

Issues in Reforms of State-Owned Enterprises: *Perspectives from ADB's Experiences*

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Korean Development Institute, Seoul

Content

1. Context
2. Analytical concepts (based on New Institutional Economics)
 - Information asymmetry
 - Transaction costs
 - Credible commitment
 - Political economy
3. ADB's work:
 - Approach
 - Sectoral and country investments
 - Issues faced
4. Three lessons from broad governance reforms (with implications for SOE reforms)
5. Issues for discussion

Gambhir Bhatta

Asian Development Bank, Manila

In early 2017, Moody's Investors Service warned that specific countries (such as PRC, Venezuela) were most exposed to debt from SOEs.

Indeed, Moody's warns that for many countries SOEs represent a material source of financial risk for governments, a risk on contingent liabilities for governments that ranks after financial sector crises and natural disasters.

*"Sovereign Contingent Liabilities; Public Enterprises Represent a Material Source of Fiscal Risk to Some Sovereigns,"
Global Credit Research, 25 January 2017.*

"State control has helped Alrosa during previous slumps... That's our competitive advantage over DeBeers" – Igor Sobolev, Deputy Chief Executive, Alrosa, Russia

"Alrosa treading a rocky path towards eventual privatization." Financial Times, Tuesday, 11 April 2017

Some Relevant Context

"London goes on offensive in effort to entice Aramco IPO" (FT, 14 July 2017)

Said to be the world's biggest flotation (Saudi Aramco is targeting a \$2tn valuation before its IPO in 2018)

List a 5% stake in Saudi Aramco; the biggest public offering ever.

But London would propose new listing for SOEs that would loosen governance restrictions (exempt companies controlled by governments from some curbs)

Politics

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Flying in the face of reason

Why should the government own a majority stake in Air NZ?

Those of us who still believe in mainstream economics have Shane Jones to thank for again highlighting the farcical nature of a government minister owning 51.9 per cent of Air New Zealand.

This wasn't Jones' intention. NZ First is polling well below 5 per cent and a good month with the corporate sector always delivers it greater gains over than immigration. Add in Jones' role as the provinces' champion and why wouldn't he go all-in against Air New Zealand's withdrawal from Rātana, Whakaitahi, Wairoa and now Kaitiaki?

Lazily for Jones, Air NZ played its role as corporate villain to perfection, whinging to Finance Minister Grant Robertson about the alleged attack on its independence.

As it happens, Robertson should be responsible for the government's 51.9 per cent shareholding in Air NZ, so Jones can say anything he likes.

Even were Jones a shareholding minister, since when have shareholders not been allowed to comment on publicly available information about the companies in which they invest, as long as it doesn't harm the interests of investors

ROBERTSON'S MOM PORTFOLIO

Company	Market Capitalisation	Govt Share	1Y% Return
Meridian	\$76b	\$3.9b	41.3
Mercury	\$4.4b	\$2.3b	21.4
Air New Zealand	\$3.8b	\$2.0b	10.6
Genesis	\$2.4b	\$1.2b	21.6
Total	\$88.2b	\$9.4b	



the MDMs, or any other companies on the NZX.

In their typically excellent Investment Statement this week, Robertson's own Treasury officials gave five plain-English reasons why the government should own things:

- When the social and economic benefits of government ownership outweigh the costs
 - When service delivery involves specialised assets that the private sector has trouble providing on an ongoing basis
 - When risk cannot be efficiently transferred to the private sector through a contract
 - When the government has the most relevant expertise
 - When the government needs to be directly accountable for outcomes
- Note: none applies to the MDMs. Perhaps rivalled only by

NZ Treasury says 5 reasons why govt should own things:

1. Benefits (social, eco) > costs
2. Private sector not able to provide regularly
3. Risk cannot be transferred to private sector through a contract
4. Government has the most relevant expertise
5. Government needs to be directly accountable for outcomes

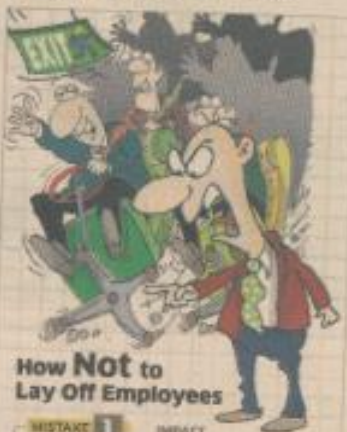
level media statement and noted his point of view would be the matter to rest.

