

State-Owned Enterprises in Middle East, North Africa, and Central Asia

Size, Role, Performance, and Challenges

*Prepared by an IMF team led by Ernesto Ramirez Rigo
and Christine Richmond, and including
Oluremi Akin Olugbade, Gareth Anderson,
Maria Atamanchuk, Hatim Bukhari,
Iacovos Ioannou, Deeksha Kale,
Tannous Kass-Hanna, Maximilien Queyranne,
Wei Shi, and Joyce Wong*

In collaboration with EBRD staff

DP/2021/019

Middle East and Central Asia Department

State-Owned Enterprises in Middle East, North Africa, and Central Asia Size, Role, Performance, and Challenges

Prepared by an IMF staff team led by Ernesto Ramirez Rigo and Christine Richmond,
and including Oluremi Akin Olugbade, Gareth Anderson, Maria Atamanchuk,
Hatim Bukhari, Iacovos Ioannou, Deeksha Kale, Tannous Kass-Hanna,
Maximilien Queyranne, Wei Shi, and Joyce Wong

In collaboration with EBRD staff

I N T E R N A T I O N A L M O N E T A R Y F U N D

Copyright ©2021 International Monetary Fund

Cataloging-in-Publication Data
IMF Library

Names: Ramirez Rigo, Ernesto. | Richmond, Christine J. | Akin Olugbade, Oluremi. | Anderson, Gareth. | Atamanchuk, Maria. | Bukhari, Hatim. | Ioannou, Iacovos. | Kale, Deeksha. | Kass-Hanna, Tannous. | Queyranne, Maximilien. | Shi, Wei (Economist). | Wong, Joyce Cheng. | International Monetary Fund. Middle East and Central Asia Department, issuing body. | International Monetary Fund, publisher.

Title: State-owned enterprises in Middle East, North Africa, and Central Asia : size, role, performance, and challenges / prepared by a staff team led by Ernesto Ramirez Rigo and Christine Richmond, and Oluremi Akin Olugbade, Gareth Anderson, Maria Atamanchuk, Hatim Bukhari, Iacovos Ioannou, Deeksha Kale, Tannous Kass-Hanna, Maximilien Queyranne, Wei Shi, and Joyce Wong.

Other titles: International Monetary Fund. Middle East and Central Asia Department (Series).

Description: Washington, DC : International Monetary Fund, 2021. | Departmental paper series. | Includes bibliographical references.

Identifiers: ISBN 9781513594088 (paper)

Subjects: LCSH: Government business enterprises—Middle East. | Government business enterprises—Africa, North. | Government business enterprises—Asia, Central.

Classification: LCC HD4276.5.R36 2021

This Middle East and Central Asia Departmental Paper presents research by IMF staff on issues of broad regional or cross-country interest. The views expressed in this paper are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Publication orders may be placed online, by fax, or through the mail:
International Monetary Fund, Publication Services
P.O. Box 92780, Washington, DC 20090, U.S.A.
Tel. (202) 623-7430 Fax: (202) 623-7201
E-mail: publications@imf.org
www.imfbookstore.org
www.elibrary.imf.org

Contents

Acknowledgments	vii
Executive Summary	ix
1. Introduction	1
2. SOE Footprint and Performance	7
Previous Findings.....	8
SOE Prevalence.....	9
SOE Footprint Across Sectors	10
Employment	12
Financial Performance.....	12
3. The Fiscal Impact and Risks from SOEs	23
A Large Fiscal Impact Across the Region	24
Complex Fiscal Interactions	27
Fiscal Transparency.....	29
Fiscal Risk Management Framework.....	31
4. Corporate Governance	43
What Are Countries' Objectives for SOE Ownership?.....	44
De Jure SOE Corporate Governance	44
SOE Corporate Governance and Performance	52
De Jure Versus De Facto Corporate Governance.....	53
Ensuring a Level Playing Field: Competitive Neutrality.....	55
5. Impact of the COVID-19 Pandemic on SOEs	69
The Impact of COVID-19 on SOE Operations.....	70
Long-Term Consequences of COVID-19	81
6. Lessons and Policy Recommendations	87
Lessons.....	87
Recommendations.....	89
Annexes	
Annex 1. Definitions of SOEs.....	95
Annex 2. Chapter 2 SOE Survey and Data in ME&CA Countries	97
Annex 3. Treatment of Dividend Payments to Government by SOEs.....	101
Annex 4. Tunisia	103
Annex 5. Chapter 3 Data Sources.....	105

Annex 6. SOE Fiscal Survey.....	107
Annex 7. Summary of OECD Corporate Governance Standards.....	111
Annex 8. SOE Governance Index	113
Annex 9. De Jure Versus De Facto Corporate Governance Considerations	119
Annex 10. Chapter 5 Data Sources and COVID-19 Survey	125

References.....	131
------------------------	----------------------------

Boxes

Box 1. Defining SOEs	15
Box 2. Financial Performance of SOEs in Tunisia.....	17
Box 3. Footprint and Performance of SOEs in Pakistan	19
Box 4. IMF Technical Assistance.....	21
Box 5. Morocco Fiscal Reporting on SOEs.....	38
Box 6. Kazakhstan: The Holding Company Experience.....	39
Box 7. How Technical Assistance on SOEs in MENA Helps Improve Transparency and Strengthen Oversight	40
Box 8. Georgia’s Fiscal Risks Statement (FRS)	41
Box 9. SOE Reform in Fragile States: The Case of Sudan.....	59
Box 10. Pakistan’s SOE Act of 2021	60
Box 11. National Electric Power Company of Jordan (NEPCO).....	62
Box 12. Uzbekistan: Enhancing Governance and Anti-Corruption Reforms in SOEs	64
Box 13. Competitive Neutrality Case Studies: Australia and Finland.....	66
Box 14. The Impact of COVID-19 on Saudi Aramco’s Operations	83
Box 15. SOEs in Morocco: Government Support During COVID-19.....	85

Figures

Figure 1. Multinational SOEs by Region	2
Figure 2. Rationale for SOE Ownership	3
Figure 3. Authorities Survey Responses	5
Figure 4. Number of SOEs	9
Figure 5. SOE Assets.....	10
Figure 6. Sectoral Distribution of SOEs.....	11
Figure 7. SOE Contribution to Economic Activity.....	11
Figure 8. SOE Employment vs. Number of SOEs	12
Figure 9. SOE Employment.....	13

Figure 10. SOEs Operating at a Loss	14
Figure 11. Average Return on Assets	14
Figure 12. Direct Fiscal Support to SOEs	24
Figure 13. Revenue Impact of SOEs on the Government Budget	25
Figure 14. Composition of SOE Payments to Government(.....	26
Figure 15. Dividends Paid by SOEs to the Budget, 2010–19	26
Figure 16. Illustrative Fiscal Relations	28
Figure 17. Survey Responses on Fiscal Transparency	30
Figure 18. SOEs’ Debt and Government Debt Guarantees to SOEs (2019).....	33
Figure 19. Survey Responses on Fiscal Risk Management Framework	36
Figure 20. Government Decision to Provide Support to SOEs	37
Figure 21. Objectives for SOE Ownership.....	44
Figure 22. Ownership Policy and Governance Framework.....	45
Figure 23. Financial Oversight Framework	48
Figure 24. Fiscal and Policy Interactions with Government	50
Figure 25. SOE Governance Index.....	51
Figure 26. SOE Performance vs Governance Index Scores	53
Figure 27. Adjusted SOE Governance Index.....	54
Figure 28. SOE Governance: De Jure Versus De Facto	55
Figure 29. COVID-19 Infection Rates by Region.....	70
Figure 30. Potential Impact of COVID-19 on SOEs.....	70
Figure 31. Impact of COVID-19 on SOEs and Private Firms	71
Figure 32. Mandates of SOEs During the COVID-19 Pandemic.....	72
Figure 33. Impact of COVID-19 on SOE Employment.....	73
Figure 34. Consequences of COVID-19 on SOE Investment.....	74
Figure 35. Potential Impact of COVID-19 on SOEs.....	74
Figure 36. Government COVID-19 Support to SOEs.....	75
Figure 37. SOE Financial Support: Instruments and Conditionality	76
Figure 38. Flights in ME&CA Countries.....	78
Figure 39. Government Support to State-Owned Airlines	78
Figure 40. Global Oil Demand and Prices.....	80
Figure 41. Risks Associated with COVID-19 Financial Support.....	82

