

# SOE & Public Sector Reforms

Finding Balance

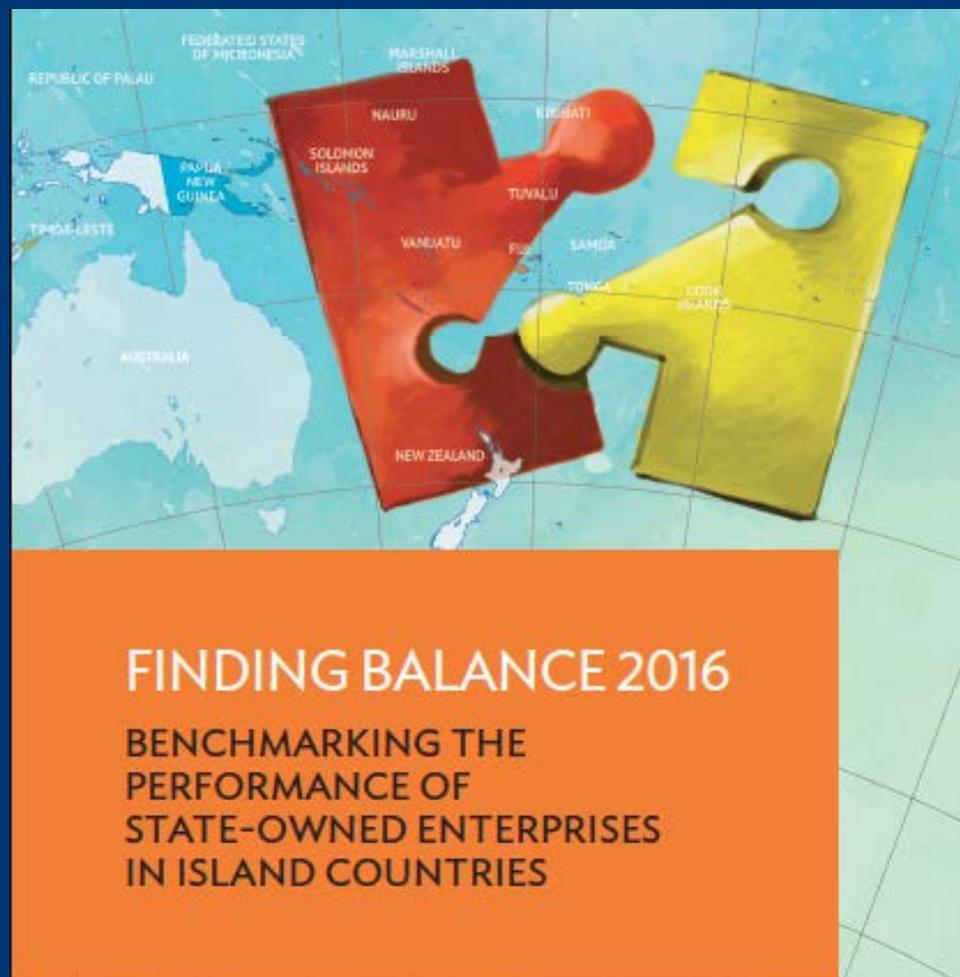
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Private Sector Development Initiative