This whole political discourse that the government

Grant Robert



IG WELL
Offs, India Inc
ts Hari Sadu



How Not to Lay Off Employees

- MISTAKE 1**
Ask people to leave on a Friday
IMPACT
 Best of the employees were asked to come to work on Monday thinking it is their turn next
- MISTAKE 2**
Laying off in batches
IMPACT
 Employee morale in shambles. Star performers begin to leave
- MISTAKE 3**
Giving selective help with career transitioning
(Prefer to train)
IMPACT
 Since no 6-month teacher
- MISTAKE 4**
Not having a 'how to' script to effect layoffs
IMPACT
 Since no 6-month teacher

BUDGET TO TARGET FISCAL DEFICIT
Pranab Losing Sleep Over Subsidy Burden



"As finance minister when I think of enormity of the subsidies to be provided, I lose my sleep. There is no doubt"

PRANAB MUKHERJEE
 Finance Minister

OUR BUREAU
 NEW DELHI

Pranab Mukherjee has said he is losing sleep over the government's ballooning subsidy bill, a rare expression of concern on a sensitive economic subject from an otherwise restrained finance minister triggering talk the upcoming budget could be harsh on subsidies.

"As the finance minister when I think of enormity of the subsidies to be provided, I lose my sleep. There is no doubt," Mukherjee said on Wednesday in his address to a conference on Public Distribution System and Storage.

The underlying message in his comment was clear: "It is becoming more crucial and is kind of preparing the ground that nothing dramatic (in the form of giveaways) should be expected from the budget," said Sanjiv Kishu, senior economist with CRISIL.

It was Mukherjee's second broad hint in recent weeks that the budget for 2012-13 on March 16 will be less about tax giveaways and more about fiscal consolidation, an aim considered as a major blunder on his ministry's performance and

"As finance minister when I think of enormity of the subsidies to be provided, I lose my sleep. There is no doubt"



"For years, New Delhi has promised to divest billions of dollars' worth of state enterprises... A lack of political will, powerful trade unions, and occasionally, adverse market conditions have stymied the plans"

“It needs to restructure, which it is not able to – it cannot get rid of people that easily because there are too many union issues. It positively needs a change in mindset from the government”.

Airlines. Legacy carriers

Air India flies into uncertain future

Auditor raises concerns as struggle with debt and costs continues despite bailout

ALOKA BARI — NEW DELHI

It was a bumbling moment for India's national airline.

Air India, which finally turned a profit last year after at least eight years of pre-tax losses, was revealed last month by the country's auditor to have understated its operating losses by Rs64.2bn (\$964m) between 2012 and 2015.

In a sharply worded report, India's comptroller and auditor general said the state-run carrier had failed to meet targets on selling assets, forcing it to take on costly short-term loans that had "largely eroded" the benefits of a Rs41.2bn bailout in 2012 by New Delhi.

