empresas Estatais. - DEST.

Brazilian Scene

New Ownership Context



- In the 2000s, SOEs have seen increased investment turnover, in particular through an **increase** in **state-owned minority shares** (Lazzarini and Musacchio, 2011).
- In the case of the **financial sector**, large SOEs like the Brazilian Development Bank (**BNDES**) have **increased dominance** through injections of government capital in the wake of the financial crisis (State-owned Enterprises: trade effects and policy implications. OECD, 2013.)

Governance Challenges for Brazilian SOEs

- Set clear definition of objectives for SOEs (tradeoff between social and business goals)



Brazilian Corporate Law

Controlling Shareholder

Article 238. A legal entity controlling a **mixed-economy corporation** has the **duties and responsibilities of a controlling shareholder** (article 116 and 117), **but it may direct the activities of the corporation so as to satisfy the public interest** in relation to its own functions.

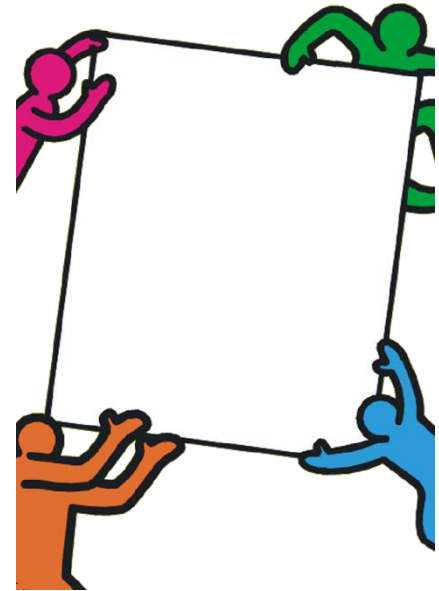
Brazilian SOEs: Governance Challenges & Solutions

- Set clear definition of objectives for SOEs (tradeoff between social and business goals)
- Mandatory qualification of directors
- Inclusion of 'independent' directors, appointed by society
- Selection and appointment of directors
- Improvement of transparency/disclosure methodology
- Regular Board Evaluation performed by independent agents



Brazilian SOEs: Governance Challenges & Solutions

- Promote the existence of government bodies responsible for improving CG Practices at SOEs
- Ensure independency of the regulators: equitable treatment for public and private sectors
- Improvement of law enforcement for directors
- Vigilant and diligent minority shareholders and other stakeholders.



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