Tables

Table 1. Fiscal Risks from SOEs	32
---------------------------------------	--------------------

This page intentionally left blank

Acknowledgments

The authors are grateful to Jihad Azour and Taline Koranchelian for their oversight and guidance throughout the project. We thank Umidjon Abdullaev, Thomas Alexander, David Bailey, Gian Piero Cigna, Milica Delevic, Pasquale Di Benedetto, Jonas Frank, Rika Ishii, Bikas Joshi, Noriaki Kinoshita, Mario Mansour, Clement Ncuti, Francisco Parodi, Monica Petrescu, Mia Pineda, John Ralyea, Isabel Rial, Anastasia Rodina, Cesar Serra, Phil Stokoe, Benoit Wiest, Yang Yang, Yuliya Zemlytska, and Zaijin Zhan for their helpful comments, suggestions, and inputs at various stages of the project. Special thanks to Benoit Wiest and Jonas Frank (both METAC); Thomas Alexander, Clement Ncuti, Phil Stokoe, and Zaijin Zhan (all STA); and Umidjon Abdullaev, Milot Ahma, Gian Piero Cigna, Milica Delevic, Pavle Djuric, Luke Gribbon, Matthew Hudson, Melissa Khemani, Omar El-Nahry, Malika Mirsaidova, Anastasia Rodina, and Yuliya Zemlytska (all EBRD) for their contributions to the paper. We would like to thank MCD country teams for survey responses, assistance with data provision, and comments on an early draft as well as participants of the MCD seminar for productive discussions and useful comments.

We are also grateful for the assistance of Resident Representative offices with data collection, in particular Said Bakhache, Olga Bissekeyeva, Zafar Hayat, Kareem Ismail, Vahram Janvelyan, Galina Kostina, Tigran Poghosyan, Erkeaim Shambetova, and Yulia Ustyogova. Thanks also to colleagues from COM, FAD, LEG, RES, SPR, and STA for useful comments and Executive Director offices for their assistance with data collection and helpful discussions.

The authors would also like to thank Laila Azoor and Gintare Gedrimaite for production assistance. Thanks are also due to Houda Berrada of the Communications Department for leading the editorial and production process.

This page intentionally left blank

Executive Summary

Prior to the COVID-19 shock, the key challenge facing policymakers in the Middle East, North Africa, and Central Asia (ME&CA) region was how to generate strong, sustainable, job-rich, inclusive growth. Post-COVID-19, this challenge has only grown given the additional reduction in fiscal space due to the crisis and the increased need to support the recovery. The sizable state-owned enterprise (SOE) footprint in the region, together with its cost to the government, call for revisiting the SOE sector to help open fiscal space, look for growth opportunities, and foster economic and social development. This requires redefining its strategic role, reducing its involvement in activities normally thought of being better performed by private-sector firms, and improving its governance and financial positions. Ultimately reducing socially costly fiscal costs from SOE and leveling the playing field for all economic agents by promoting competition should be key priorities in the period ahead.

SOEs are prominent in the region yet their role and contribution to the economy is ambiguous. They are used for a range of purposes, including supplying basic goods and services, advancing strategic interests, addressing market inefficiencies, and meeting social objectives. They are also involved in a wide range of activities that are often carried out by private firms in other regions and often act as the employer of first and last resort. At the same time, they are perceived as inefficient with weak governance arrangements. However, given the weak disclosure of information on nonfinancial SOEs in the region, it is not clear whether they contribute to economic development or impose a drag on the economy. This departmental paper draws on two original surveys of country authorities (supplemented with additional data) and case studies (with European Bank for Reconstruction and Development involvement) to shed some light on the SOE footprint and performance, fiscal implications and risks, corporate governance standards, and COVID-19-impact.

The key findings are as follows:

- SOE footprints tend to be larger than that estimated for Organisation for Economic Co-operation and Development (OECD) countries, with significant heterogeneity across countries. It ranges from one SOE in West Bank Gaza to several thousand in Azerbaijan. Nonetheless, their share of employment is less than 4 percent (except in Yemen) and concentrated in the largest SOEs.
- SOEs generate sizable fiscal costs, averaging more than 2 percent of GDP per year to offset operational losses. Moreover, quasi-fiscal activities undertaken by SOEs are not always fully compensated or disclosed. Less than half of surveyed countries inform Parliament of government support to SOEs and fewer publish the information. Governments are also exposed to explicit and implicit fiscal risks from SOEs, which can materialize at high costs to public finances.
- SOEs tend to have weak operating performance, relying on government support. Nonetheless, SOEs in most countries also hold sizable assets, with most concentrated in the largest SOEs.
- There are large gaps in de jure SOE corporate governance compared to the OECD guidelines, particularly in the areas of ownership policy as well as fiscal and policy interactions with government. Moreover, survey responses by country authorities and IMF staff show that corporate governance practices are often lagging the de jure standards.
- Many SOEs do not operate in a competitive environment, often enjoying a range of protections and benefits that put them in a stronger competitive position vis-à-vis the private sector. Some SOEs are exempt from the competition law, benefit from favorable tax treatments, or receive special status/privileges in sector-specific regulations. These, and the practice of providing extensive support measures, guarantees, and subsidies, create market distortions, hampering the development of a job-rich private sector.
- COVID-19 has had a strong impact on both private firms and SOEs in ME&CA. While in many cases governments have provided extraordinary financial support to SOEs during the COVID-19 shock, these funds have often been unconditional and in some cases for an indefinite period. Many countries have not identified an exit strategy to withdraw financial support to SOEs.

These conclusions lead to some important recommendations, which should be tailored to account for country-specific institutional development and technical capacities:

- Know what you own. Countries should establish a country-relevant SOE definition and publish—and compile if not already done so—a complete list of all SOEs.
- Fiscal management frameworks need to be strengthened to facilitate effective monitoring and reduce government exposure to SOEs. The Ministry of Finance or Ministry of Economy should be empowered to assess, monitor, and report on the fiscal impact and risks of SOEs.
- SOE mandates should be clarified to limit quasi-fiscal activity, and SOEs should be adequately compensated for activities undertaken on behalf of the government.
- Governance shortcomings, especially related to ownership policy as well as fiscal and policy links, should be addressed. Countries need to ask whether the objectives of state ownership are being achieved and if not, progress should be tracked toward meeting the objectives, including through better operational and financial oversight.
- Ownership policies stating the rationale and priorities for government ownership should be created to help align objectives and implementation. Developing an ownership policy will also enhance government accountability and transparency for all economic agents in the marketplace.
- Ensuring fair competition requires efforts to level the playing field between SOEs and private enterprises—including public procurement, taxation, competition policies, access to credit, and bankruptcy protection. Commercial and noncommercial SOE activities should be clearly separated.
- Policymakers need to develop clear and conditional policies for when to provide regular, as well as exceptional, support to SOEs. Explicit exit strategies for the withdrawal of exceptional support also need to be developed.
- Finally, governments need to objectively reexamine the need to participate in many economic activities that could be better served by private enterprises.