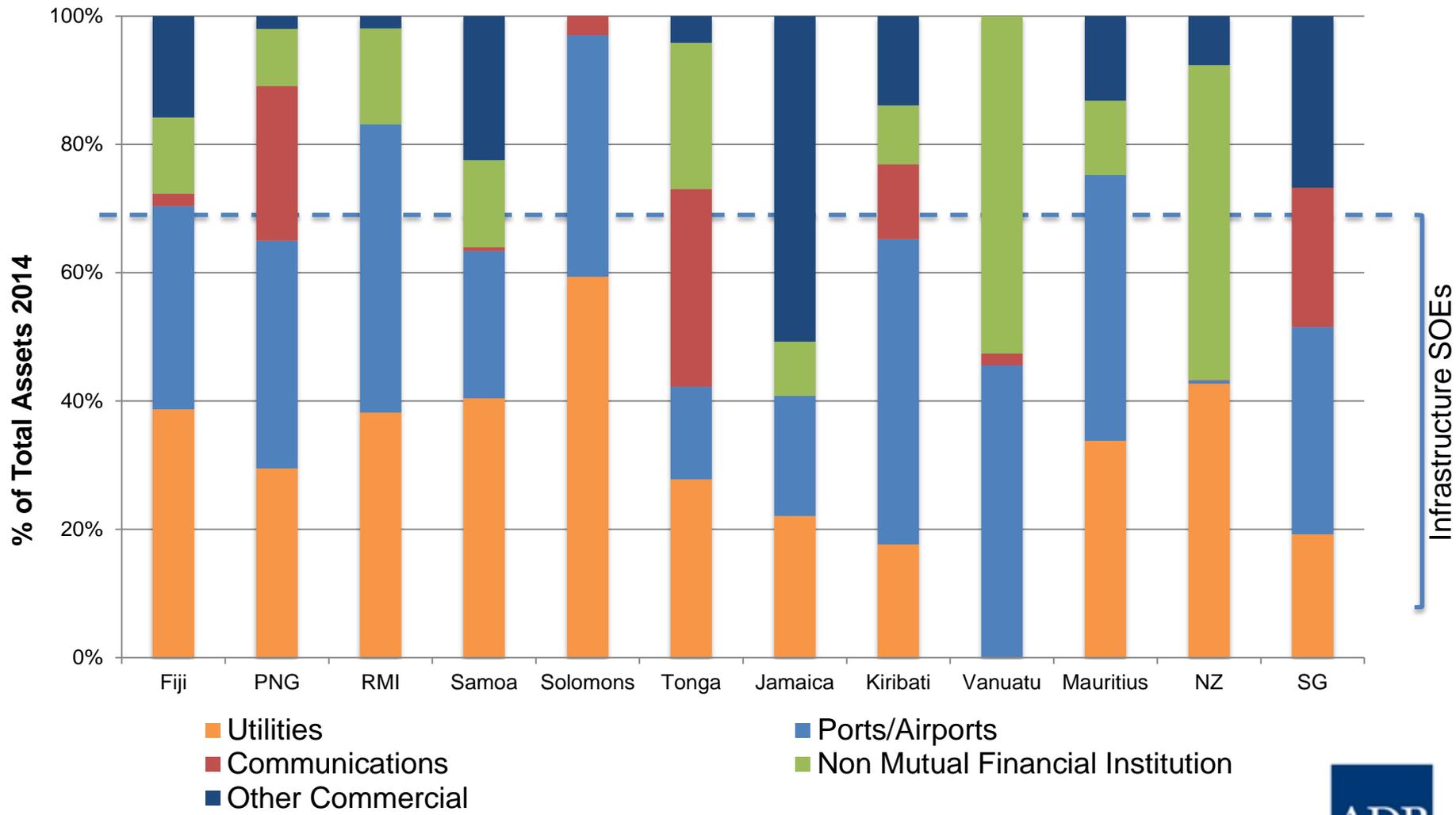


# Participating & Survey Countries

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

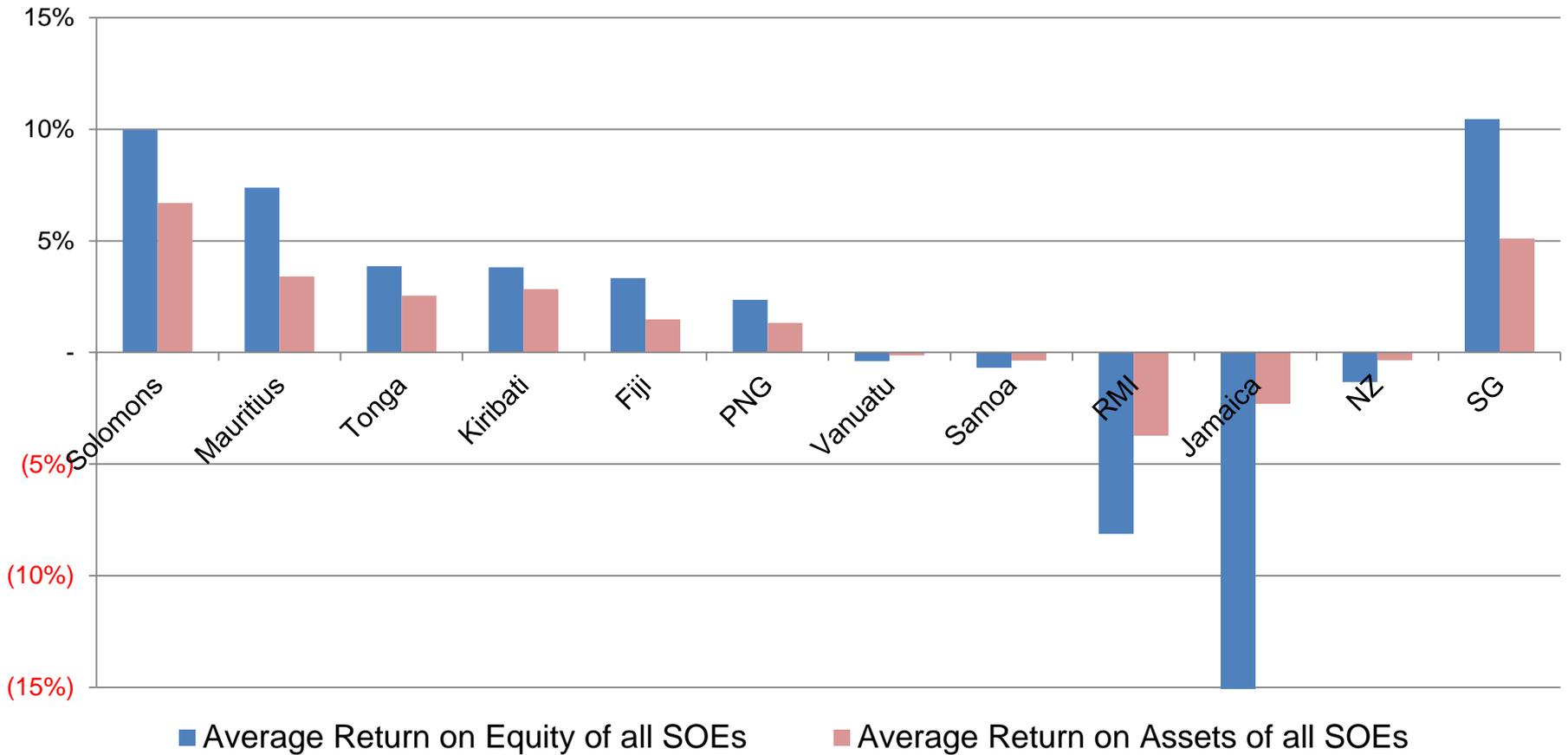


