

Fundamentals of SOEs governance & why the agenda became important recently

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FINANCIAL REPORTING IN PRIVATE AND PUBLIC SECTORS – COMMON ISSUES, CHALLENGES AND RECENT DEVELOPMENTS

CFRR 

**Centre for Financial
Reporting Reform**



The 600 kilo gorilla in the room: State-Owned Enterprises





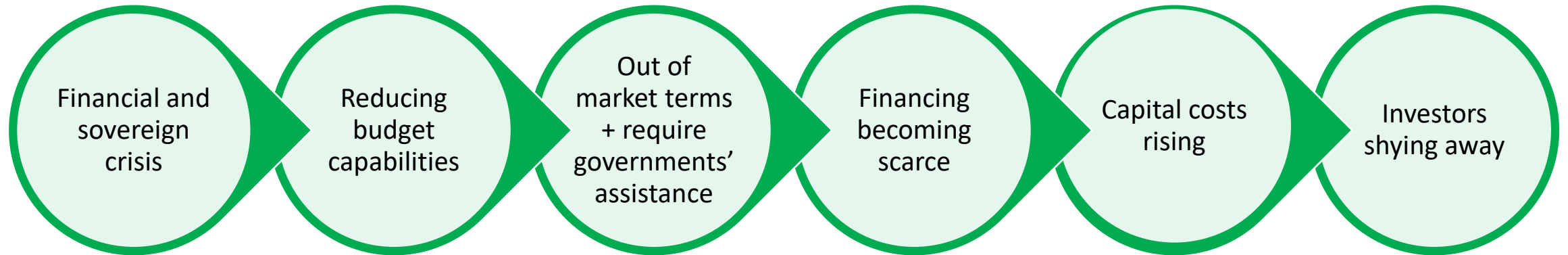
Roadmap

- » Why the SOE agenda became important recently in ECA
- » Fundamentals of SOEs governance
- » The World Bank global engagement in SOE reform



