

SOE & Public Sector Reforms

Finding Balance

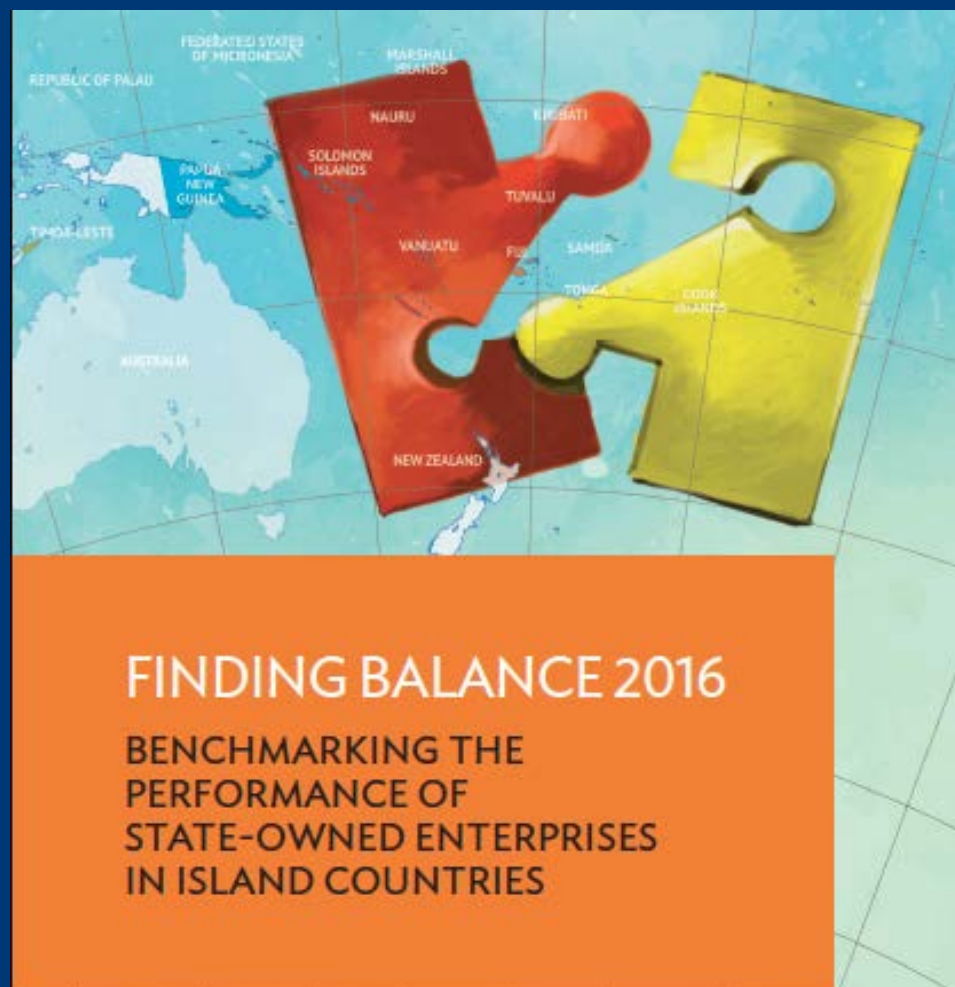
Co-Authors

Laure Darcy

Christopher Russell

Manila

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Private Sector Development Initiative