This page intentionally left blank

1 Introduction

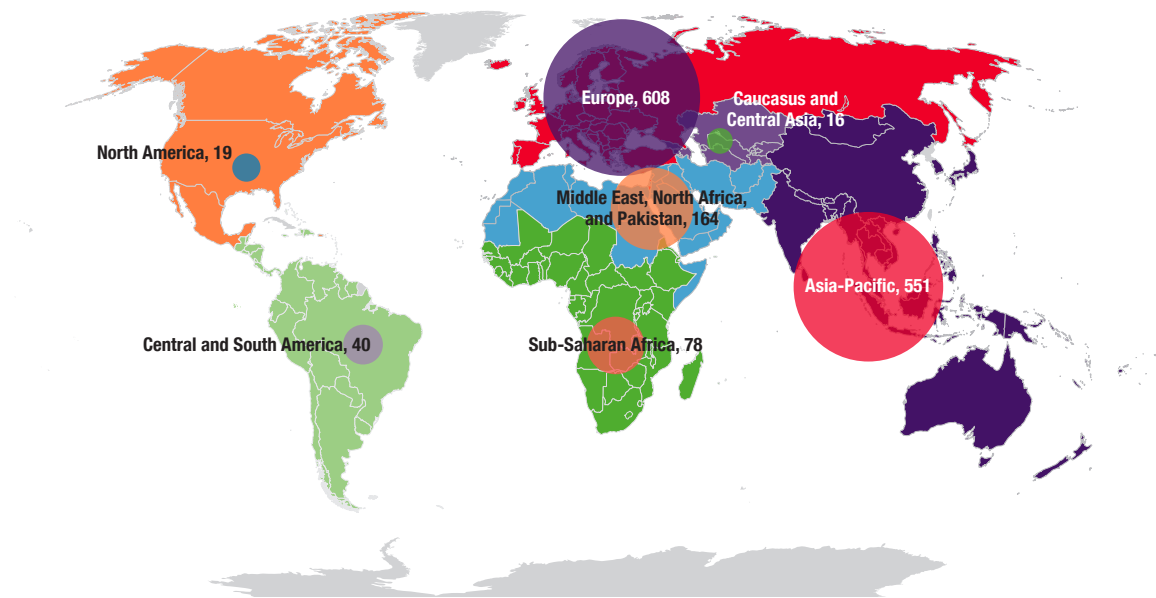
State-owned enterprises (SOEs) are a prominent economic feature of the Middle East, North Africa, and Central Asia (ME&CA) region, involved in all economic sectors. There are 164 multinational SOEs from Middle East, North Africa, and Pakistan (MENAP) and 16 multinational SOEs from the Caucasus and Central Asia (CCA)—primarily operating in the natural resource and financial sectors—bringing the ME&CA regional total to 180. This makes the ME&CA region rank third in terms of the largest multinational SOE presence globally (Figure 1).¹ However, the bulk of SOEs based in the region are not multinationals as they span all sectors of the economy, including network industries (for example, post offices, electricity companies, and transportation) as well as activities usually thought of as being better handled by the private sector, such as cement production in Tajikistan, steel mills in Pakistan, tobacco manufacturing in Tunisia, and carpets in Iraq.

Variation in the SOE footprint across countries in the ME&CA region in part reflects historical differences in their background and economic structure. Within the Middle East and North Africa (MENA) region, the SOE footprint in the Gulf Cooperation Council (GCC) countries developed from the prominent role of oil and gas sector and a desire for government ownership of strategic assets within this sector (Hertog 2010). In other countries, the SOE footprint has roots in the set of companies inherited from past colonial regimes and the policies followed in the immediate aftermath of independence (for example, Jordan, Morocco, Tunisia).² For another group, the sectoral footprint of SOEs tends to be very broad, reflecting previous socialist development models which promoted greater intervention and nationalizations of major industries (for example, Algeria, Egypt, Iraq, Syria, Yemen).

¹Based on the UNCTAD definition of SOEs with equity stakes and assets outside of the home country. See UNCTAD (2019) and IMF (2020a).

²See, for example, Saghiri (1993) and Amico (2017).

Figure 1. Multinational SOEs by Region



Sources: UNCTAD (2019); and IMF (2020a).

In the former Soviet Union, SOEs in the industrial sector were vertically integrated with only a few enterprises supplying goods (including for the military sector) for the whole country (Im, Jalali, and Saghiri 1993). Since the collapse of the Soviet Union, privatization of SOEs in former Soviet countries was part of a broader effort to transform these economies to become more market based.

The large and diverse footprint of SOEs in the region raises questions about their role and contribution to the economy.³ However, there is limited available information on SOEs in the ME&CA region as the majority of SOEs are not publicly listed companies and in general public disclosures are weak. Some information, often at an aggregated level, may be available on costs and revenues to the budget, but little is systematically known about the size of SOEs, operating performance, and the state of SOE governance in the region.

This diverse SOE landscape also raises questions about the rationales for SOEs' role in the economy and whether their objectives are being achieved. Broadly, the possible rationales for state⁴ ownership can be generally grouped into six categories (Figure 2): (1) support national economic and

³See, for example, Richmond and others (2019), IMF (2020a), and EBRD (2020).

⁴The terms “state” and “government” are used interchangeably throughout the paper.

strategic interests; (2) supply goods and services; (3) support social objectives; (4) ensure continued national ownership of enterprises; (5) perform business operations in a natural monopoly setting; and (6) create a state-owned monopoly where market regulation is deemed inefficient.⁵ In ME&CA, the historical context plays an important role in explaining the rationales. In CCA countries, many SOEs originated from the centrally planned economic period, where the government sought to exert control

over the entire economy (ADB 2020). In contrast, most MENA countries have often adopted a development model based on strong state intervention across most economic sectors, and in some cases nationalization of state assets has resulted in SOEs (OECD 2012a). Large SOEs in the hydrocarbon sector generally date to the 1970s and 1980s as these resources were nationalized.⁶

Financial interactions between SOEs and governments are often not accounted for, which also raises questions about corporate governance. Many SOEs generate large fiscal costs, requiring government support to offset operational losses, sometimes due to quasi-fiscal activities undertaken on behalf of the government.⁷ Other SOEs contribute to budget revenues, particularly in countries with large natural resource sectors, and carry out public investment on behalf of the government. All together, these fiscal interactions can produce a complex set of flows that are not always accounted for or reported. This lack of transparency also has implications for corporate governance, which should entail strong oversight frameworks and clarity surrounding policy interactions and a well-articulated ownership policy.

Figure 2. Rationale for SOE Ownership



Sources: OECD (2015a); and Richmond and others (2019).

⁵See OECD (2015a); Richmond and others (2019).

⁶See Atkinson and Stiglitz (1980), Lawson (1994), Peng and others (2016), Putnins (2015), Richmond and others (2019), Shirley and Walsh (2001), and World Bank (2014) for theoretical and general discussions on the various rationales for state ownership.

⁷Quasi-fiscal activities are government operations carried out by institutions other than the government units. Examples include directed lending by public corporations or requirements on public corporations to provide services at below-market prices. See IMF (2019a).