The rebuke, which came less than a year after Air India returned to profitable



“The transformation process that we have under way (for Air India) includes governance, operating performance, fleet acquisition, and ownership changes”

(India's Aviation Minister quoted in FT, 26 June, 2017)

Performance (based on 2015 report)

- **Loss:** Rs. 7b annually (**approx \$70m**)
- **Accumulated losses** (FY 14/15): Rs. 26.7b
- **Liability to GON:** Rs. 49.6b as share capital, and Rs. 94b as secured long-term loan

Some constraints

NEA self-assessment

- HR lapses (eg, 25% of posts vacant, including 5 of 9 at Deputy MD level)
- Government unwilling to revise tariff upwards
- High-level commitment missing

External-assessed

- Political interference, *including frequent government changes*
- Organizational lapses (eg, unionism, lack of meritocracy)*

Nepal Electricity Authority

NEA is one of three public utility SOEs (the other two: water and telecoms); and is the biggest SOE to run on a loss every year

From IMF, Article IV consultation report for Nepal, 2015...

Directors stressed the importance of unlocking the country's hydropower generation potential and sustained reforms to improve the investment climate... large SOEs in the energy sector should be put on a sound financial footing to reduce losses and contingent liabilities.

Tuesday 17 July 2012

FINANCE

COMP

Oil & gas. Class

Investors reel as Petrobras corruption claims persist

Prosecutors allege ex-directors
conspired with politicians to
defraud state-run company

JOE LEAHY — RIO DE JANEIRO

Aggrieved investors in Brazil's Petrobras have suffered over the past two years as an investigation into the state-run oil company has showed how corrupt former directors spent the group's funds on everything from art collections to Range Rover Evoques.

But the most recent allegations in the scandal, in which prosecutors claim former directors conspired with politicians and contractors to defraud the company, take this one step further.

Prosecutors claim Paulo Ferreira, a former treasurer of Brazil's erstwhile ruling Workers' party, took money originally destined for a research and development centre for Petrobras's ultra-deepwater oilfields and used it to pay a samba queen a monthly stipend.

"At the request of Paulo Ferreira, there were made diverse payments to the non-governmental organisation Sociedade Recreativa e Beneficente Estado Maior da Festança, a samba school, and people linked to it, such as Viriáze Rodrigues da Silva, the battery queen," said a court document outlining Mr Ferreira's arrest. Mr Ferreira was not available for comment.

The stream of corruption claims is proving an irritant for Petrobras, not just with investigators in Brazil but with institutional investors in New York.

In a class-action lawsuit led by the

Hamilton, the company's lawyers, did not immediately respond to requests for comment. Pedro Parente, Petrobras's new chief executive, said last month that the company was a victim of fraud, estimated to have cost it about \$2.5bn in losses directly related to corruption.

Analysts highlight how any damages ruling against Petrobras would add to its already enormous debt load. Some in the market say the investor lawsuit could result in the third-largest payout in a securities fraud case after Enron and WorldCom.

Concern over Petrobras's financial profile is driven by its large amount of borrowings coming due — \$26.5bn out of total gross debt of \$126bn — between April this year and the end of 2013. The company has the largest debt load in the energy industry.

"They have to sell a lot of assets or have market access to avert a default," says Nymia Almeida of Moody's Investors Service.

She adds that while the investor lawsuit was factored into Moody's B3 junk rating for the company, which implies some level of government support for Petrobras should it run into greater financial difficulty, the details of any

Pedro Parente, new Petrobras chief highlighted \$2.5bn in losses directly related to corruption.



payout would be important. This includes how long Petrobras would have to find the money.



The steady stream of allegations against



1999-2012: ~ 1/3 of all bribery cases involved bribery of SOE employees, while 80.1% of the value of all bribes were paid to SOE employees*

Norway's largest pension fund blacklisted Petrobras over concerns that the state-controlled oil company at the center of a Brazilian bribery scandal is "prone to further corruption problems beyond its home market". It says there is "unacceptable risk" of future problems (and "severe corruption") at the company.*

*Need for focus on
institutions*



“The greatest challenge Asia faces in its endeavors to realize the Asian Century: **transforming governance and institutions.**”



Core Concept 1: Information Asymmetry

Imperfect Information Paradigm: incorporates information (or the lack of it) into standard economic analysis to explain the rise of certain institutional settings and lack of efficiency

Inefficient institutions result from imperfect and costly information

1. Lack of information across time
(*we know more at time $T-1$ than at $T+1$*)
2. Asymmetry across space
(*eg., between core and periphery; organizations, etc.*)
3. Asymmetry when static in perception and interpretation
(*differential in making sense of available information*)
4. Proximity to policymaker/regulator
(*varied access to decision-makers, separate from space asymmetry*)



Therefore, all players are at best boundedly rational...