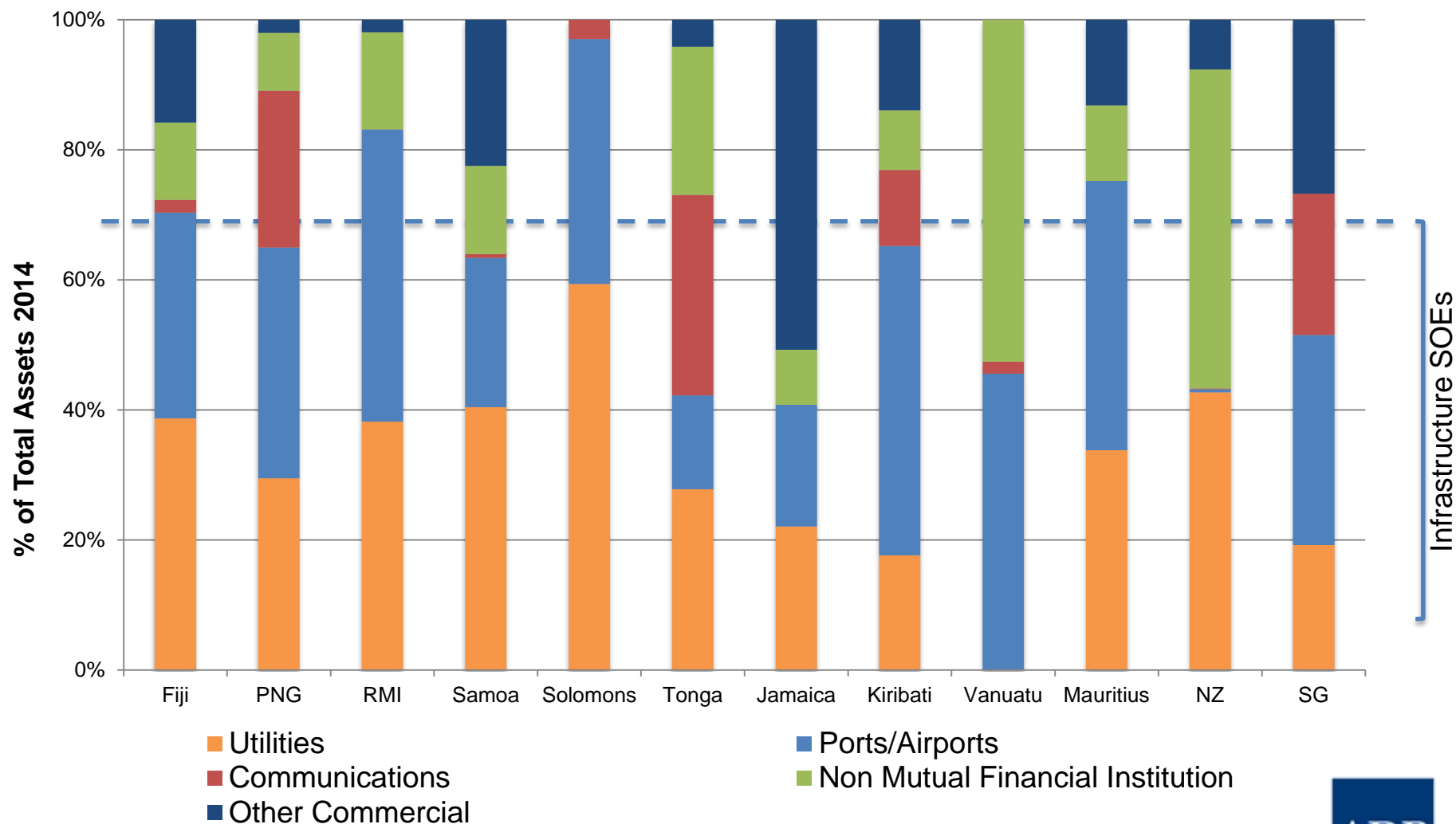


Participating & Survey Countries

Country	Population	GDP	GDP per Capita	GDP per Capita Growth
	2014 Total	2014 (\$ million)	(\$)	(Average 2010–2014)
Fiji	886,450	4,069	4,590	5%
Jamaica	2,721,252	14,101	5,182	7%
Kiribati	110,470	167	1,509	2%
Marshall Islands	52,898	193	3,649	4%
Mauritius	1,260,934	13,082	10,375	6%
Papua New Guinea	7,463,577	18,874	2,529	13%
Samoa	191,845	823	4,288	3%
Solomon Islands	572,171	1,169	2,043	10%
Tonga	105,586	424	4,020	3%
Vanuatu	258,883	966	3,732	8%
New Zealand	4,509,700	191,585	42,483	4%
Singapore	5,469,700	307,937	56,299	7%