# Benchmarking portfolios

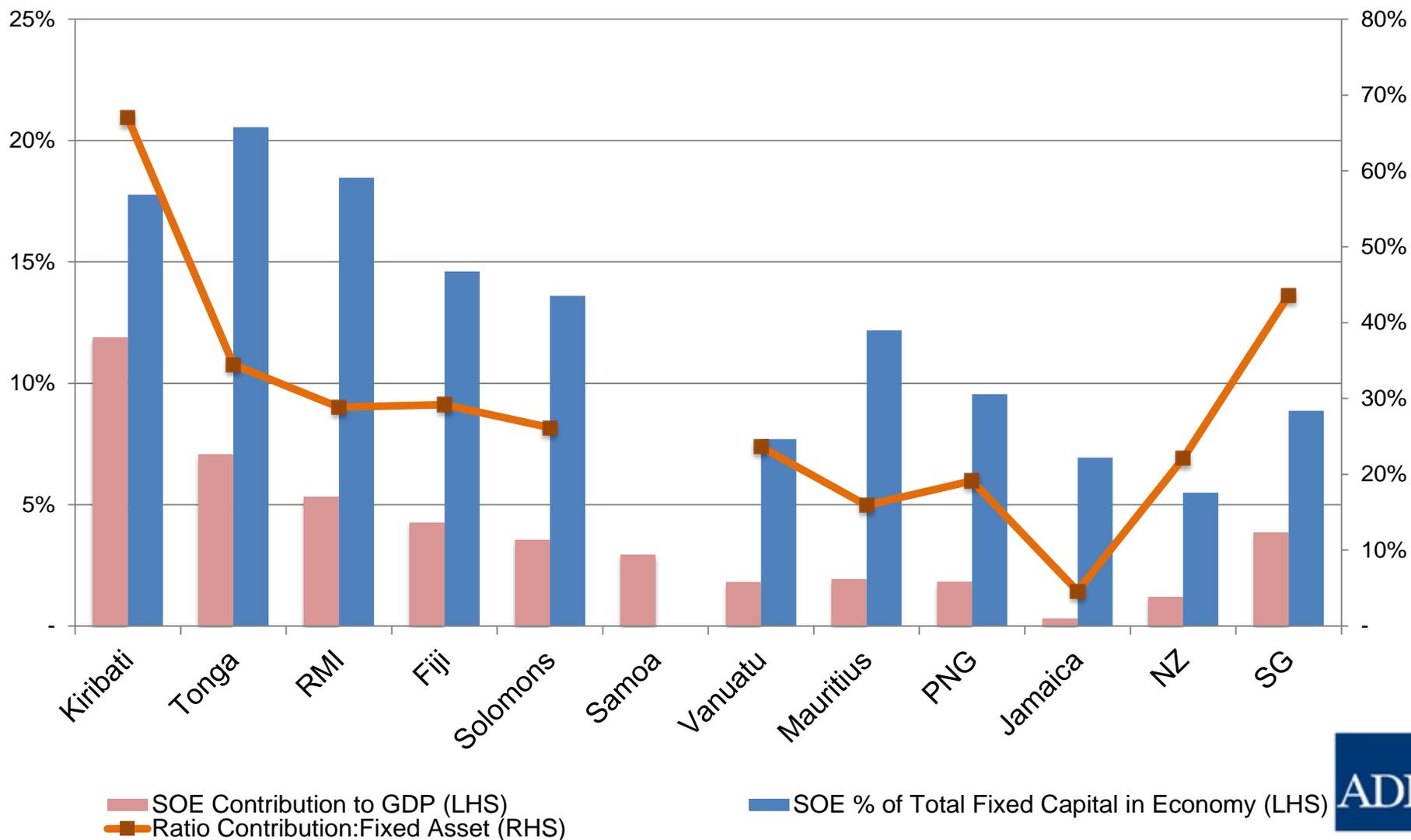




# Average Return on Equity / Assets 2010-2014



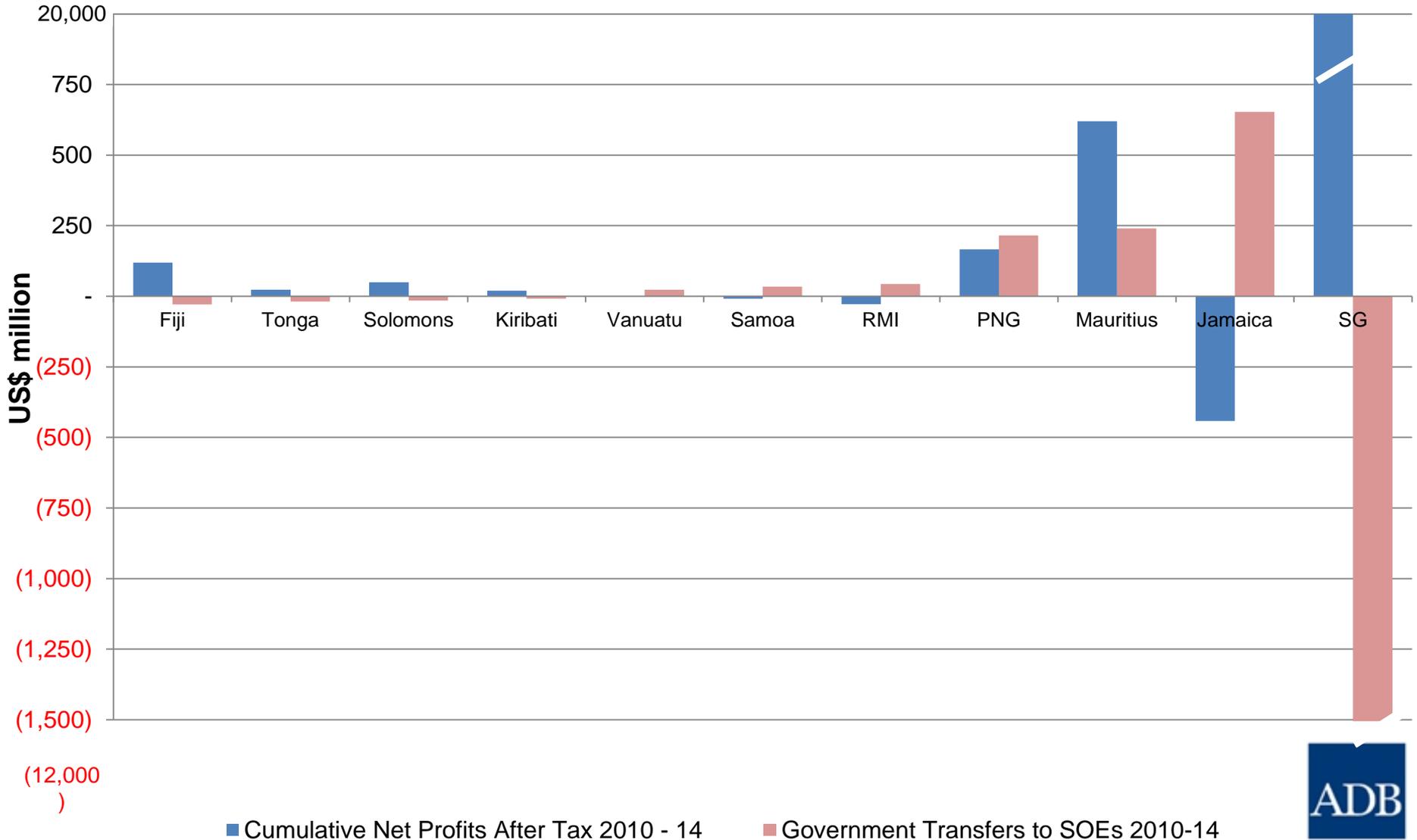