Why the SOE agenda became important recently in ECA

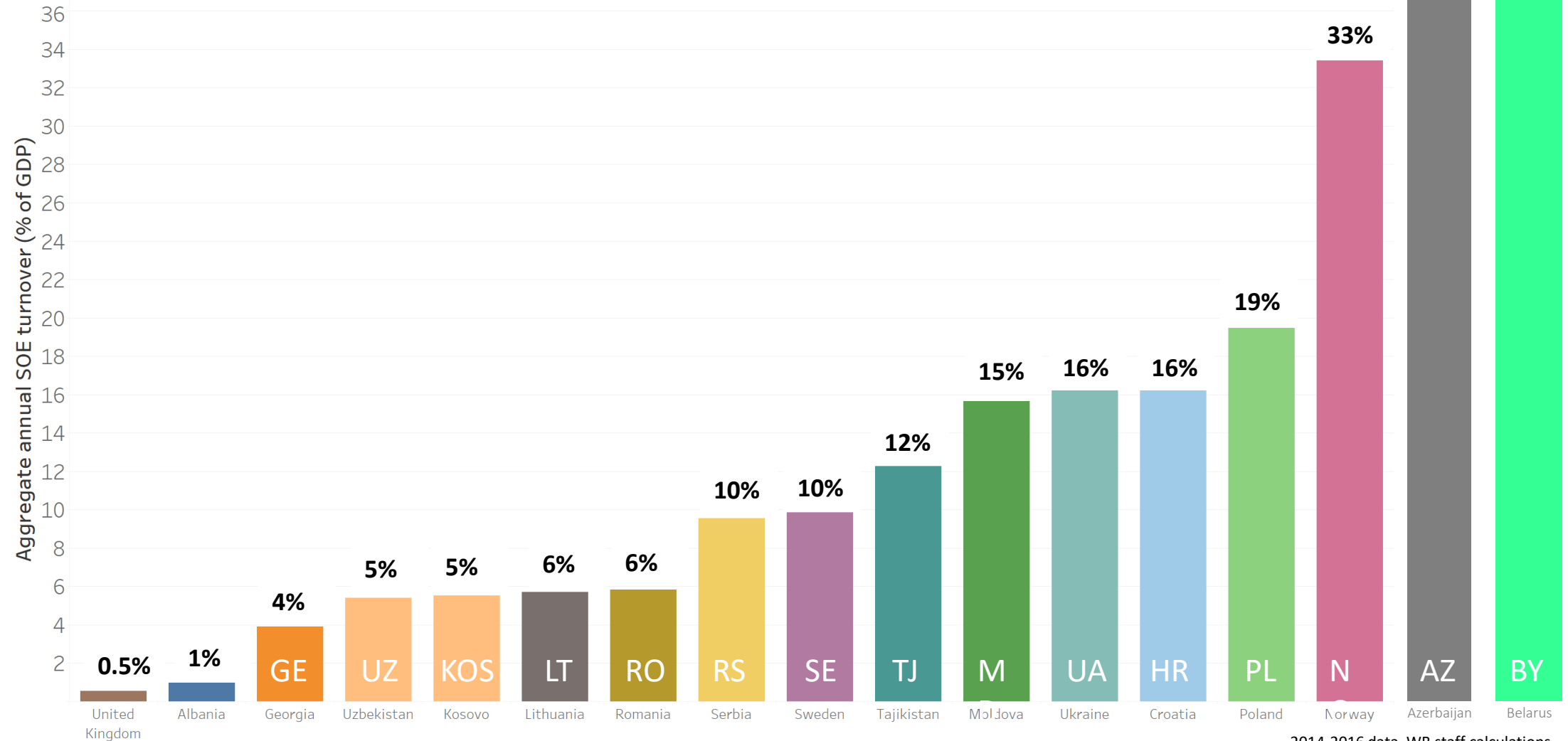
Economic context



SOEs performance has a direct impact on social, political, and economic development of a country and on people's everyday lives.

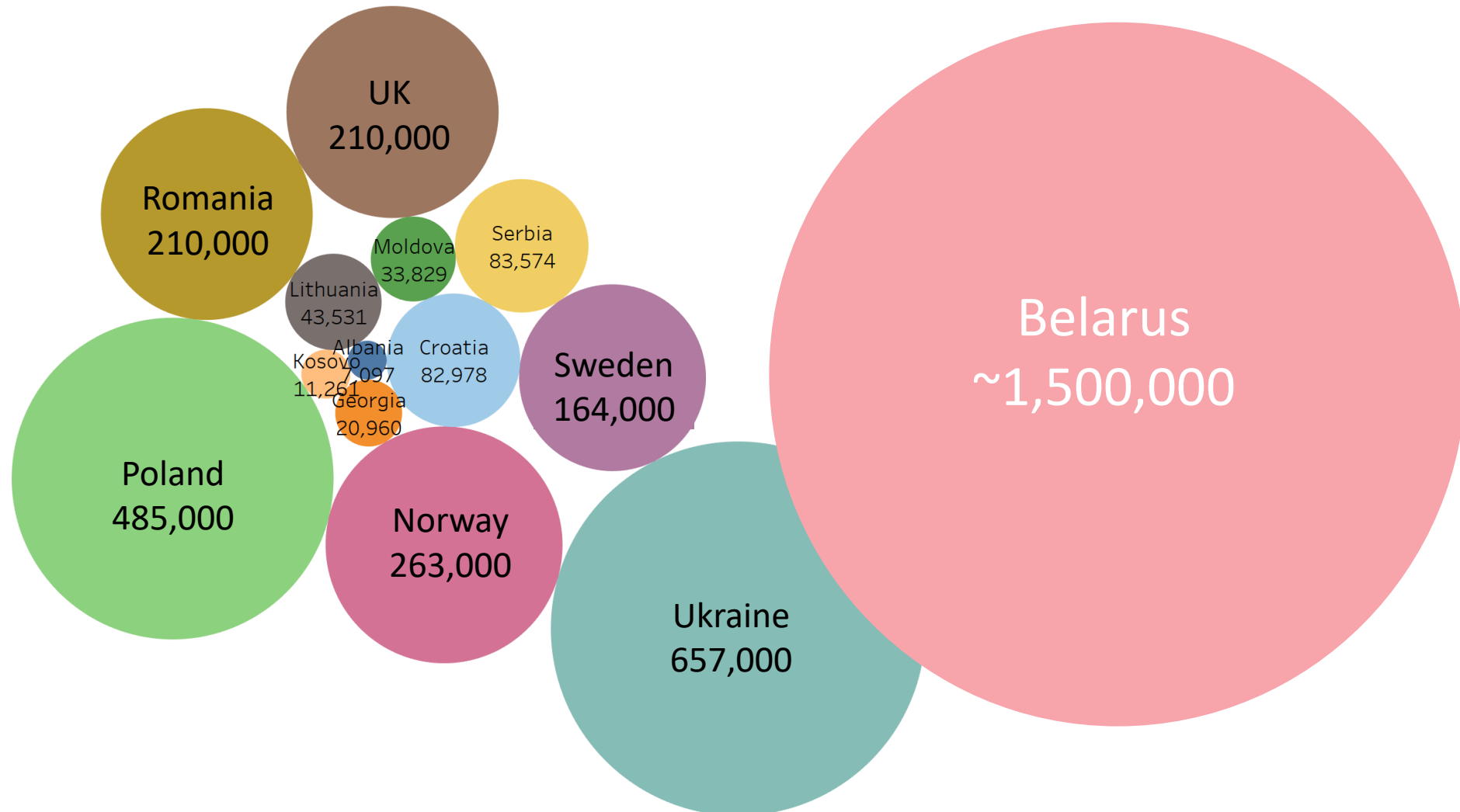
SOEs in Europe and Central Asia

Aggregate annual SOE turnover (percentage of GDP) in ECA and other selected countries **42%**