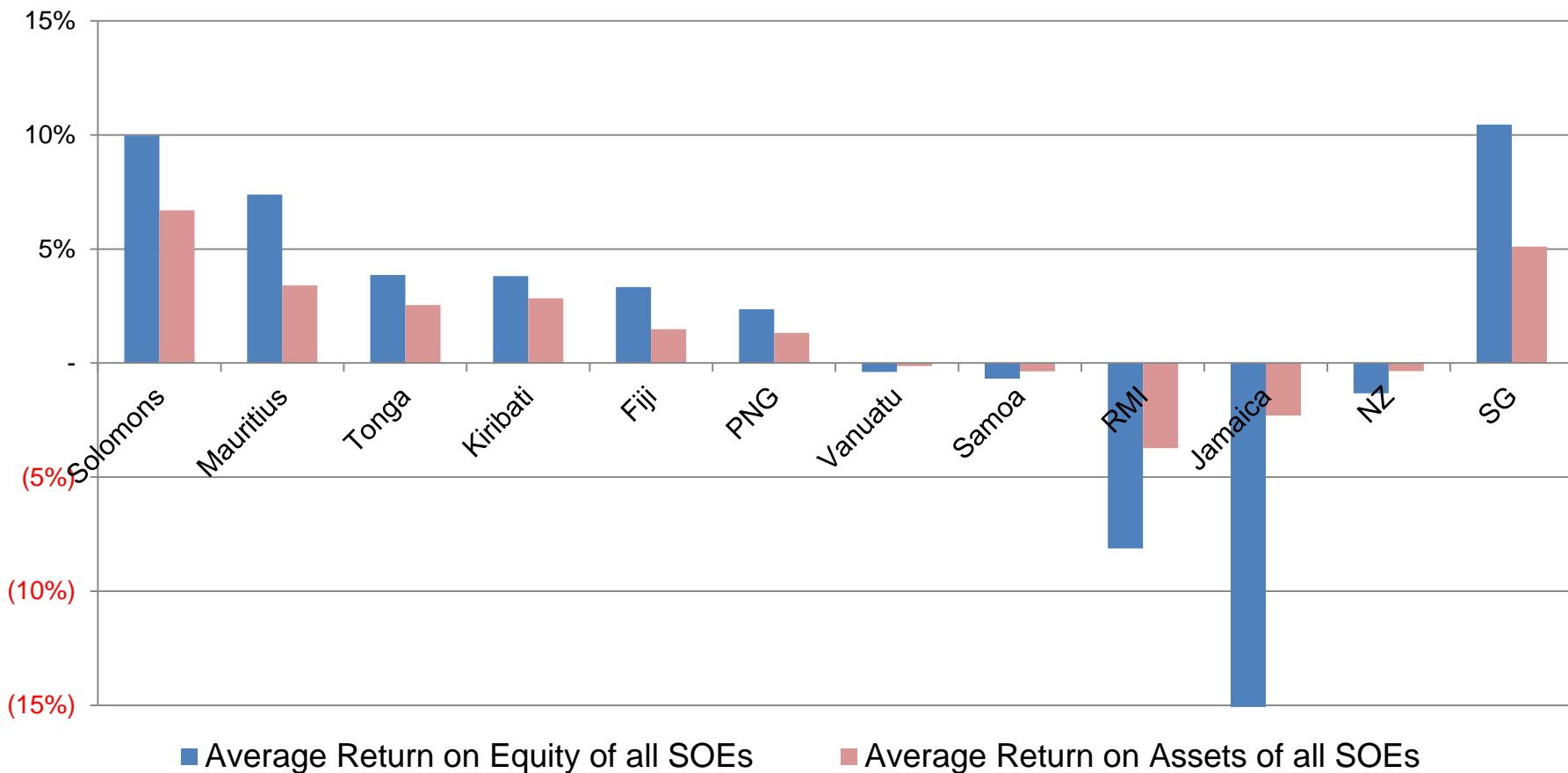


Benchmarking portfolios



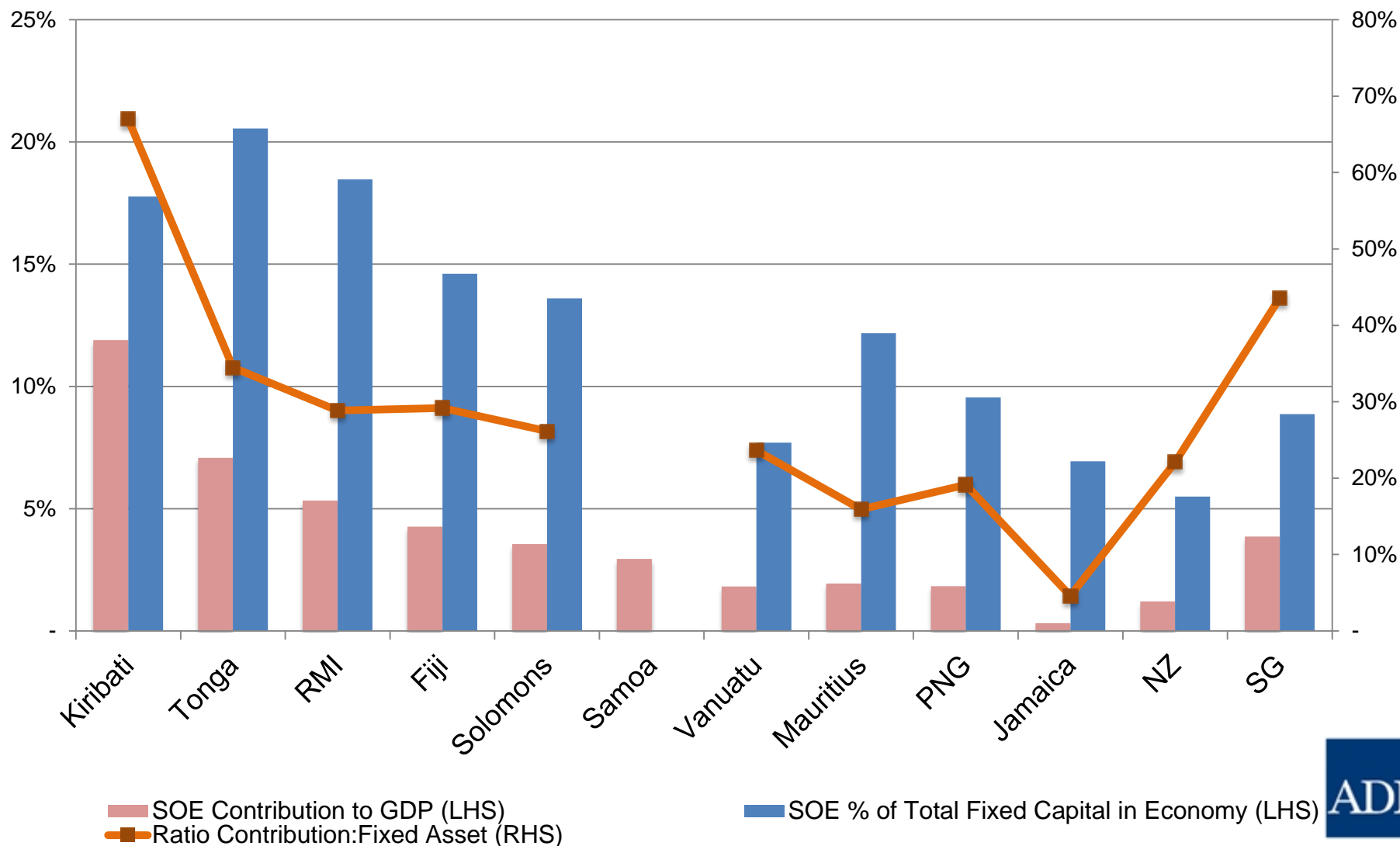


Average Return on Equity / Assets 2010-2014





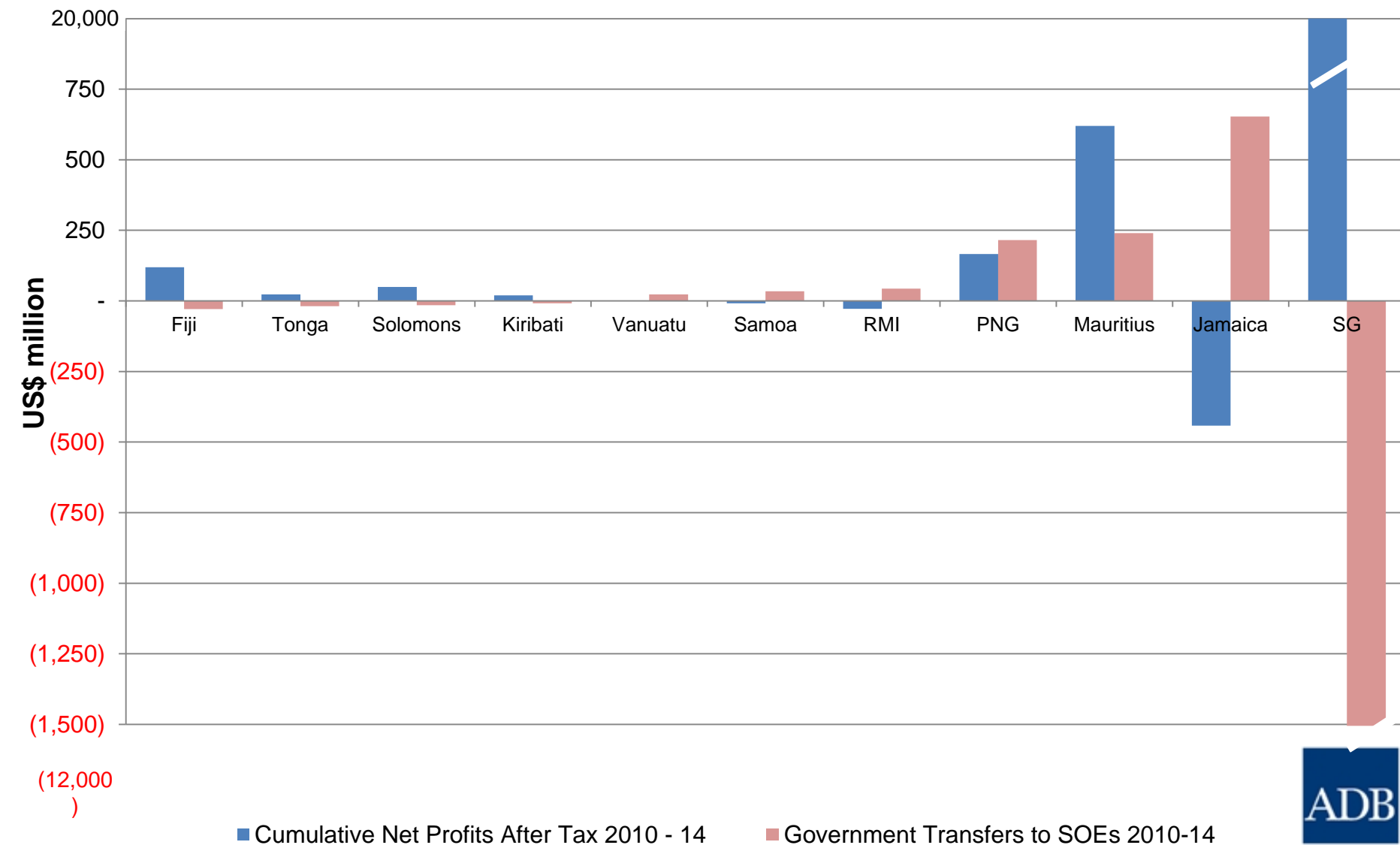