Application: National Resource Governance Institute analyzed 74 state-owned extractive enterprises (to assess how countries manage oil, gas and mineral sectors). Called on Saudi Aramco to **“disclose closely held data ahead of its planned 2018 IPO”**. Its research ranked the country among the world’s most opaque oil-producing nations.* (64th out of 74)

Core Concept 2: Transaction Costs (TCs)

Differential access to, and ability to interpret, information (as well as voting for association) leads to transaction costs

Variable in impact
(Some businesses/firms more able to meet and internalize)

**Search and
information costs**

Bargaining costs

**Policing and
enforcing costs**

North (1990):

“The inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the third world”

Core Concept 3: Credible Commitment (CC)

- Assumption of a repetitive game
- Expectation: of *quid pro quo* in commitment to transaction
- Policy reversals—or more aptly, the threat (or perception) of such reversals—lead to a failure to commit credibly
- Corollary of CC: credible threat

CC ↓ = TCs ↑

Core Concept 4: Political Economy

Good Governance, Better Results
GOVERNANCE
THEMATIC GROUP

THE HIMALAYAN TIMES
SUNDAY, SEPTEMBER 23, 2012

MANAGEMENT

Who pays?

WHY SHOULD PEOPLE BEAR THE LOSSES OF PUBLIC ENTERPRISES?

Kushish Acharya
Kathmandu

Every year the government subsidises, provides loans, incurs bad debts and hence manages to save public enterprises — covering the losses from the taxes that citizens pay of their hard earned money. But is it fair for the people to bear the cost of the failure of public enterprises?

THE PRELUDE

The government of Nepal has provided total loan amounting to Rs 56.16 billion to public enterprises, of which Rs 36.25 billion was granted in the fiscal year 2010/11 alone. This amount could have been better utilised. According to Independent Power Producers' Association Nepal, the production of one MW of electricity costs Rs 136 million, which means 694.4 MW of electricity could have been produced with 95.16 billion, solving 70 per cent of power crisis in the country. Similarly, establishing a school costs approximately Rs 10 million, which means 10,000 schools could have been built in Nepal.

The government, however, continues to pour money into the 37 public enterprises, of which 21 earned net profit, 14 incurred net loss and Nepal Engineering Consultancy Services Centre Ltd and Hydropower Investment and Develop-



breakingviews



able to generate substantial profit over the last three years with the current fiscal year's profit amounting to Rs 15.07 billion. The highest loss incurring public enterprises were Nepal Electricity Authority (NEA) and Nepal Oil Corporation (NOC), with a total loss of Rs 18.27 billion.

NEA is far from addressing its problem and yet the government continues to provide loans that have now amounted to Rs 62.63 billion in total. The loss could easily have been reduced if

ing profit per employee ratio of 3.02. In contrast, the public enterprises in trading sector like NOC have the operating profit per employee ratio of negative 21.92.

As public enterprises do not function on the principle of demand and supply and are not subject to market laws and regulations, they tend to be ineffective. In fact, public enterprises are established with taxpayers' money; the products and services they provide are also consumed by general public and when these enterprises do not function, they are funded out of

taxation. On the other hand, NEA and NOC have absolute monopoly in the market, making them less productive and innovative.

One of the best possible solutions could be to liquidate the enterprises that are running in loss and shut them down completely. Privatisation could be another solution but it has to be coupled with policies to ensure transparency and avoid disastrous consequences like in Harisiddhi Brick and Tile Factory, Bhaktapur Paper Mill and Hiranagar Jute Mill.