# SOE contribution to GDP vs Total Fixed Assets, 2014





# Fiscal Strain

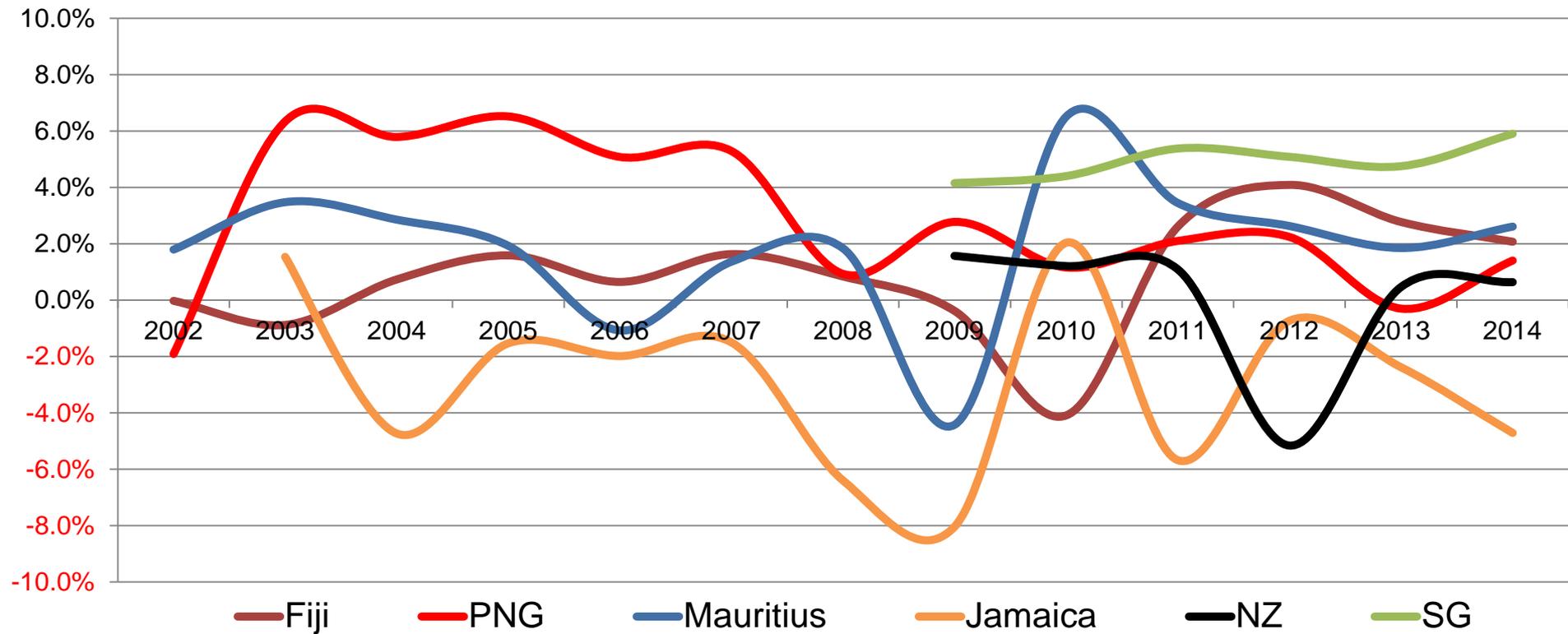
## Government transfers > SOE Net Profits in 5 of 10 countries