SOE contribution to GDP vs Total Fixed Assets, 2014





Fiscal Strain

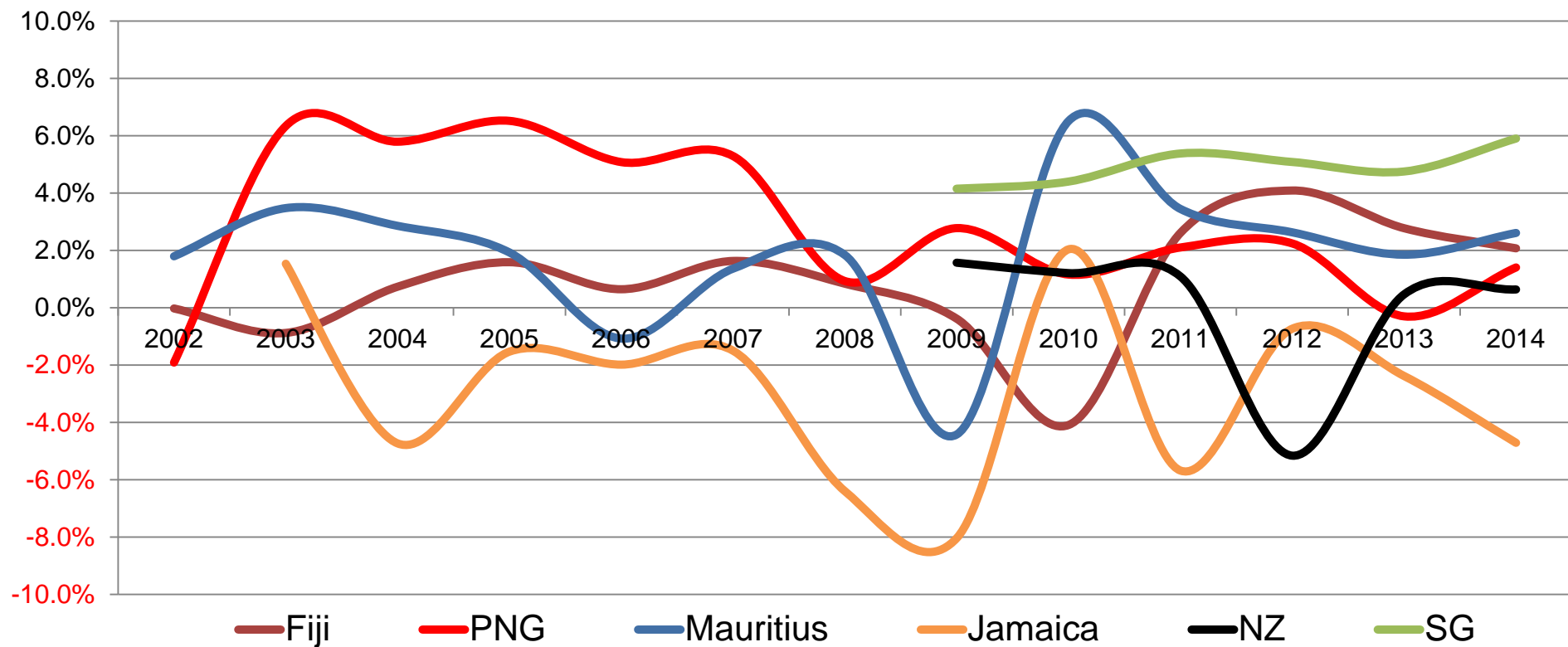
Government transfers > SOE Net Profits in 5 of 10 countries