Most pressing, however, is the challenge facing policymakers of how to generate strong, sustainable, diversified, and inclusive growth and job creation, particularly in a post-COVID-19 environment. This will likely require reforming the SOE sector—to increase competitiveness and to determine which activities are appropriate for state involvement—to create an environment that promotes private sector activity as well as the necessary fiscal space to support the recovery, all while ensuring that social and economic development objectives are met.

Against this backdrop, the paper aims to answer seven broad questions: (1) How big is the nonfinancial footprint of SOEs in the region?; (2) How do SOEs perform?; (3) What are the fiscal implications and risks from SOEs?; (4) What are the corporate governance standards of SOEs?; (5) How has COVID-19 changed the operating environment for SOEs?; (6) What reforms have been undertaken by countries to improve their SOE sector?; and (7) What lessons can be drawn for other countries? This is the first paper to comprehensively take stock of SOEs in the ME&CA region across the dimensions of footprint and performance, fiscal impact, and governance.⁸ Answering these important questions will lay the groundwork for future research in areas such as the impact of SOEs on growth, determining the sectors of the economy it is appropriate for the state to be engaged in, how to drive SOE reforms when institutions are weak, and how SOEs affect the competitiveness of the ME&CA region.⁹

To support this work, the paper relies on two new surveys of national authorities.¹⁰ The first is a quantitative survey that measures the footprint and fiscal impact of SOEs. A second qualitative survey assesses the corporate governance and fiscal frameworks of SOEs and examines the COVID-19 impact (Figure 3). This is supplemented with additional information gathered from published documents, including authorities' budget and statistical reports, IMF technical assistance and Article IV reports, international financial institution (IFI) reports, and a survey of IMF staff. While governments can and do own a wide range of enterprises, including banks and other financial institutions, the focus of this paper is on public nonfinancial corporations, and the term SOE is used in this context.¹¹ Additionally, to facilitate

⁸The closest paper to this work is OECD (2013), which covers a list of strategic SOEs in the MENA region, does not estimate the size of the SOE sector or conduct data-driven analyses on the fiscal costs or governance of SOEs. OECD (2018a) covers some MENA countries and examines institutional arrangements. EBRD (2020) covers CCA and MENA countries where the EBRD has operations, with a focus on size of the sector and corporate governance.

⁹The paper does not examine the state-owned financial sector as the ownership, regulatory, and corporate governance structures tend to be different. This will be analyzed in a separate, future study.

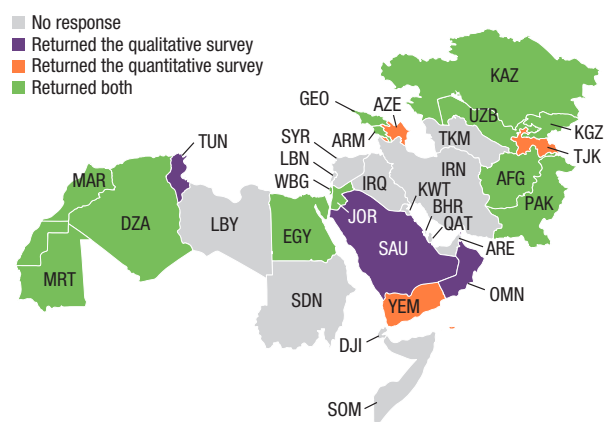
¹⁰Based on information available through March 2021.

¹¹According to the IMF's Government Finance Statistics Manual 2014 nonfinancial corporations are corporations whose principal activity is the production of market goods or nonfinancial services, whereas financial

cross-country comparison, a threshold of state ownership (direct or indirect) was set at 50 percent or higher, with a focus on central government ownership.¹² However, given that countries often do not apply an SOE definition consistent with this definition and may collect information only on a subset of SOEs, the data results should be viewed as an illustration of a conservative lower bound.

The remainder of the paper is organized as follows. Chapter 2 presents stylized facts about the SOE footprint and operating performance in the ME&CA region, relying on a survey of country authorities and other publicly available data. Chapter 3 examines fiscal frameworks and fiscal risks arising from SOEs. Chapter 4 presents the results of the survey on SOE corporate governance, presents case studies, and discusses issues surrounding competitive neutrality. Chapter 5 looks at the impact of COVID-19 on SOEs, based on survey responses. Chapter 6 provides lessons and key policy recommendations.

Figure 3. Authorities Survey Responses



Sources: National country authorities; and IMF staff calculations.

corporations are corporations that are principally engaged in providing financial services to other institutional units. Throughout the paper the focus is on commercially oriented SOEs.

¹²The survey definition considered SOEs to be nonfinancial companies with at least 50 percent direct or indirect state ownership (central government), excluding health and institutions and education institutions. Countries also have SOEs at the subnational (local) government level, particularly in the areas of water and sanitation. Health and educational institutions were excluded as they should be classified inside general government according to the IMF Government Finance Statistics Manual 2014.

This page intentionally left blank

SOE Footprint and Performance

SOEs are a perennial feature of economies across the globe, used for a range of purposes, including to correct market failures, develop new sectors, or for macroeconomic stabilization. The size and role of SOEs has waxed and waned over time. Their prominence increased during the 20th century until the 1980s, after which privatization gained worldwide momentum and many countries transitioned to market economies (including after the Soviet Union's collapse) (IMF 2020a). The trend over the first two decades of the 21st century is less clear, with accelerated privatization in some countries and expansion of SOEs in others. The activities of some SOEs have become increasingly multinational in nature, with SOEs accounting for 20 percent of the assets of the world's largest firms in 2018 (IMF 2020a). Studies show that SOEs remain an important part of the global economic landscape and operate in almost every country in the world. Some countries have thousands of SOEs (for example, China, Germany, Italy), and in some they are among the largest corporations (for example, France, Italy, Norway). SOEs also comprise one-third or more of the largest firms in several large emerging market economies (for example, China, India, Indonesia, Malaysia, Russia) (Kowalski and others 2013; IMF 2020a). At the same time, most studies find that SOEs underperform private firms, with lower revenue, higher costs per employee, and lower productivity due to resource misallocation. This is regardless of whether looking at the largest global firms, regionally, or within a country.¹

This situation is no different for the ME&CA region, which is home to some of the largest multinational SOEs (Azerbaijan, Saudi Arabia, United Arab Emirates),² as well as smaller SOEs operating across most sectors of the economy. This chapter presents an overview of the SOE footprint and per-

¹See, for example, Dewenter and Malatesta (2001), EC (2016), Wang and Shailer (2018), Richmond and others (2019), Benkovskis and Richmond (forthcoming), or Jurzyk and Ruane (2021).