# Portfolio Return Assets 2002-2014

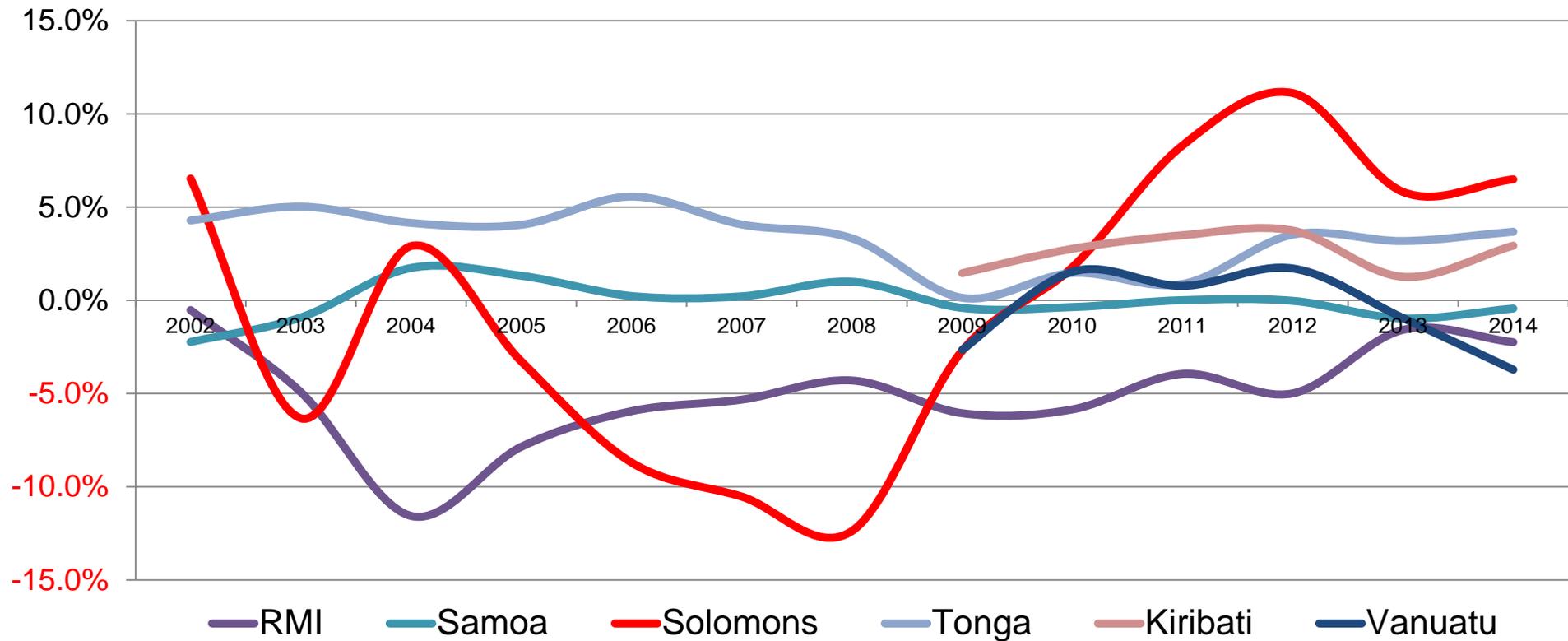
## Large Island Economies





# Portfolio Return Assets 2002-2014

## Small Island Economies

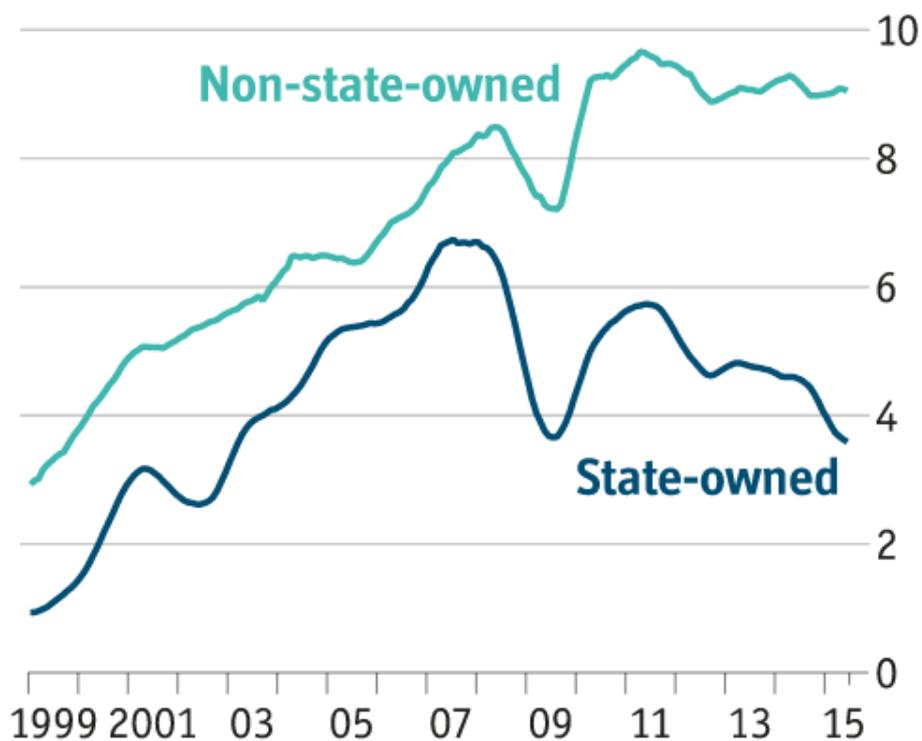