Another way to deal with this problem is by handing over the management to private management or firms requiring transparency in competitive bidding procedure, accounts details, audits and bureaucratic process.

Some pertinent questions arise: Should the government run public enterprises at all? Why not leave it to the market which does not use public money, ensures competition and is constantly innovating to provide better quality products and services at competitive prices? Should the government rather not focus

“Other issues like corruption, inefficiency, low productivity, trade union issues, political appointments and political manipulation in the management of the public enterprises have hampered its progress”

- “Politics has more to do with change than economics, but we are not yet ready to let politics out of the closet.”
- “Lack of understanding of the political economy of reform is increasingly seen as a risk to development effectiveness...”*

Political economy – *Definition and Lens*

“... all the many activities of cooperation, conflict and negotiation involved in decisions about the use, production, and distribution of resources”*

Area of coverage	Examples
Historical context	Central Asian countries (part of former Soviet Union)
Political context	Move to federalism (<i>Nepal</i>)
Economic context	Regional cooperation in the <i>Greater Mekong Subregion</i>
Values, development philosophy	GNH (<i>Bhutan</i>), focusing on holistic development
Power relationships	Among political parties (eg, in <i>Bangladesh</i>), judiciary-executive tussles, trade unions, civil society, media, etc.
Policy environment	Subsidy regimes

Politics and institutions influence the direction and pace of SOE reforms

Key issues here are:

1. Nature of broad governance reforms
2. Historical antecedents (**path dependence**)
3. Political commitment as circuit breaker

Corporate Governance and State-owned Enterprises

How improvements in markets address their

Well-run state-owned enterprises (SOEs) can offer tremendous potential as a driver of inclusive economic growth and development in emerging markets.

The importance of SOEs to the economies and welfare of emerging markets cannot be overestimated: in Africa, SOEs are estimated to represent 15 per cent of the gross domestic product (GDP), while in the Middle East and North Africa they make up more than 50 per cent of GDP. SOEs also play a significant role in the economies of major emerging markets such as Brazil, China, India, Indonesia and Russia.

Beyond the profit motive
The value of SOEs lies in their potential to provide efficient, reliable and affordable critical products and services in key sectors, such as power generation and water supply, transport, oil and gas and hospitals. They enable expensive and expansive investments that are often beyond the private sector's capacity. Thus, well-run SOEs can contribute to health, welfare, education and infrastructure improvements, poverty reduction and inclusive economic growth.

However, running SOEs well represents a significant challenge, not just for emerging markets, but for OECD (Organisation for Economic Co-operation and Development) countries as well. Faced with making commercially-driven decisions when they are charged with a product and service delivery

model that is inherently not economic, SOEs must cope with a built-in tension that creates a domino effect of problems and complexities.

For example, raising utility rates may make sense from an economic perspective but doing so could create additional hardships for the poor. Or consider the case of a state-owned company that operates in the red. To continue providing needed services - say clean water or retail banking - the company may require additional financing from the state. But propping up the SOE could constrain an already tight national budget, meaning fewer resources for other key services.

Politics and good governance: a complicated mix
Add political meddling to this muddle and striking the optimal balance between social and commercial goals can become a near-impossible task. In theory, a SOE may have been created for the benefit of the citizenry, but the reality is that many SOEs are accountable only to whatever political party is in power. The original notion of providing efficient and affordable services to the nation's citizens is long lost.

Herein lies the fundamental governance

The reality is that many SOEs are accountable only to whatever political party is in power. Herein lies the fundamental governance problem

The board is usually where these dramas play out. Mixing ownership and regulatory conflicts of interest, as can the case of government bureaucrats, such as the minister who sits on the board and elects directors.

The reality is that many SOEs are accountable only to whatever political party is in power. Herein lies the fundamental governance problem

It is far more difficult for these independent directors to offer informed contributions.