²See IMF 2020a; UNCTAD 2019.

formance in the ME&CA region based on a quantitative survey of country authorities and other publicly available reports.³

Previous Findings

Previous studies have found that SOEs in the ME&CA region tend to be more concentrated in the hydrocarbons, services, and industrial sectors (Amico 2017). The sectoral footprint of SOEs has, however, varied across time and countries, in part reflecting changes in development models pursued by countries. In some countries, SOEs initially focused on strategic sectors, for example the oil sector in the GCC countries (OECD 2013). More recently, the GCC countries have expanded the scope of SOEs beyond the oil sector and some have very large multinational SOEs (Hertog 2010; Amico 2017; IMF 2020a). In other countries, SOEs were initially established both in strategic and non-strategic sectors (for example, Egypt, Iraq, Kazakhstan, Uzbekistan), partly as a result of a more socialist-oriented development model pursued by these countries (OECD 2012a). However, SOEs continue to play a sizeable role. In particular SOEs in the MENA region have been estimated to account for between 20 to 50 percent of value added and 30 percent of employment (OECD 2012a).⁴

However, the existing literature suggests SOE performance in the ME&CA region has been weak and subject to limited scrutiny. State ownership is often associated with weak oversight, limited competition, political interference, and soft-budget constraints which can negatively affect performance (Hertog 2010, Ter-Minassian 2017, Arezki and others 2020). The lack of regular, comprehensive reporting on the financial performance of SOEs in the region is well documented (OECD 2019), which hinders effective supervision of SOEs. SOEs often operate as monopolies or are subject to limited competition. In Central Asia, for example, previous work has highlighted how SOEs often operate on an uneven playing field relative to the private sector which can stifle competition and innovation (OECD 2018c). Studies in the ME&CA region which have analyzed financial performance, albeit with limited data, suggest that losses emanating from the SOE sector can be sizeable. For example, a study of four MENA countries (Egypt, Iraq, Morocco, and Tunisia) found that in the aggregate SOEs amassed sizeable annual losses, with the share of total losses ranging between 0.6 percent and 6 percent of GDP (World Bank 2015). While a more recent assessment of Tunisia found

³See Annex 2 for details on the quantitative survey and other information sources.

⁴The analysis was, in part, based on a 2008 survey of MENA countries undertaken by the OECD and the Hawkamah Institute for Corporate Governance. A speech by Nadal (2010) provides more details on the survey. Specifically, 12 MENA countries were surveyed, of which five initially responded. The survey responses were combined with additional secondary data from other countries.

that operating losses in the 30 largest SOEs have been growing and capital has been eroded (IMF 2021a, Box 2).

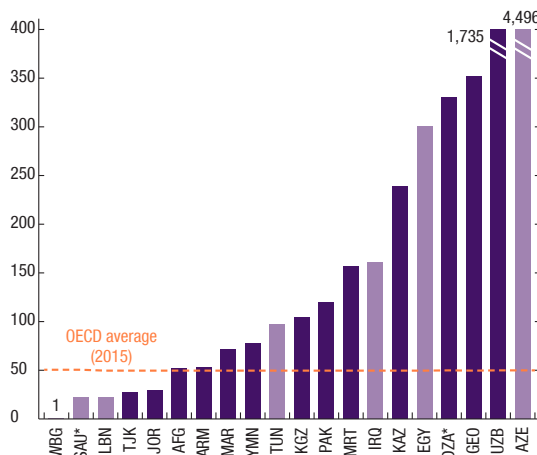
SOE Prevalence

The footprint of SOEs is very heterogeneous across countries in the ME&CA region.⁵ The number of SOEs in each country varies from just one in West Bank and Gaza to more than 4,000 in Azerbaijan (Figure 4), which in most cases is larger than the OECD average (51 SOEs).⁶ However, this comparison is

complicated as there is no commonly accepted definition of an SOE (Box 1). Countries in the CCA region tend to have a larger SOE footprint than in the MENAP region based on the number of SOEs. This regional difference is explained by a historically large role of public sector involvement in the economy during the Soviet period. And, although, after independence, the role of the state declined in most CCA countries during their transition toward a market-oriented economy (Kazakhstan, Kyrgyz Republic), it has been slower than in other former command economies.

The total assets of SOEs provide further information on the scale of the SOE sector (Figure 5, panel 1).⁷ A number of countries have very large SOE sectors, with total assets exceeding 100 percent of GDP (Kazakhstan, Morocco, Uzbekistan). It is also often the case that total assets are concentrated in just a few very large SOEs (Figure 5, panel 2). For example, in several countries

Figure 4. Number of SOEs
(2019 or latest available)



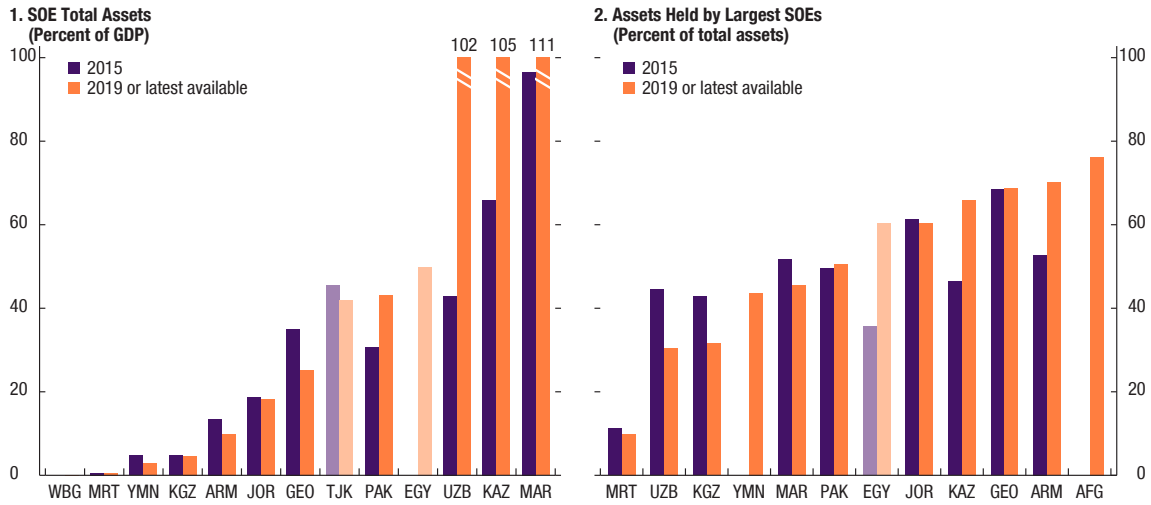
Sources: OECD (2015a); national country authorities; and IMF staff calculations. Note: Light-colored bars show data from alternative data sources (see Annex Table 2.1). Saudi Arabia reporting is limited to the portfolio of entities under the remit of the reporting institution and therefore cannot be considered wholly representative of the national SOE portfolio. Number of SOEs in Algeria is representative of SOEs with 90–100 percent government ownership.

⁵See Annexes 1 and 2 for details regarding the definition of SOE followed by each country as well as the survey of country authorities and additional data sources used. For this analysis a threshold value for state ownership of 50 percent or more and excluding the health and education sectors, state-owned banks, and sovereign wealth funds was applied to provide a consistent definition across countries.

⁶The footprint presented in this chapter should be viewed as a conservative estimate, or a lower bound, since it explicitly excludes SOEs at the subnational government level and sets a minimum ownership threshold of 50 percent. Details on the OECD definition are in Annex 2, Table 2.1.

⁷Note that valuations tend to reflect book value, not market value. Due to infrequent audits, this information is not always updated. See Chapter 4 for a discussion on the need for timely and independent financial audits.

Figure 5. SOE Assets



Sources: National country authorities; and IMF staff calculations.
 Note: Light-colored bars show data from alternative data sources (see Annex Table 2.1). Data for Yemen are 2010 and 2014, respectively. For panel 2, data for Egypt do not include Economic Authorities, and correspond to the coverage indicated in the definition (see Annex Table 1.1). Two companies are in the electricity sector, and one in the construction sector.