Portfolio Return Assets 2002-2014

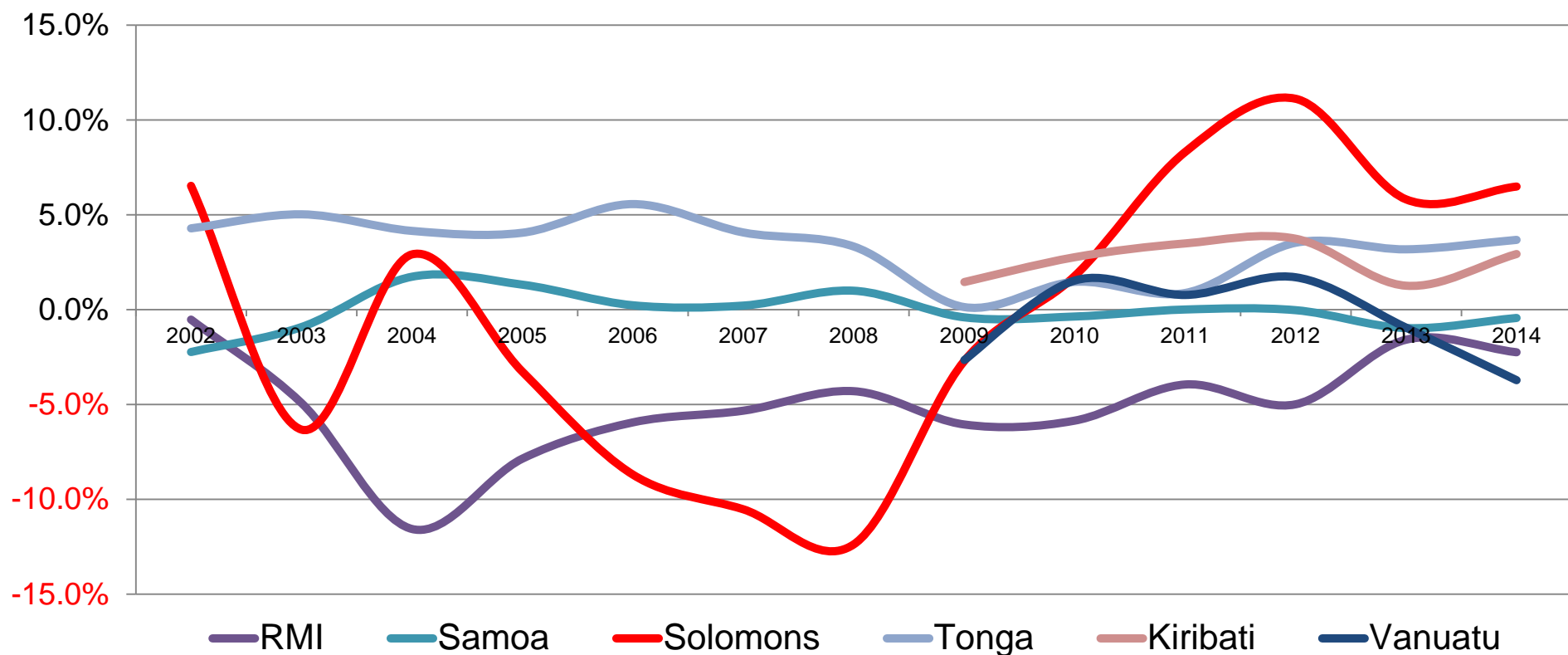
Large Island Economies





Portfolio Return Assets 2002-2014

Small Island Economies



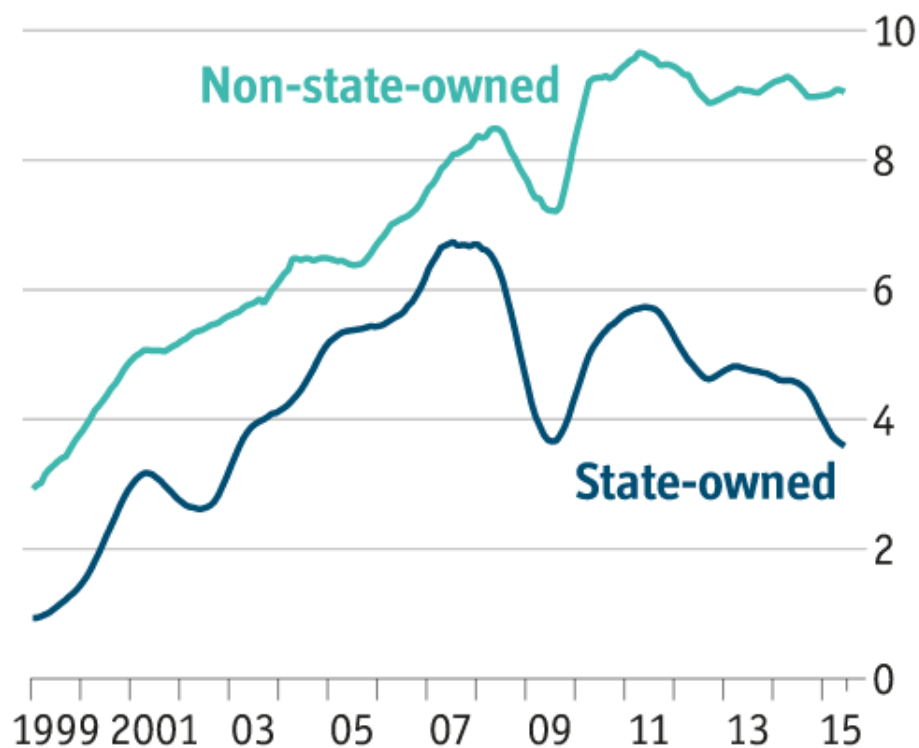


China: Return on Assets 1999 - 2015

Spot the difference

2

Return on assets of Chinese industrial enterprises*, by ownership type, %



Sources: CEIC;
Gavekal Dragonomics

*7-month centred
moving average