Board continuity is another issue. Without any protections to curb such behavior, the SOE may be treated as a political instrument of the ruling party, operating at the whim of the government. The leader of the ruling party may decide to 'clean house' and replace board members and create a new board. Or, the leader may use otherwise tricky political maneuvering where to place a minister in favour but still wield influence.

These governance issues can severely impact performance, result in an unreliable service and enterprises to bleed money. In particular industry and markets, the risk of a SOE could severely impact the national economy.

The issue of independent directors is also moving to the forefront in some markets, with good results. In Brazil, for instance, 20 per cent of SOE board members must be independent. In India and Malaysia, SOE boards must be comprised of at least one-third independent directors.

Fixing SOEs: improving governance as part of a holistic approach

Fixing SOEs: improving governance as part of a holistic approach
At IFC we have worked with SOEs in emerging markets around the world on a variety of governance-related issues, often in preparation for privatisation.

Recently, we partnered with our colleagues at the World Bank to develop a corporate governance toolkit for SOEs, offering comprehensive guidance on ways to address the challenges that impede effective governance and efficient operations.

In our experience, we have seen that attending to SOE governance issues can contribute to improved performance of state-owned companies as part of a comprehensive and contextually relevant approach that also includes policy reforms, restructuring, external incentives, such as increased competition, and more private sector participation, as well as fiscal discipline.

Governance changes often begin with a more considered process around the selection of directors. For instance, in Hungary and the Czech Republic, board directors of SOEs now must hold relevant professional degrees in finance, economics or law, or bring to the table corporate governance experience. In Chile, Israel and Lithuania, boards of large SOEs are required to demonstrate proficiency in good decision making and appropriate strategic planning.

Requiring SOEs to refinance on international markets, rather than relying on the government, can also have a wide-ranging and positive impact, with a disciplining effect on governance.

Financial statements and governance will be subject to lender scrutiny and the cost of capital will depend on credit rating. In countries such as South Africa, such market-driven pressures should help build a measure of financial discipline in combination with governance enhancements through enabling legislation.

Other governance improvements that can make a difference include separating the ownership function from the regulatory function, which helps to shield decision-making from the political exigencies of the moment and gives the regulator some autonomy on how the market will operate.

Such actions are not easy and there is no standard template to follow, as in the private sector. Nevertheless, evidence suggests that the effort would be well worth the trouble - recent research by Dag Dettler and Stefan Foelster reveals that better-governed state-owned enterprises around the world would enable central governments to generate an astonishing \$3 trillion in annual returns - "more than the world's yearly investment in infrastructure including transportation, power, water and telecommunication" they note in a recent issue of *Foreign Affairs* magazine.

Just imagine how such funds - and the associated product and service delivery improvements - could support emerging markets as they strive to accomplish their economic growth and development goals.



STATE-OWNED ENTERPRISES: A GLOBAL SNAPSHOT

Issues:
Subsidies, dividends, taxes, contingent liabilities, weak corporate governance (ownership), corruption, bureaucratic contestation*

INTERNATIONAL EFFORT
Improving SOE transparency has been a global challenge

ADB sees SOE reforms also as part of a bigger picture...

Target 17.1: “strengthen domestic resource mobilization... through domestic capacity for tax and other revenue collection”

SOE reforms

Macro-economic governance:

capital market development, PPPs, progressively hard budget constraints, legal and regulatory measures, etc.