SOEs in Europe and Central Asia

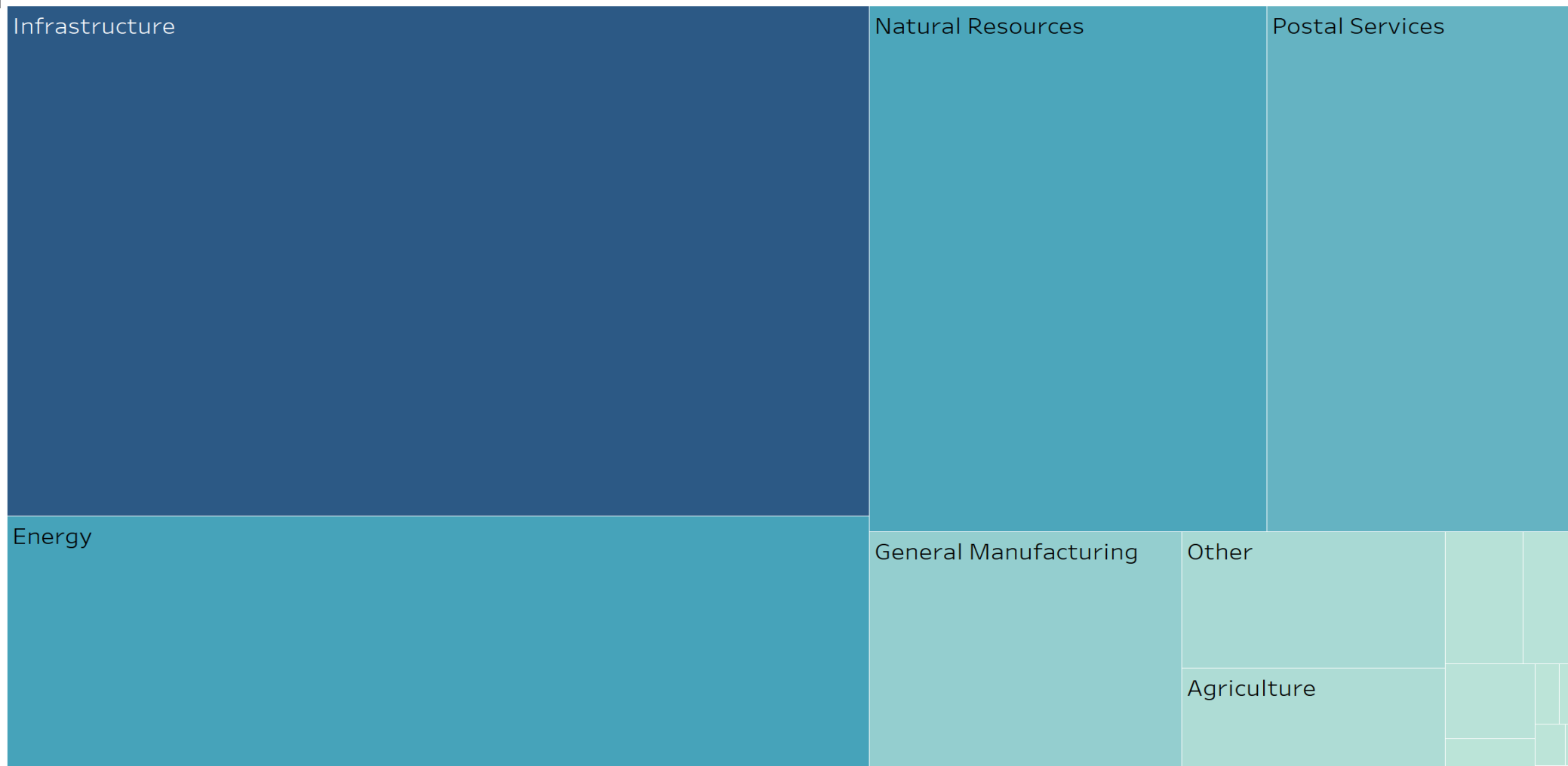
Number of employees in SOEs in ECA and other selected countries