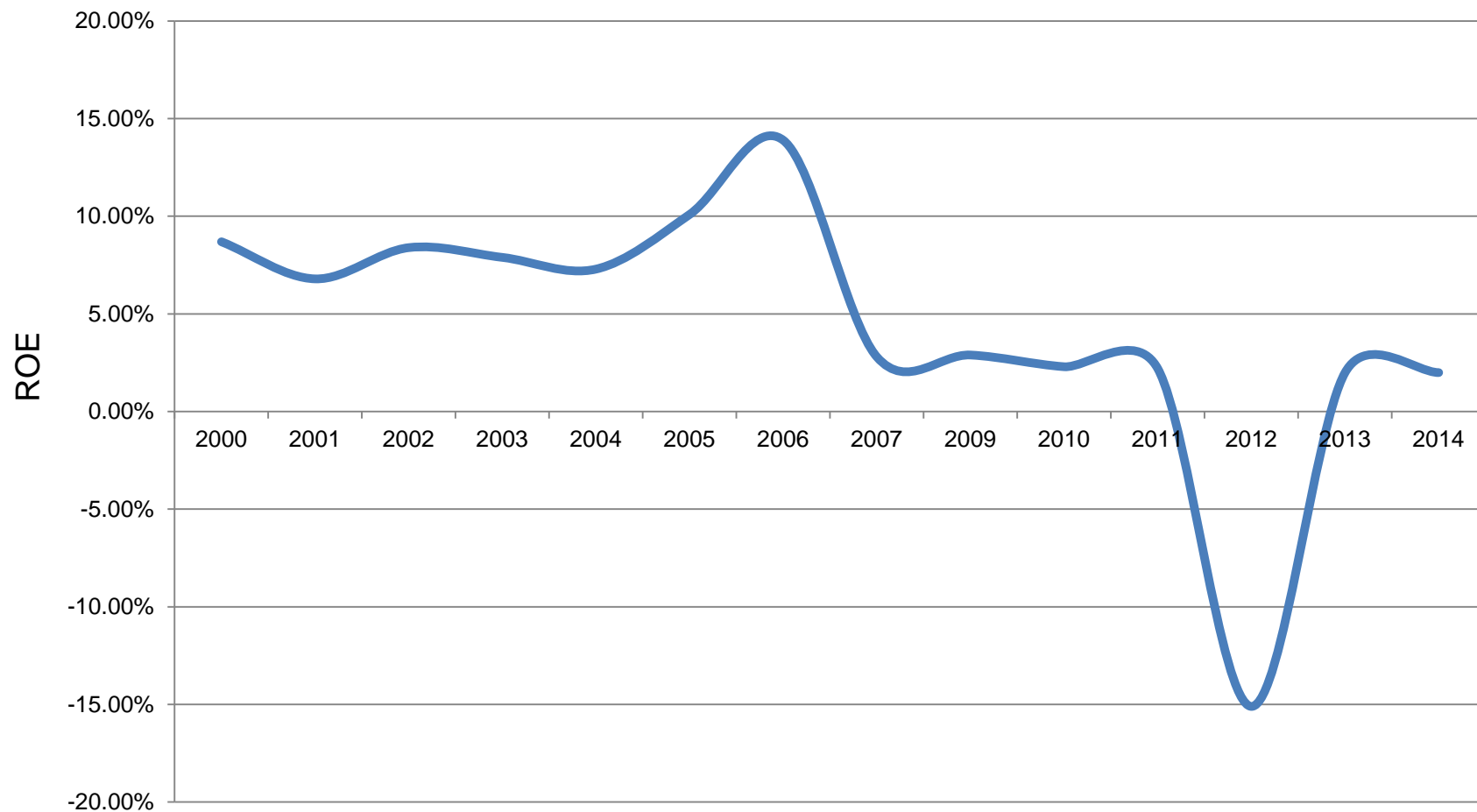
SOE model is not sustainable

- Fundamental flaw
- Political and commercial risks
 - Commercial risk can be managed in the short-term, but increasingly difficult in medium-term
 - Political risk cannot be fully mitigated
 - ✓ Weakness in the SOE structure
 - ✓ Game playing
 - ✓ Undermine commercial mandate
- Politicians struggle to make commercial decisions with political cost