# China: Return on Assets 1999 - 2015

## Spot the difference

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



Sources: CEIC;  
Gavekal Dragonomics

\*7-month centred  
moving average



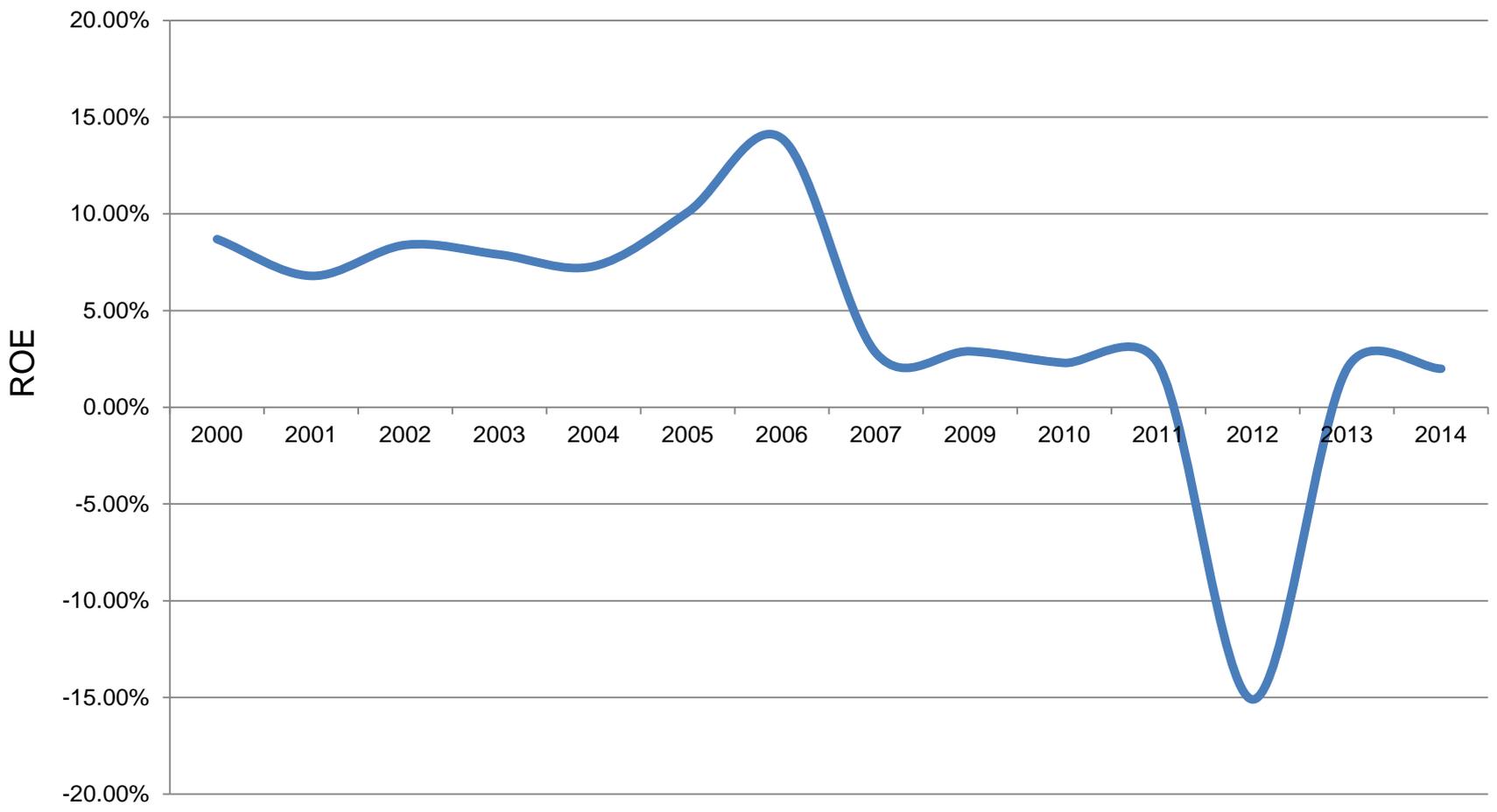