SOEs in Europe and Central Asia

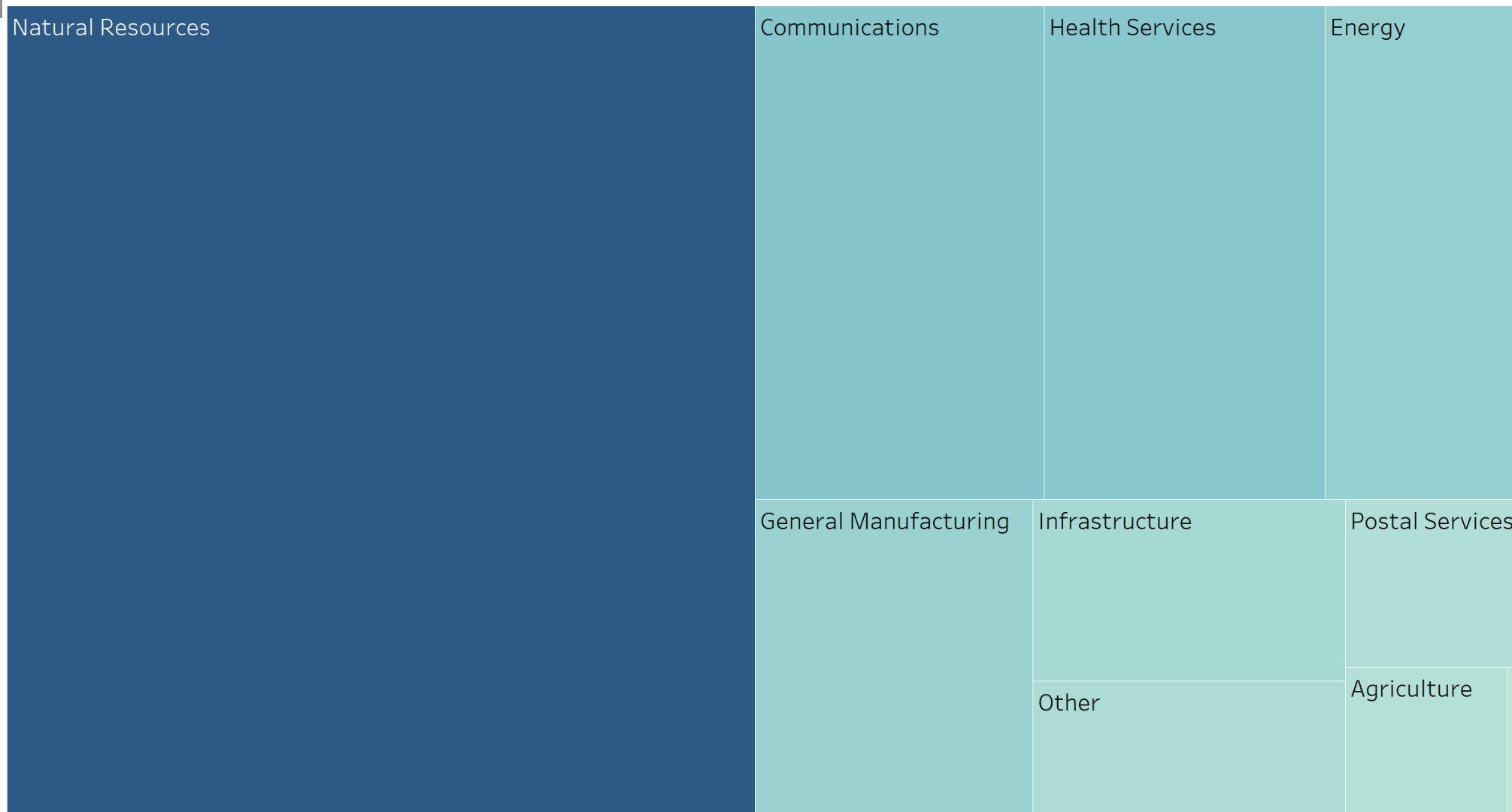
Industries with the highest number of employees in ECA countries