New Zealand SOE performance

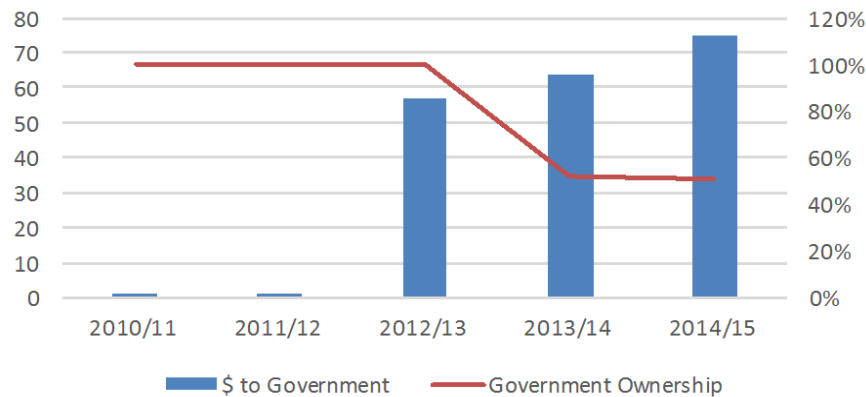
Return on Equity



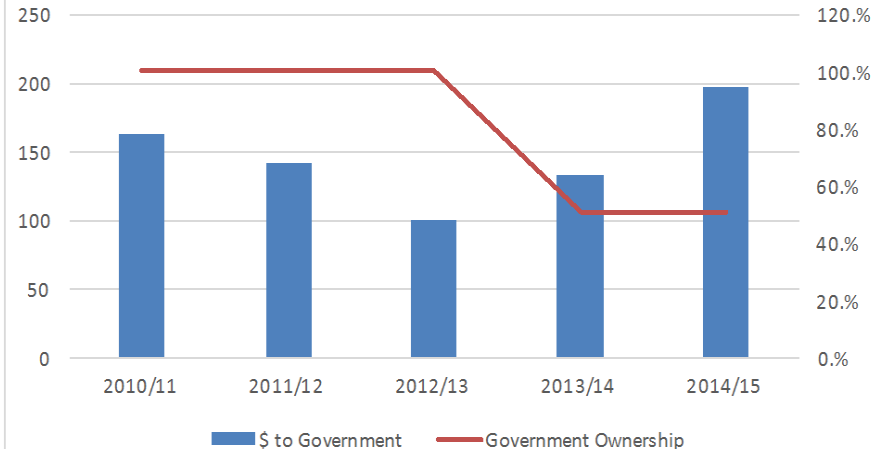


New Zealand MOM – reduced ownership but increased dividend

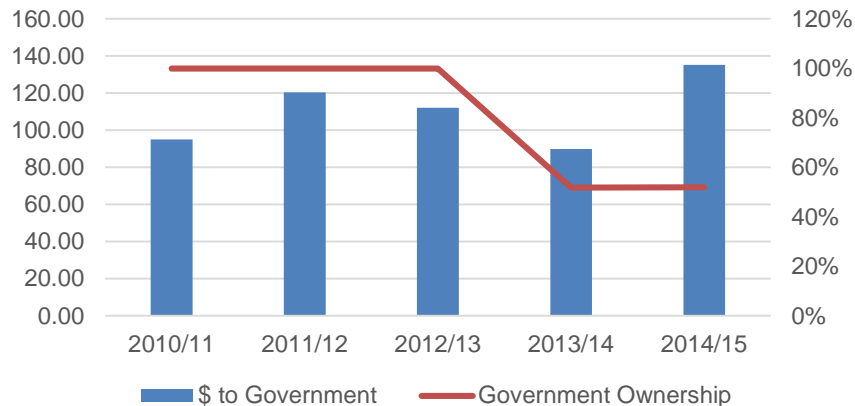
Genesis Energy



Meridian Energy



Mighty River Power



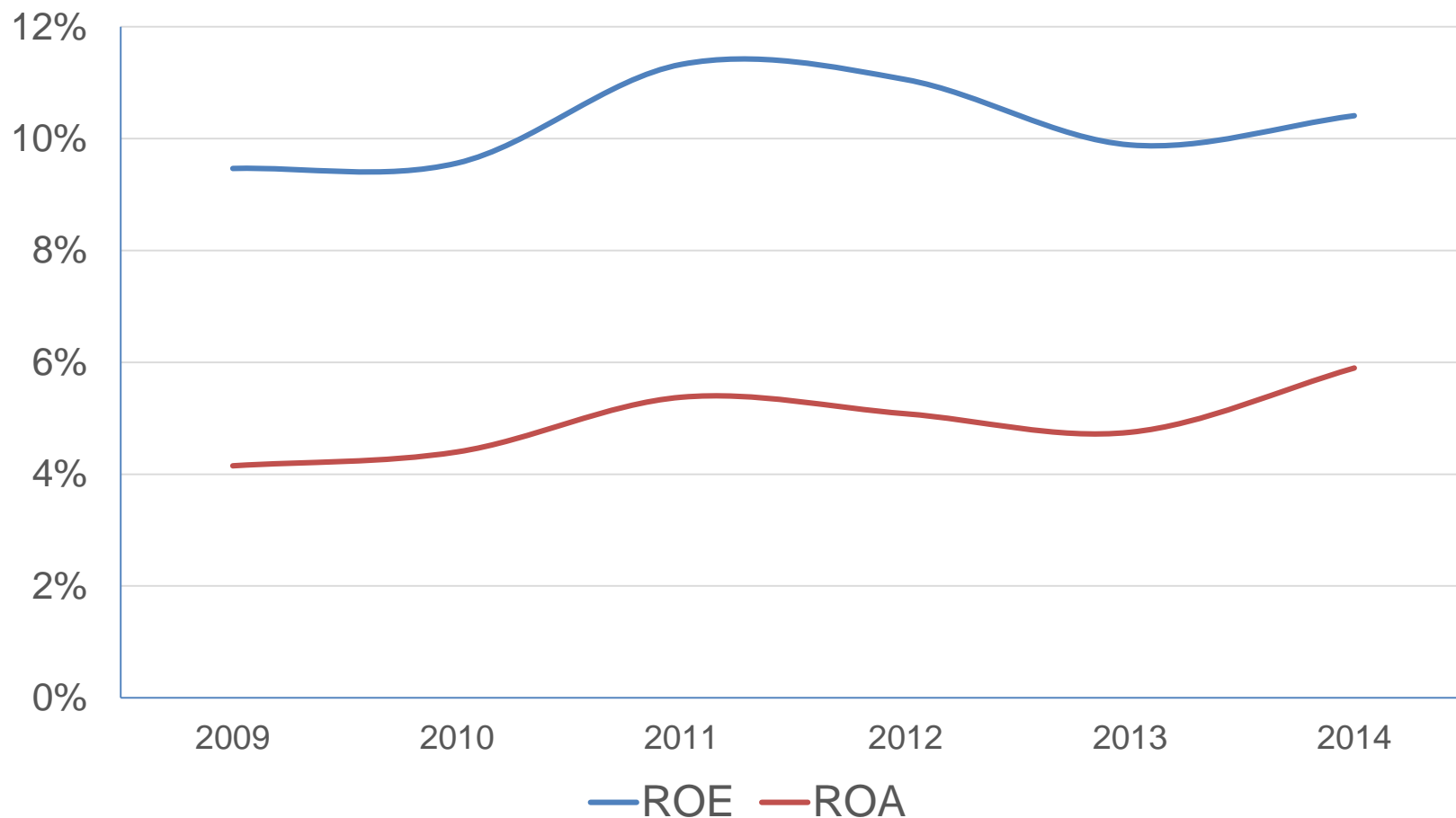
Amounts in NZD millions

In period 2013/14

- Dividends increase by 51%
- Ownership reduced to 49%



Singapore SOE Performance





Singapore Gearing

SOE	Debt to Equity	Accounts Payable to Equity	Debt & Accounts Payable to Equity
Neptune Orient Lines	147.2%	49.1%	196.3%
Singapore Technologies	62.9%	116.9%	179.9%
Singapore Power	147.1%	21.3%	168.3%
STATS ChipPAC	93.2%	15.8%	109.0%
SMRT	48.2%	51.1%	99.3%
PSA International	61.4%	12.8%	74.3%
Singapore Telecommunications	33.1%	20.3%	53.4%
Mapletree Investments	36.9%	5.4%	42.3%
Singapore Airlines	9.6%	31.1%	40.7%

Private sector participation needed to lock in commercialization gains

SOE Commercialization

- Commercial mandate
- Accountability framework
- CSO delivery on commercial terms
- Professional boards
- Transparency / disclosure
- Competitive neutrality

Private Sector Participation

Full Privatization

Partial Privatization

PPPs

Contracting out

Competition





SOE Commercialization – what it means in practice

- Institutional framework
 - Roles and responsibilities
 - Transparency and accountability
- CSO delivery
- Governance
- Competition
- Political commitment – key to reform and essential to sustain it



Lessons for Donors

What have we observed?

- Global SOE reform experience reveals:
 - Principles that drive SOE performance are universal – not limited by SOE or country size