# SOE model is not sustainable

- 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

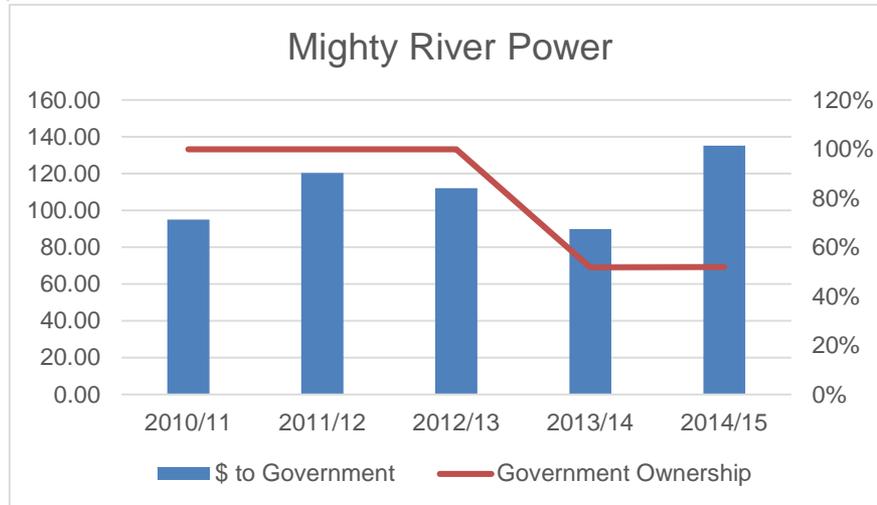
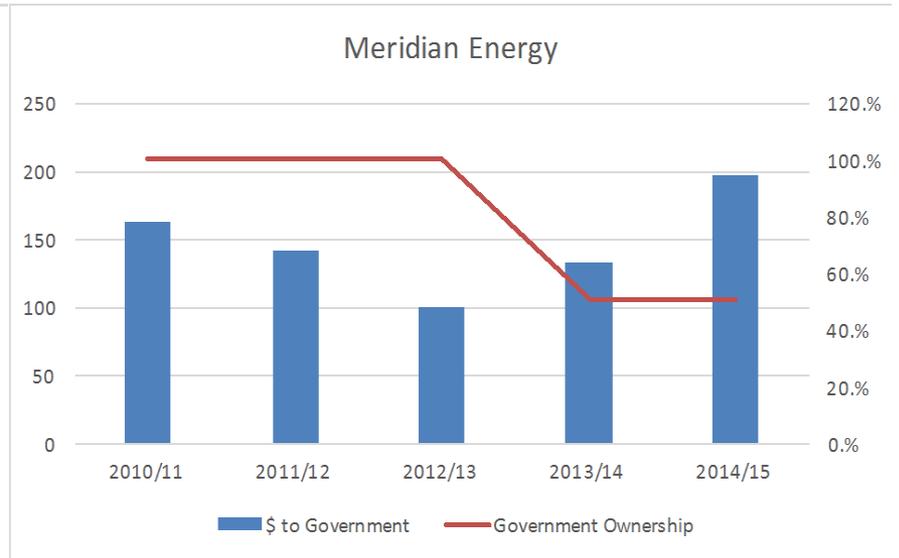
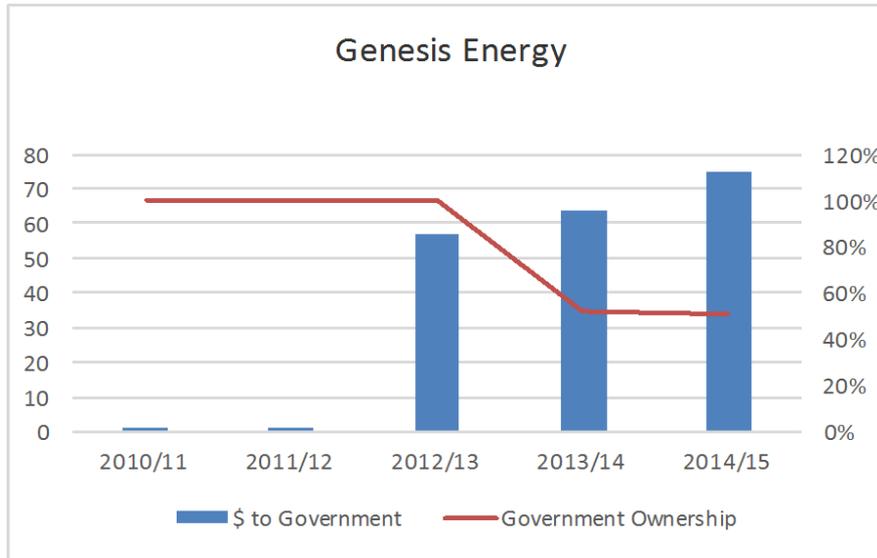