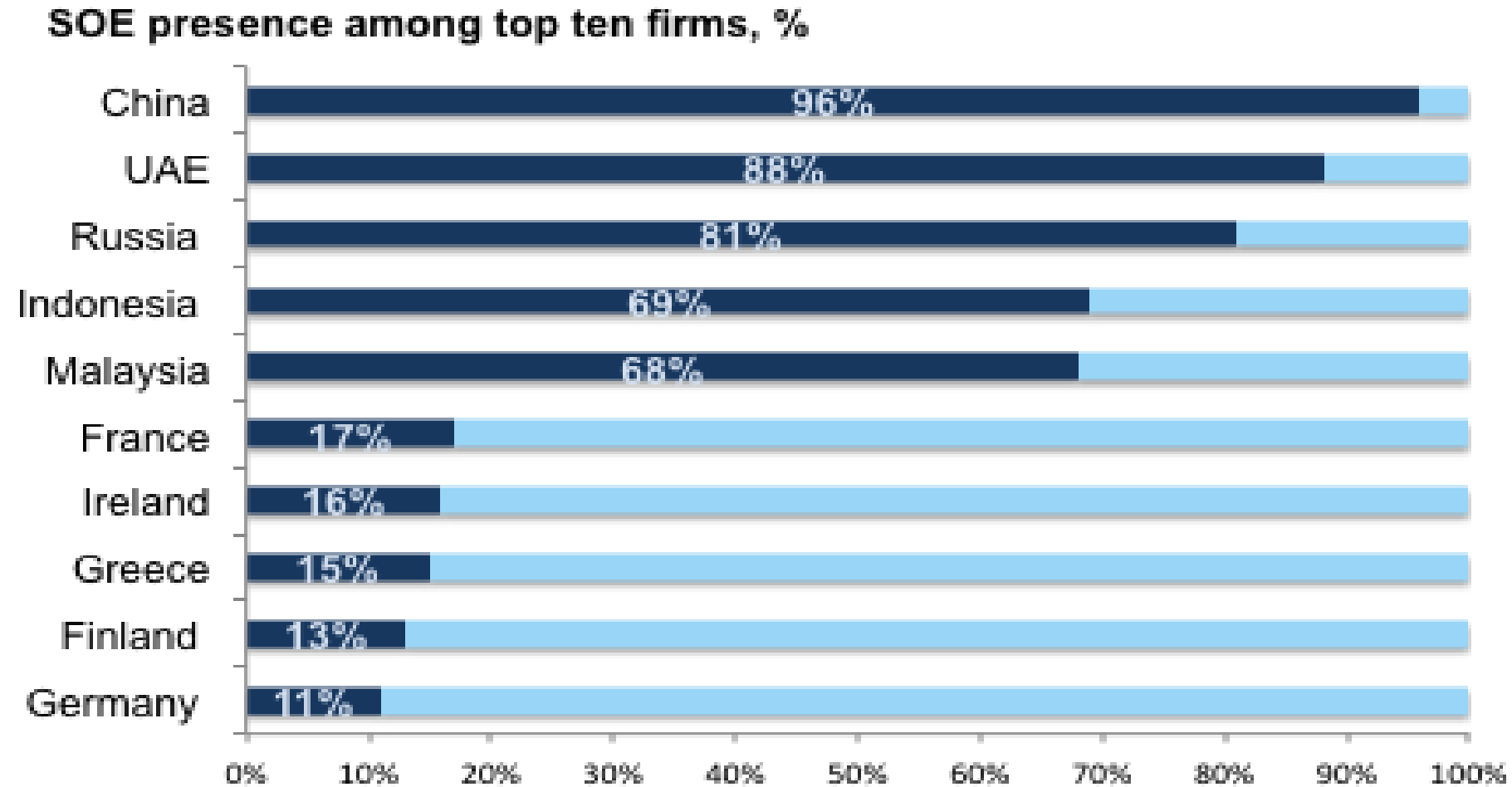


SOEs in Europe and Central Asia

Industries with SOEs with the highest annual turnover in ECA countries



Growth of State Presence



Indicators of fiscal risks

- » SOEs: one of 7 main sources of fiscal risk
- » Contingent liabilities realization: 1990 – 2014 (analysis of 80 countries)

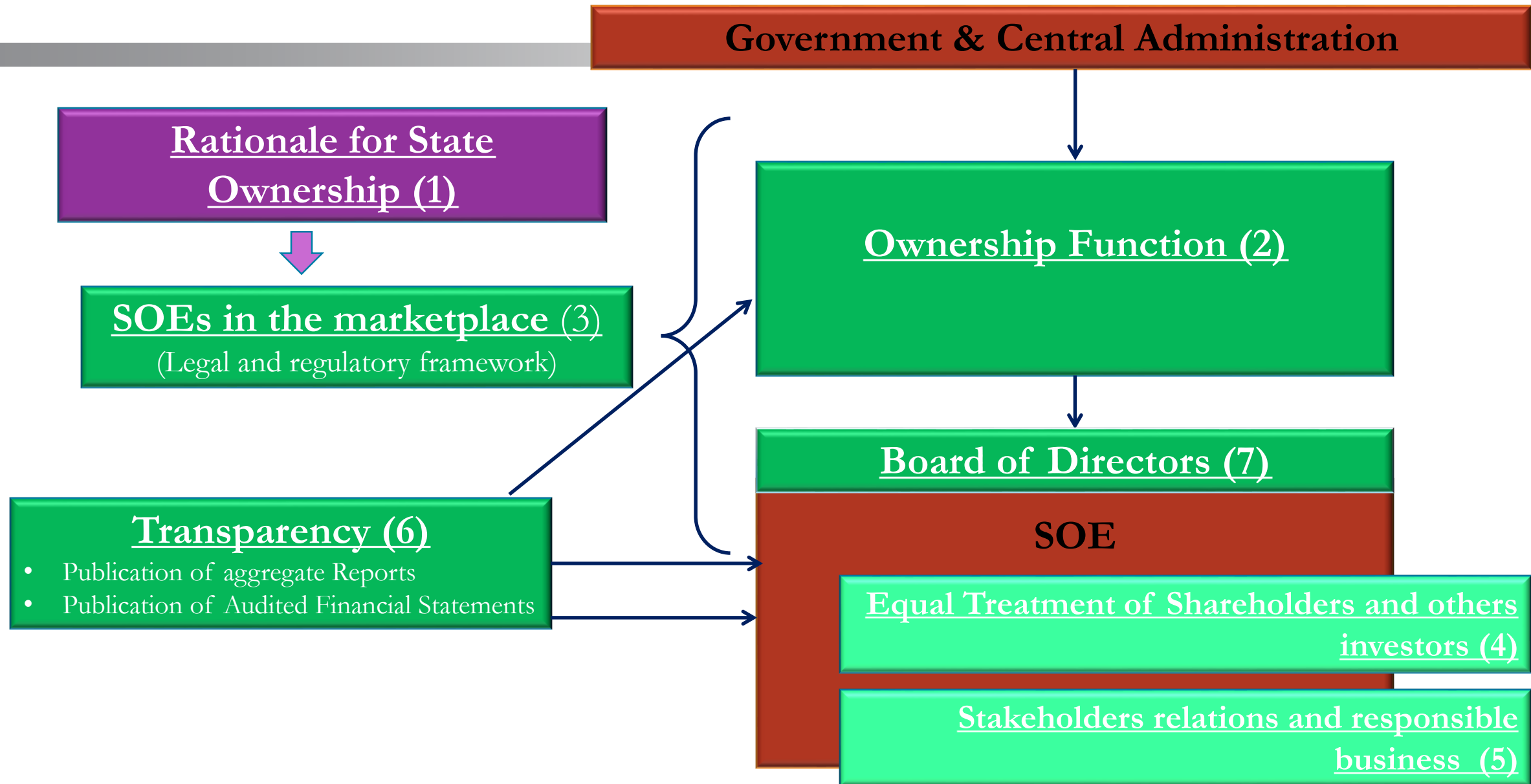
Contingent Liability	Number of Events	Events with Costs	Fiscal Cost	
			% of GDP	Average Maximum
Financial Sector	91	82	9.7	56.8
Legal	9	9	7.9	15.3
Subnational	13	9	3.7	12.0
SOEs	32	31	3.0	15.1
Natural Disaster	65	29	1.6	6.0
Corporate	7	6	1.7	4.5
PPPs	8	5	1.2	2.0
Other	5	3	1.4	2.5
Total	230	174	6.1	56.8