Sector governance and SOE-specific inputs:

independent regulation, unbundling and corporate and financial restructuring, enablers for project finance

Project finance, equity, and corporate finance investments:

NSO loan, equity, advisory and transaction services

Procurement reforms

(savings level varies in developing countries)

Base Erosion Profit Shifting

(\$240b/year loss by tax avoidance) (OECD estimate)

Encourage private capital, use of remittances

(\$600b, in 2016, WB estimate)

Stemming illicit financial outflows

(\$5.6t est. loss; 2001-2010; Asia accounted for 61% of such loss)*

Better use of publicly owned commercial assets

(at the central government level, these have a book value of \$75 trillion... and about the same at the local government level (FT, 1 June 2017))

ADB's SOE Work

Policy		Operations		Research	Evaluation
SPD	PPFD	Regional Departments	PSOD	ERCD, ADBI	IED
<ul style="list-style-type: none"> Overarching framework on SOE reforms (eg, in Strategy 2030) Policy work by SPD, on operational procedures related to RD and PSOD investment space 	<ul style="list-style-type: none"> Use of country systems Procurement guideline for SOEs Risk analysis of procurement lapses at agency level 	<ul style="list-style-type: none"> Investments by Regional Departments in sovereign operations, related to SOE reforms, policy matters, broader macroeconomic environment 	<ul style="list-style-type: none"> Investments by PSOD in non-sovereign operations (NSOs), related to corporate governance reforms, equity investments, rating enhancement; corporatization 	<ul style="list-style-type: none"> Ad hoc (also on-demand) analysis of SOE reform issues Country experiences Corporate governance in SOEs 	<ul style="list-style-type: none"> Evaluations of ADB operations Thematic Evaluation Study on SOEs

Analytical and operational work support to RDs and PSOD by the SOE Working Group in 3 specific areas (as per TOR approved by Management)

Database

Knowledge Exchange

Skills Development

Separate working group – chaired by SPD – working on specific SOEs for public sector NSO lending

Table 2: ADB Loans to Sovereign Projects with SOE Engagement, By Approval Year, By Sector, 2004 to 2016

(In US\$ Million)

Sector	Approval Year													Total 2004-2016
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
ENE	120	615	632	192	799	401	1,159	1,374	606	2,108	1,590	3,639	1,915	15,149
TRA	0	1,208	402	490	876	377	685	189	64	203	327	33	684	5,537
WUS	30	56	53	80	40	177	16	641	351	312	142	77	77	2,566
PSM	223	378	200	350	325	1,131	506	25	31	0	0	0	31	4,841
FIN	40	26	1,005	1,000	165	100	200	240	40	632	0	0	64	4,740
ANR	0	74	45	0	0	0	0	110	0	80	0	0	250	604
IND	0	0	0	0	0	0	0	0	0	0	0	0	375	375
ICT	0	0	0	0	0	0	0	0	0	0	0	25	0	25
MUL	0	15	442	315	280	420	250	11	0	0	0	0	0	1,732
EDU	0	0	0	0	0	0	100	0	0	0	0	0	0	100
HLT	0	0	0	0	0	0	0	0	0	0	0	0	50	50
Total	413	2,372	2,779	2,427	2,485	2,606	2,917	2,589	1,092	3,335	3,382	4,890	4,431	35,719

In Energy sector, \$15 billion

In Transport sector, \$5.5 billion

\$35.7 billion

Source: ADB SOE Database

SOV SOE, as % of total SOV loans

2016: 38.9%

2015: 46.6%

2014: 39.7%

Notes:

1. Huge increase in loans to ENE sector in 2010. Almost \$ 2 billion by 2016.
2. Spike in 2009 in PSM sector. ADB assistance to DMCs hit by 2009 financial crisis – CDOs (collateralized debt obligations) crash. Almost all SOE reforms. IED undertaking evaluation of ADB support for SOE reforms.