# New Zealand SOE performance

## Return on Equity



# New Zealand MOM – reduced ownership but increased dividend



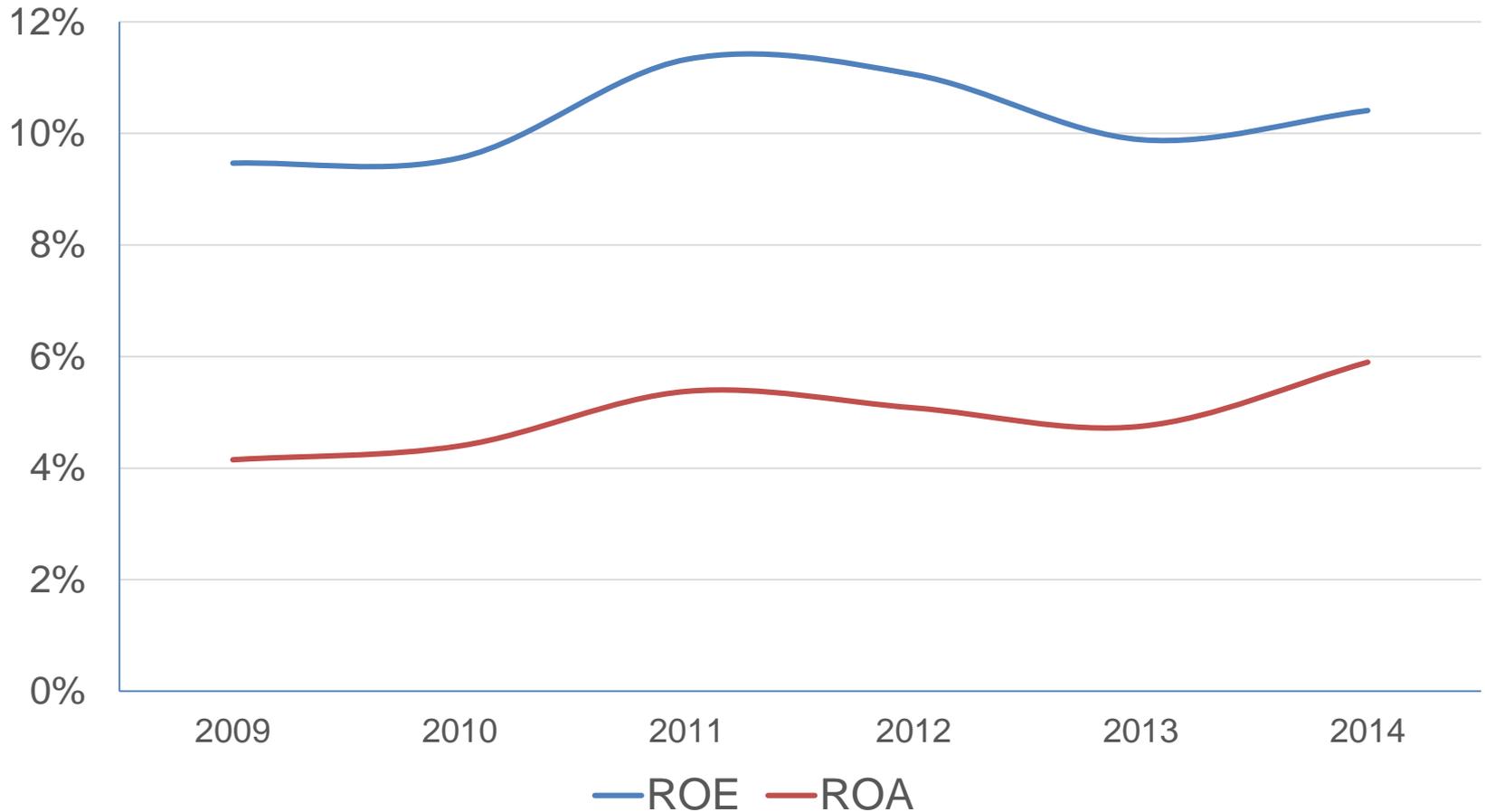
Amounts in NZD millions

In period 2013/14

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



# Singapore SOE Performance



# Singapore Gearing

<b>SOE</b>	<b>Debt to Equity</b>	<b>Accounts Payable to Equity</b>	<b>Debt &amp; Accounts Payable to Equity</b>
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>

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