Source: Bova and others (2016), cited in IMF (2016); a survey of fiscal risks was undertaken, looking at sources of shocks to government debt in 80 countries between the period 1990 and 2014.



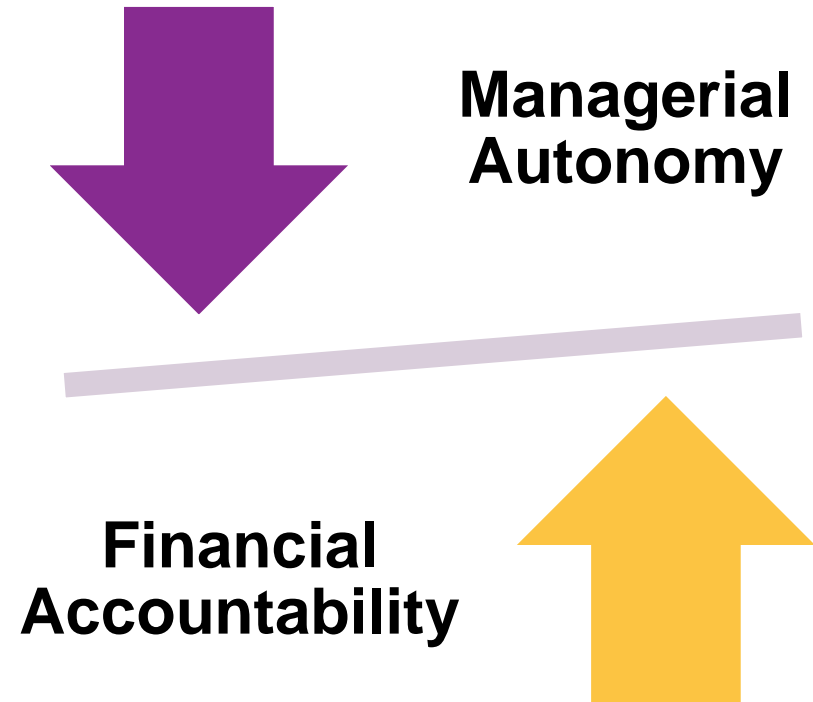
Fundamentals of SOEs Governance

Good Practices: OECD guidelines – revised in 2015



Autonomy versus Accountability

A strong governance framework gives SOEs autonomy, while ensuring their accountability to the general public



- Financial discipline
- Fiscal discipline
- Board independence
- Identification and reimbursement for PSOs
- Corporatization
- Labor issues (hiring/firing, compensation)
- Procurement

- Performance monitoring
- Financial reporting
- Non-financial reporting
- External audits
- Control environment: ownership entity, board of directors, audit committee, internal audit unit; management



Summary – why good governance of SOEs matters

A good corporate governance system is associated with a number of benefits for all companies, whether private or state owned:

- » better access to external finance
- » larger investments and lower costs of capital
- » higher growth and valuation
- » greater employment creation and growth
- » improved operational performance and more efficient management
- » reduced risk of corporate crises and scandals
- » less risk for public finances
- » further reduce poverty and income inequality