In hard core infrastructure sectors (ENE, TRA, WUS): 64.7%

Table 2: ADB Assistance to Non-Sovereign Projects with SOE Engagement, By Approval Year, By Sector, 2004 to 2016
(In US\$ Million)

Sector	Approval Year														Total 2004- 2016
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	NA ¹	
ENE	0	450	330	107	712	174	4	377	128	200	104	542	500	0	3,628
TRA	0	0	0	206	0	0	0	0	0	100	0	0	0	250	556
WUS	0	0	0	0	0	100	46	0	195	120	0	150	0	0	761
PSM	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FIN	33	125	216	125	87	105	0	100	54	74	475	0	0	0	1,669
ANR	0	0	0	0	0	0	0	0	24	0	0	0	0	0	24
IND	0	0	0	0	0	0	0	0	400	0	0	0	0	0	400
ICT	0	0	0	0	0	0	0	49	0	0	0	150	0	0	199
MUL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EDU	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HLT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	33	575	546	438	799	379	50	526	801	493	579	1,067	700	250	7,237

In Energy
sector,
\$3.6 billion

In Finance
sector, \$1.6
billion

NSO SOE, as % of total NSO loans
2016: 32.0%
2015: 49.6%
2014: 33.8%

\$7.2
billion

Source: ADB SOE Database

Notes:

1. Approval year not publicly available for PN 43912 - Bangalore

RRP date March 2011.

In hard core infrastructure sectors (ENE, TRA, WUS): 68.3% (2004-2016)

ADB Assistance to Sovereign and Non-Sovereign Projects with SOE Engagement, By Sector and DMC, 2004-2016

Type	Sovereign (of \$35.719b)		Non-sovereign (of \$7.237b)	
Country	India	17%	India	41%
	Pakistan	15%	PRC	25%
	PRC	13%	Azerbaijan	7%
	Vietnam	13%	Indonesia	7%
	Indonesia	11%	Uzbekistan	6%
	Bangladesh	8%	Others	13%
	Azerbaijan	5%		
	Uzbekistan	5%		
	Others	13%		
Sector	Infrastructure	65%	Infrastructure	68%
	Public Sector Management	14%	Finance	23%
	Finance	13%	Industry	8%
	Others	8%	Others	1%

Where some of the gaps are (from ADB's SOE Experiences)

("poor SOE performance is the norm for most countries")

Stylized conclusions:

- **Government control** → political interference & noncommercial decision
- **Lack of political will generally** (→ institutional reforms slow)
- **Strong reporting processes needed** in SOEs make accountability easier
- **Risk of reputation loss high**
- **Weak corporate governance** (eg, director selection not based on skills, inadequate performance incentives, and soft budget constraints)

“While corporate governance reforms cover a broad spectrum of issues (ownership, disclosures, rules for internal management, etc.), cross-country evidence suggests that **hardening budget constraints is key to improve operational performance.**”

Maliszewski, W., et al. 2016. “Resolving China’s Corporate Debt Problem.” IMF Working Paper, WP/16/203, p. 14

**(1) Difference between 'what ought to be' and 'what can be':
Good Enough Governance over Good Governance**

Lessons from broad governance reform work in the region with implications for SOE reforms

Note earlier concepts of bounded rationality

"... good governance is deeply problematic as a guide to development"



Merilee Grindle: Good Enough Governance: A Cautionary Tale

Notions of country context and 'country systems' are important

(2) Beware difference
between best practice
and best fit

Government
Management

Brief
to the
Incoming
Government
1987

VOLUME I

THE TREASURY

“... developing countries, which are dominated by informal markets, are risky candidates for applying the New Zealand model... basic reforms to strengthen rule-based government and pave the way for robust markets should be undertaken first.”

Allen Schick. 1998. “Why Most Developing Countries Should Not Try New Zealand's Reforms”. **World Bank Research Observer** Volume 13, Issue 1, Pages: 123 – 131.



(3) Stay for the long haul

“The three completed programs in Assam, Mizoram, and West Bengal were generally effective ... ADB should consider providing longer-term follow-on support to help cement reform gains and institutional development.”



Questions?

Please contact:

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Questions for Discussion

1. What is the main SOE reform issue in your country at the moment?
2. How are the reforms progressing?
3. What do you see as the biggest risk to this reform process?
4. How can ADB help in the SOE reform agenda?