 - Political commitment is crucial – sustained reform cannot be imposed from outside
 - Reform windows close quickly – reform programs must be quickly deployed
- Pacific experience demonstrates that program based support can be powerful – if
 - The outputs are meaningful
 - They are an achievable stretch, and
 - Non-achievement results in non-payment

Are we using consistent language?

- Many jurisdictions differentiate profit vs non-profit state owned entities; why?
- Extent that the entity is funded by user-pays or state budget impacts upon
 - Governance structures
 - Level of political oversight/control
 - Performance measures
- Not all state-owned entities will transition to a SOE
- ADB's engagement should recognize the structural dynamics/limitations of the state owned entity

Are we clear on the objectives of SOE reform?

- Sustainable infrastructure service delivery
- Private sector development -> economic growth -> poverty alleviation
- Improved fiscal stance



What mechanisms can donors use to improve service delivery?

- Concessional loans and grants to SOEs
- PPPs
- SOE reform & privatization
- Output based aid
- Contestable CSO contracts

Which of these can help achieve 3 objectives of sustainability, PSD and improved fiscal stance?

Recommended Principles of Engagement

- SOE reform and engagement with SOEs must
 - Be non-distortionary
 - Promote private sector development
 - Not crowd out private sector participants
 - Support competitive neutrality
 - Reduce fiscal strain
 - Be consistent with good corporate governance
 - Promote transparency and accountability
 - Target sustainable outcomes/outputs



Thank You

<https://www.adb.org/publications/finding-balance-2016>

Private Sector Development Initiative