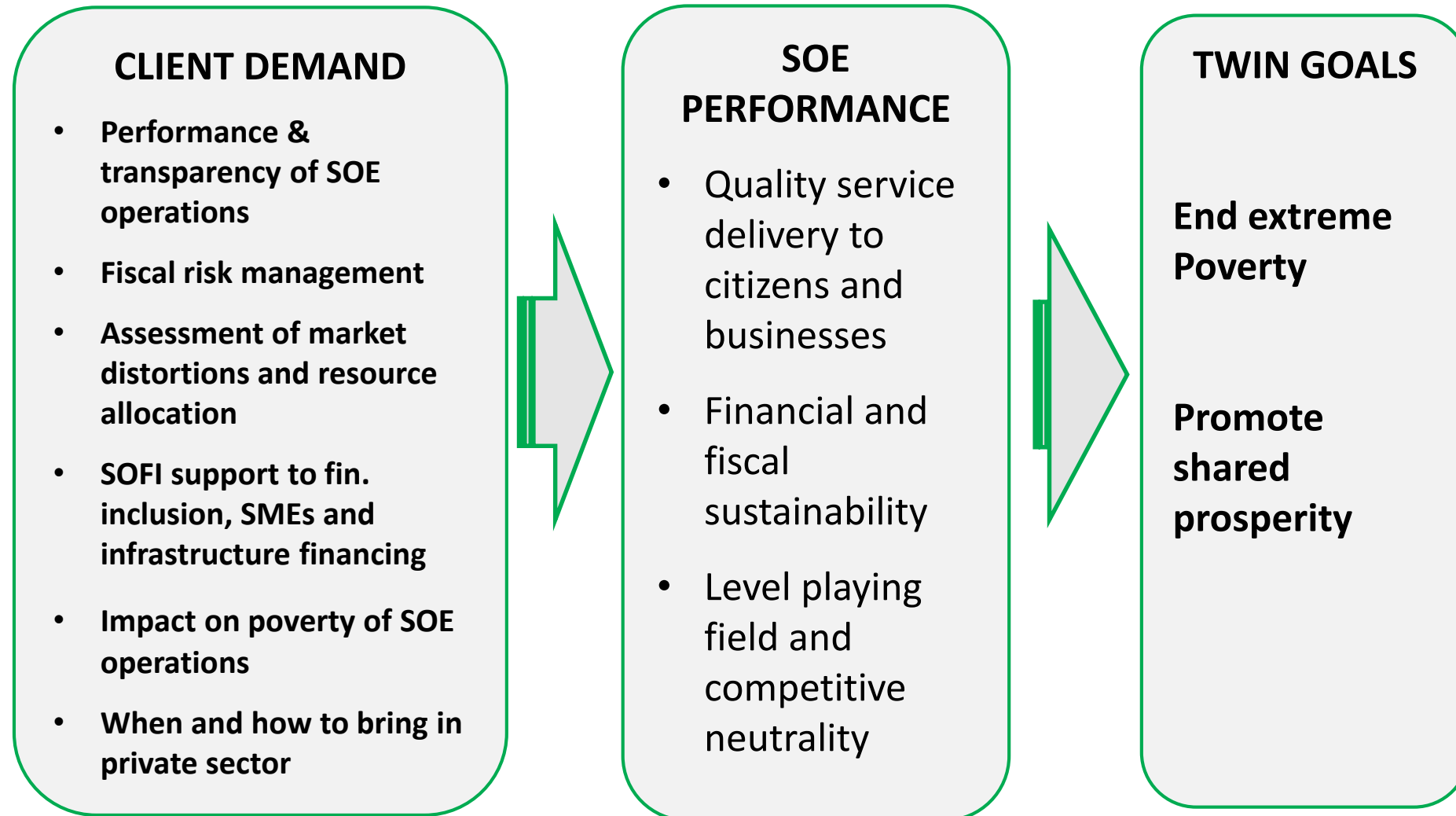
Taken together, these benefits can boost the efficiency of SOEs and economy as a whole, make transactions among companies more competitive and transparent; result in more efficient allocation of resources; reduce fiscal burden and fiscal risk of SOEs; lead to greater public and private investment in critical sectors, contribute to competitiveness and growth; reduce vulnerabilities in the financial system and promote financial sector development.

Implementing many of the good practices will be a challenge for most countries in the short-term; the solutions should be sequenced in time to achieve good progress over long term