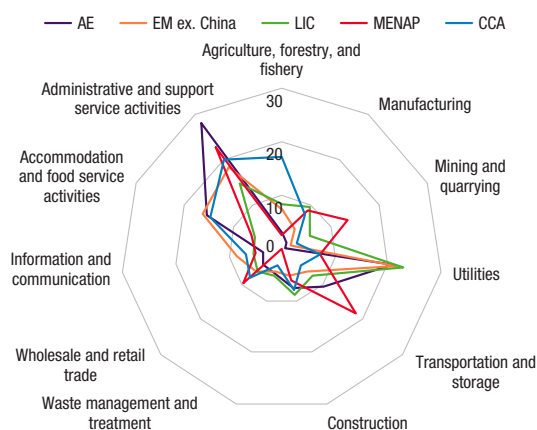
the assets of the largest three SOEs account for more than half of total SOE assets (Armenia, Georgia, Jordan).

SOE Footprint Across Sectors

Historically, SOEs have played a central role in sectors usually dominated by natural monopolies, such as the provision of gas and electricity, water supply, waste management, or transportation (network sectors). Global data suggest that SOEs are most represented in administrative and support service activities and utilities in all regions, including the CCA and MENAP regions (Figure 6). SOEs in the MENAP region are more prominent in the transportation and storage, and mining and quarrying sectors than other regions, while SOEs in the CCA have a larger presence in agriculture and forestry. Furthermore, for the countries which provided sectoral information in the survey, SOEs tend to play a particularly large role in natural monopoly sectors. For example, in Armenia, SOEs account for more than 30 percent of value added in the electricity sector, while in Algeria and Yemen SOEs account for 100 percent and almost 70 percent of value added in the water sector, respectively (Figure 7).

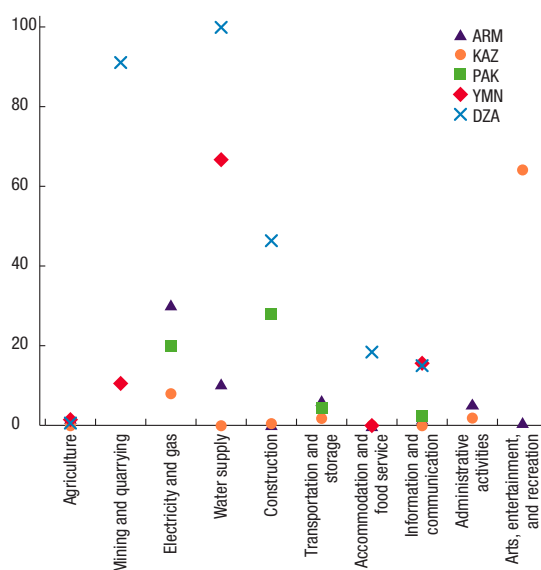
In many countries SOEs are prevalent in a wide range of sectors, including those normally run by the private sector. For example, there are more than 100 SOEs in Tunisia, of which 55 are in areas that would ideally be run

Figure 6. Sectoral Distribution of SOEs
(Percent of SOEs)¹



Sources: Orbis Bureau Van Dijk Database; and IMF staff calculations.
 Note: AE = advanced economies; CCA = Caucasus and Central Asia; EM = emerging market economies; LIC = low-income countries; MENAP = Middle East, North Africa, Afghanistan, and Pakistan.
¹SOEs refers to definition used in the paper (see Annex Table 1.1). Turkmenistan is excluded due to limited data availability. The data presented is reflective of the SOEs data available in the data source and not data provided in the country authorities survey.

Figure 7. SOE Contribution to Economic Activity
(Share of sectoral value added)

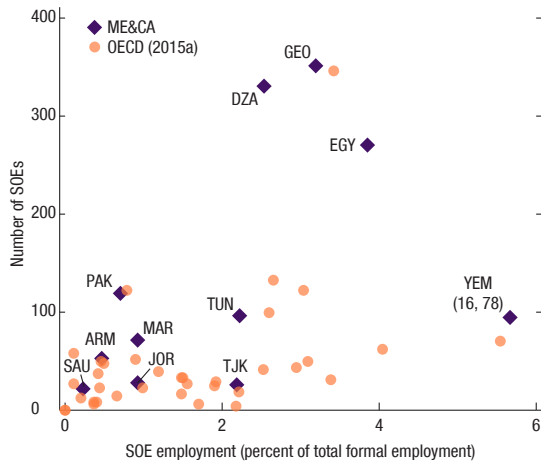


Sources: National country authorities; and IMF staff calculations.
 Note: Information and communication data for Algeria also include value added from the transportation sector.

by the private sector. They are present across the spectrum of the economy from manufacturing of tobacco to the production and distribution of electricity; in Algeria SOEs are involved in the leather and textiles industries; in Iraq they are involved in the production of furniture, carpets, textiles, shoes, dairy products, and soap; and in Lebanon SOEs operate in the communication sector (television station, telecom landlines, and mobile carriers). SOEs often have a monopoly position. In Turkmenistan, the SOE sector is also wide-reaching, as SOEs are responsible for executing most public sector investments. SOEs also play a large role in Djibouti’s economy (including utilities, transport, and logistics sectors) and in some cases, they operate as monopolies (for example in telecommunications where they are one of only six countries globally with this monopoly setup,⁸ water and sanitation, or electricity distribution sectors) (World Bank 2018). The biggest SOEs in the Kyrgyz Republic remain in strategic and economically important sectors, including energy, mining, and transport and have large capital needs and infrastructure requirements (World Bank 2020b).

⁸Djibouti Telecom is a large company, with revenue accounting for up to 7 percent of GDP (World Bank 2018).

Figure 8. SOE Employment vs. Number of SOEs
(2019 or latest available)



Sources: OECD (2015a); national country authorities; and IMF staff calculations.
Note: Saudi Arabia reporting is limited to the portfolio of entities under the remit of the reporting institution and therefore cannot be considered wholly representative of the national SOE portfolio. Number of SOEs in Algeria is representative of SOEs with 90–100 percent government ownership.

Employment

While the number of SOEs and their assets are very large in some ME&CA countries, their share of employment appears to be relatively low and concentrated in the largest SOEs (Figure 8). Except in Yemen, where SOE employment is about 17 percent of total employment, SOEs in the region account for less than 4 percent of total employment. SOEs in Armenia, Jordan, and Pakistan account for a much lower share of total employment at under 1 percent. These results, based on survey responses, might be explained by a narrower definition of SOEs and limited data coverage or capital intensity of the industries, while other research in this area suggests a larger share of SOE employment (OECD 2012a).⁹ Moreover, at the individual SOE level, there can be significant over-employment (or problems of ghost workers) where employment is often granted based on political connections and not on qualifications.¹⁰

Similar to SOE assets, a few very large SOEs often account for a significant share of total SOE employment (Figure 9, panel 1). For example, while Georgia has more than 350 SOEs, the three largest SOEs (in terms of employment) account for more than 40 percent of total SOE employment. Similarly, the largest SOEs in Armenia, Mauritania, Morocco, Tajikistan, and Tunisia account for more than 35 percent of SOE employment. In part, this could reflect data availability constraints and limited reporting by small SOEs. In Pakistan, the majority of SOE employment is in gas and electricity sector (Figure 9, panel 2). SOE employment in mining and quarrying sector is significant in Tajikistan.

