

# Ownership, governance and reform

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# My experience

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- ☐ NZ SOE policy
  - ☐ UK CAA regulating
  - ☐ Government-owned Manchester airport
  - ☐ 50:50 air traffic control PPP
  - ☐ Privately owned BAA London airports
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# Key messages

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- RG objective
  - Suggest 1. adoption of an economic efficiency objective, given
    - efficiency/fiscal trade-off
  - 2. Develop/implement SOE policy
  - 3. Consider PSP to maintain & boost efficiency and improve government BS
  - But reforms usually driven by fiscal rather than efficiency imperatives
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# Efficiency objective

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- ❑ Productive: least cost
  - ❑ Allocative: value-for-money
  - ❑ Dynamic: profitable investment
  - ❑ De-regulation, industry structure, competition, CP and regulation => better allocative efficiency
  - ❑ Ownership, using governance, key for PE and DE
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# An SOE policy

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- ❑ Clear core SOE commercial objective
  - ❑ Competitive neutrality
  - ❑ SOE autonomy and accountability
  - ❑ Appropriate incentives
  - ❑ SOE mission, max. gearing, dividend policy
  - ❑ Need hard budget constraint
  - ❑ Role of board versus
  - ❑ Role of government e.g. owner, policymaker
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# PSP

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- ☐ Given SOE policy, why “hold” or why “sell”?
  - ☐ SOE policy implementable/sustainable?
  - ☐ Broader government management issue
  - ☐ PSP superior?
  - ☐ Empirical evidence
  - ☐ Fiscal benefits?
  - ☐ Evidence  $\Rightarrow$   $NPV(PSP) > NPV(SOE)$ ?
  - ☐ Government share of increment?
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# PSP part 2

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- ❑ Credible policy environment necessary
  - ❑ Range of options and degrees
  - ❑ Polar position, sell all SOE shares to highest bidder via open sound process (FDI)
  - ❑ Capture any control premium
  - ❑ Necessary to capture expected efficiency gains and improve government BS
  - ❑ Intermediate options => smaller BS gains
  - ❑ Risks: govt. process, winner's curse, excess leverage
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# Conclusion

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- ❑ Ownership/governance important for efficiency
  - ❑ Sound policy/regulatory environment
  - ❑ MoF-led SOE policy necessary
  - ❑ PSP via sound process, with OK political economy, offers gains
  - ❑ Communication important
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