The World Bank Global Engagement in SOE Reforms

SOEs and the World Bank Twin Goals



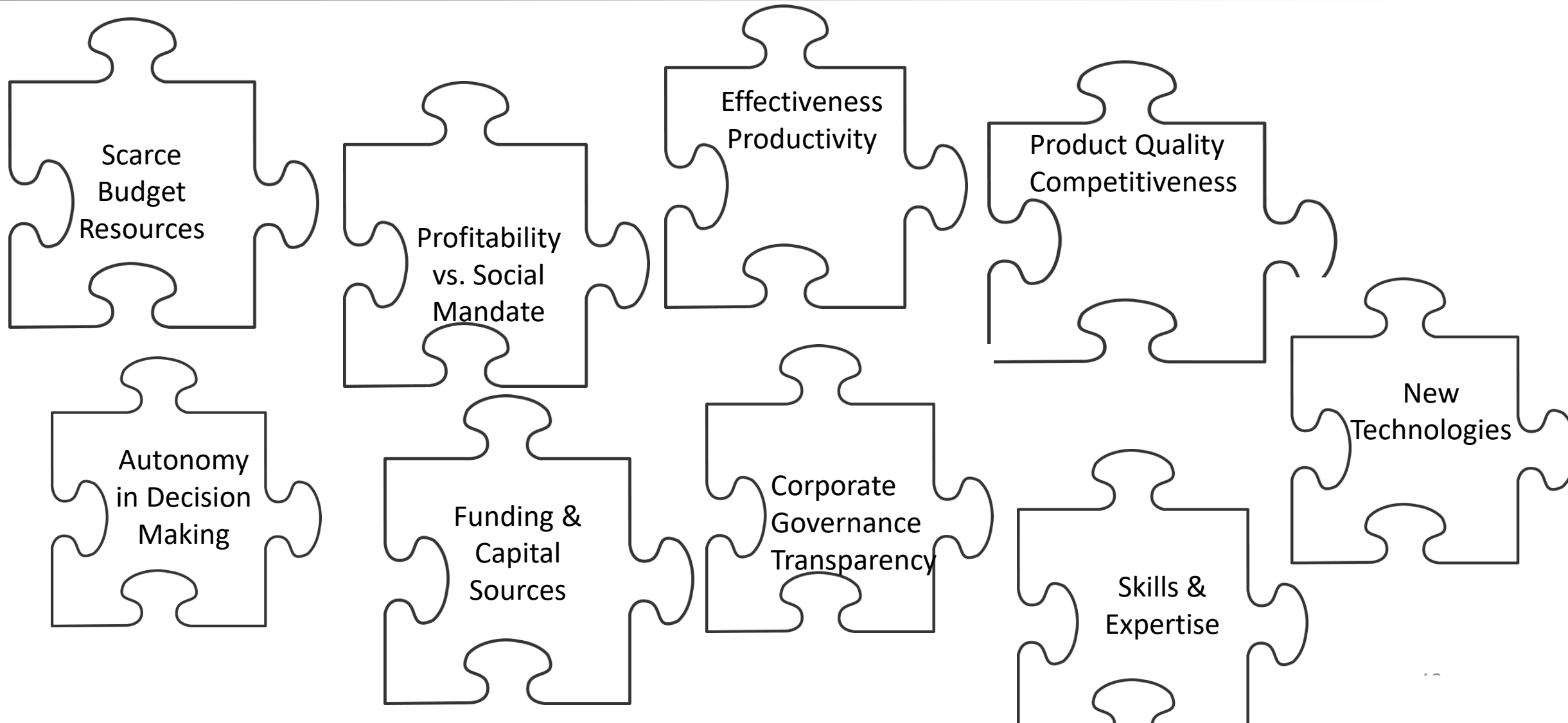
Integrated SOE diagnostic (iSOED)

SOE PERFORMANCE

- Quality service delivery to citizens and businesses
- Financial and fiscal sustainability
- Level playing field and competitive neutrality
- Reduced corruption risk

Macro-fiscal/financial and Economic Growth Impacts	Corporate Governance and Accountability Mechanisms	Market Discipline, Competition & Competitive Neutrality	State-Owned Financial Institutions and SOE Financing
<ul style="list-style-type: none"> • Sustainability of SOE expenditures • Fiscal impact of SOE operations • Debt management of SOEs • Review of other programs from fiscal and growth lenses (e.g., assessing social/labor aspects; social safety nets, structure of GDP growth) • Debt restructuring and assessment of financial stability implications 	<ul style="list-style-type: none"> • Adequacy of legal framework for SOE governance. • Strengthening the State's SOE ownership function • Professionalizing SOE boards • Bolstering financial accountability, controls and transparency • Modernizing SOE performance management (at enterprise level) • Reducing the risks of corruption incl. in procurement 	<ul style="list-style-type: none"> • Assessment of market dynamics and level playing field in markets with SOE participation • Introduction of market discipline and competitive neutrality in markets with SOE participation • Support to SOE reforms to crowd in private sector from a market perspective • Effects of SOE presence and reforms on market dynamics 	<ul style="list-style-type: none"> • Financial products • SOFI reform agenda • Financial conditions/risks • Role of SOFI in financial inclusion, design of PCG funds, recapitalization of public banks • Improvement of SOFI governance and efficiency • Facilitating SOE access to financial markets • Role of CG in financial market integrity

SOE Community of Practice: Multiple Facets of SOE Reform



SOE Community of Practice



Community of Practice:

- Brings together WBG experts and knowledge – ca. 400 members
 - Pools, curates and disseminates country and global knowledge
 - Disseminates and operationalizes the SOE Integrated Approach
 - Establishes a strong technical stream on SOE reforms
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- **Will be open to external counterparts by end-2019**



Discussion: Q&A