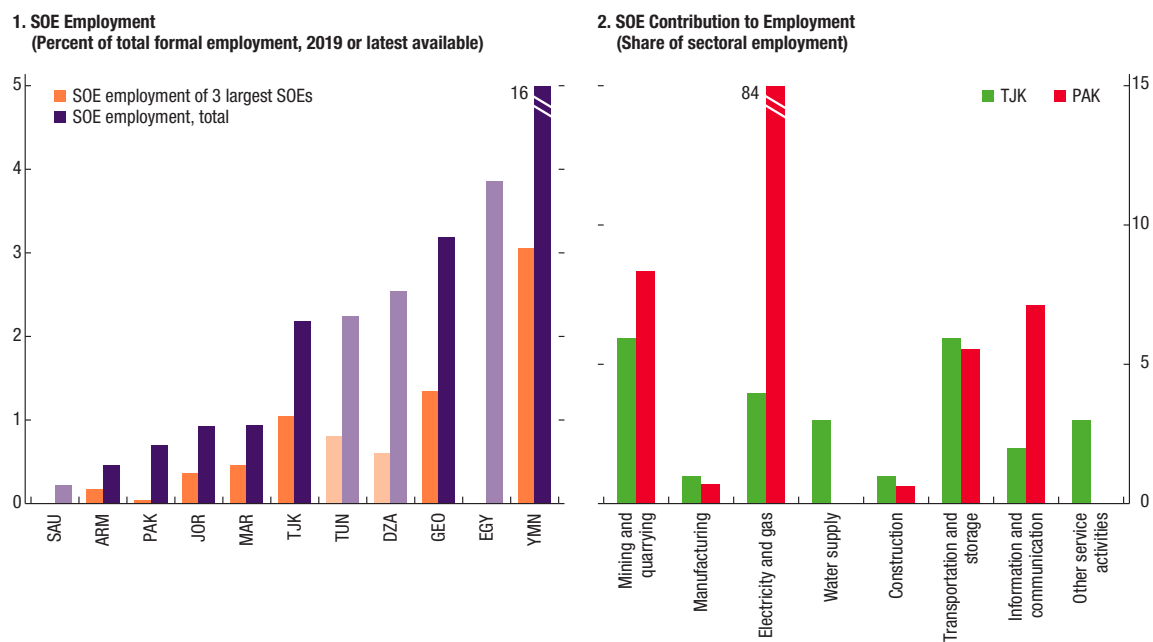
Financial Performance

Research reveals that profitability is often lower in SOEs than in comparable private sector companies. This lower SOE profitability may reflect the cost of public mandates—for example, providing services at below-cost prices

⁹Based on a survey of industrial establishments conducted by the authorities, the share of SOE employment in the industrial sector is estimated at 55–80 percent, depending on the definition of SOE used (Central Statistical Organization, Ministry of Planning, Government of Iraq 2019).

¹⁰See, for example World Bank (2015); Prabowo, Hooghiemstra, and Van Veen-Dirks (2018).

Figure 9. SOE Employment



Sources: National country authorities; and IMF staff calculations.

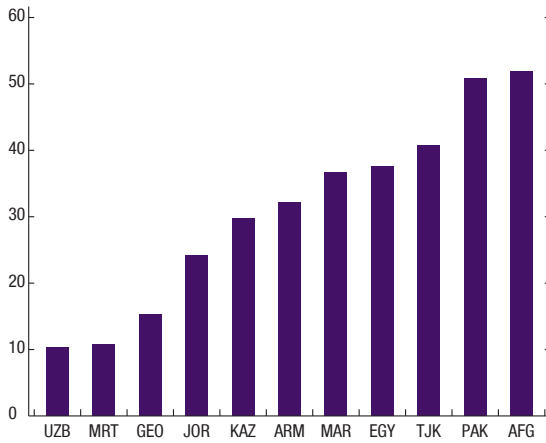
Note: Light-colored bars show data from alternative data sources (see Annex Table 2.1). Saudi Arabia reporting is limited to the portfolio of entities under the remit of the reporting institution and therefore cannot be considered wholly representative of the national SOE portfolio. Number of SOEs in Algeria is representative of SOEs with 90–100 percent government ownership.

to underserved communities or universal service, promoting employment beyond what is efficient for the firm at significant wage premiums—or other factors (Richmond and others 2019; IMF 2020a). Our analysis suggests that SOEs in the ME&CA region have large revenue (as percent of GDP), but weak operating performance, with more than 30 percent of SOEs operating at a loss and reliant on government support in at least seven countries in the region (Figure 10). The fiscal impact and risks from loss-making SOEs are discussed in Chapter 3.

While Figure 11 suggests healthy profitability of the overall SOE sector in some countries, many individual SOEs are in a poor financial position.¹¹ For example, partial data covering Tunisia's 30 largest SOEs in 2019 shows that their debt was in excess of 20 percent of GDP, two-thirds were loss-making with their capital rapidly declining, and half were insolvent (IMF 2021a; Box 2). Moreover, three of the largest SOEs in Tunisia (national fuel, electricity, and grain companies) had negative (equity) capital at almost 5 percent of

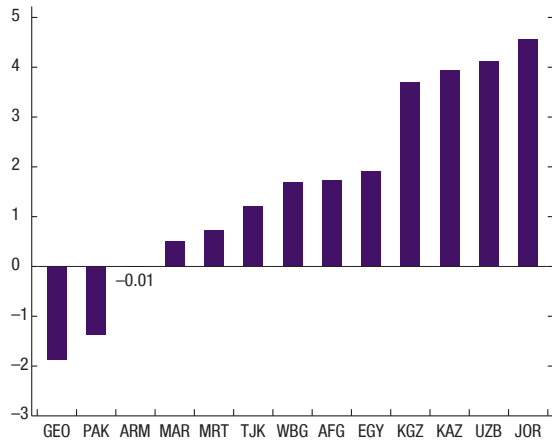
¹¹Note that the financial performance of SOEs may be skewed by government support (direct and indirect), uncompetitive business environment, or monopolistic behavior, etc. See Chapter 3 for a discussion on government support and Chapter 4 for a discussion on competitive neutrality and the business environment.

Figure 10. SOEs Operating at a Loss
(Percent of total SOEs, 2019 or latest)



Sources: National country authorities; and IMF staff calculations.

Figure 11. Average Return on Assets
(Percent, 2019 or latest)



Sources: National country authorities; and IMF staff calculations.

GDP (IMF 2021a). Similarly, in Egypt, 107 out of the 278 SOEs considered in this study and for which data are reported incurred losses in FY 2018/19, and in Pakistan a large share of SOEs are loss-making (Box 3). SOE performance is also a concern in the Kyrgyz Republic due to low profitability and growing debt and expenses. Specifically, the energy sector is a burden on the budget as tariffs do not cover production costs (World Bank 2020b).

Detailed data on the financial performance of SOEs in the region are, however, limited, partly due to weak, often decentralized, oversight of SOEs, despite existing legal provisions in some countries. For example, the Direction du Portefeuille de l'Etat at the Ministry of Finance in Djibouti was created to monitor SOE performance, but it does not have direct access to SOEs' financial statements and must request them from the Ministry of Budget. It also lacks human resources to consolidate SOEs' information and monitor their financial performance (IMF 2019b). SOE surveillance in Tunisia is also scattered across various government entities. Whereas monitoring of SOE performance has improved recently in Egypt, with the publication of reports providing detailed financial information on SOEs and economic authorities.¹² IMF technical assistance has also helped some countries in the region to take stock of the SOE sector and improve data coverage (Box 4).

¹²There is no specific law currently mandating the publication of these documents in Egypt.

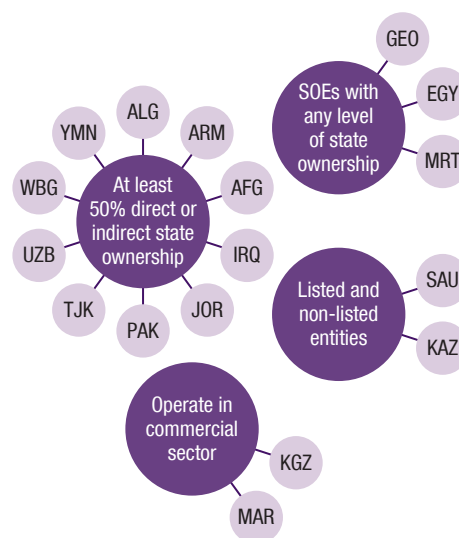
Box 1. Defining SOEs

There is no commonly accepted definition of what constitutes a SOE. While definitions vary, they tend to share some key features (see IMF 2020a). Definitions usually specify that (1) SOEs are individual entities; (2) they are controlled by a government unit to some extent; and (3) they are market producers, providing goods to the market at economically significant prices. Typically, however, they stop short of providing a precise threshold of government ownership. For example, the European Commission (2016) defines SOEs as “those nonfinancial companies where the state exercises control, regardless of the size of ownership”. Similarly, the IMF 2014 Government Finance Statistics Manual and OECD (2015b) do not provide a threshold that determines government ownership.

Across the ME&CA region, countries define SOEs differently. There is no standard definition of an SOE. To facilitate cross-country comparisons, the survey suggested the following definition of SOEs: “nonfinancial companies with at least 50 percent direct or indirect state ownership (central government), excluding health institutions and education institutions. A number of countries used this definition; however, respondents also had the option to provide their own definition (Box Figure 1.1, for details see Annex 1).

Most responses used the common definition provided in the survey. More than 50 percent of the respondents used the survey definition. Within the alternative definitions provided by respondents, the state ownership share ranged from 25 to 100 percent. Some countries relied on legal rulings, not numerical ownership thresholds, for SOE classification. Georgia provided an alternative definition, which has a less stringent threshold for state ownership, capturing every SOE of the central government (as defined in the Registry of SOEs) and municipal enterprises that meet certain criteria, including state ownership of more than 25 percent. Kazakhstan, Kyrgyz Republic, Mauritania, Morocco, and Uzbekistan also used their own definitions (Annex Table 1.1). In addition, country reports that supplemented the analysis relied on various definitions, often much narrower than specified above (details in Annex Table 2.1).

Box Figure 1.1. Definition of SOEs used by Countries in the Survey



Sources: National country authorities; and IMF country teams.
Note: The groups are not mutually exclusive. See Annex Table 1.1 for further details on SOEs definitions.

Box 1. Defining SOEs (*continued*)

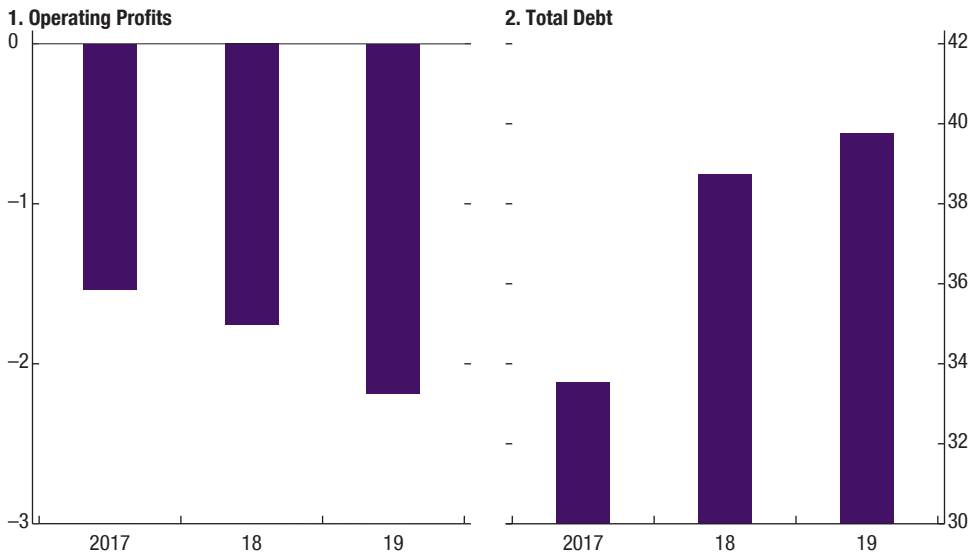
Various SOE definitions would present a very different footprint. The lack of a common definition of SOEs makes cross-country analyses challenging, as the SOE sector looks very different, should some parameters, such as the percentage of government ownership or the level of government, change. In particular, SOEs outside the central government could be very sizable and the inclusion of subnational government level increases the size of the sector significantly. While choosing the broadest definition might seem like a natural choice to have the most comprehensive picture of the SOE sector, the lack of data in most countries poses limitations.

Box 2. Financial Performance of SOEs in Tunisia

SOEs are prevalent across a broad range of sectors in Tunisia and play a significant role in the economy.¹ In 2019, there were 110 SOEs, half of which were considered commercial, operating in the energy, transport, media, and agricultural sectors, among others.² As of 2014 (the most recently available figure), SOEs accounted for 9.5 percent of GDP.³

The financial performance of the largest SOEs has deteriorated in recent years. Financial data for the largest 30 SOEs⁴ indicate declining profitability between 2017 and 2019 (Box Figure 2.1). More than two-thirds of these SOEs reported a loss in 2019 and in aggregate terms, they recorded an operating loss of over 2 percent of GDP.⁵ Total capital of these SOEs has declined from more than 8 percent of GDP in 2017 to only 0.7 percent of GDP in 2019.

Box Figure 2.1. Financial Performance of 30 Largest Tunisian SOEs
(Percent of GDP)



Sources: Tunisian authorities (LdF 2021); and IMF staff calculations.

¹This box is based on IMF (2021a).

²Of these 110 SOEs, 13 SOEs are in the health, education, or financial or quasi-financial sectors.

³République Tunisienne (2018).

⁴Of these 30 SOEs, six are in the health, financial, or quasi-financial sectors.

⁵The net loss was slightly lower than 2 percent of GDP.

Box 2. Financial Performance of SOEs in Tunisia (*continued*)

SOEs are also heavily indebted, with large arrears and cross-arrears. The total debt of the largest SOEs has increased (Box Figure 2.1, panel 1), reaching in excess of 20 percent of GDP in 2019. Arrears to the state were 5.5 percent of GDP in mid-2020, while state arrears to SOEs were 7.9 percent of GDP.

Several factors could explain the weak performance of these SOEs. Profits may be constrained by an inability to freely set prices to cover costs. In addition, SOEs are used to hire for social-political purposes and average wages at the 30 largest SOEs are 50 percent higher than average wages in the civil service. High debt and large arrears and cross-arrears may distort the investment and management decisions.

Box 3. Footprint and Performance of SOEs in Pakistan

A comprehensive report published by the Ministry of Finance in 2021 provides a snapshot of the federal-level SOE landscape as of end-FY 2018/19. In total, there are 213 federal-level SOEs operating in various economic sectors, made up of 85 commercial SOEs, 44 noncommercial SOEs (trusts, universities, training institutions, and welfare funds), and 84 subsidiaries of commercial SOEs. This is a larger number than reported in this chapter, which focuses on nonfinancial companies excluding education and health institutions (per this definition, there are 120 federal-level SOEs in Pakistan). Out of the 213 SOEs total, 85 commercial SOEs (which includes 18 financial SOEs) are the focus of the government report.

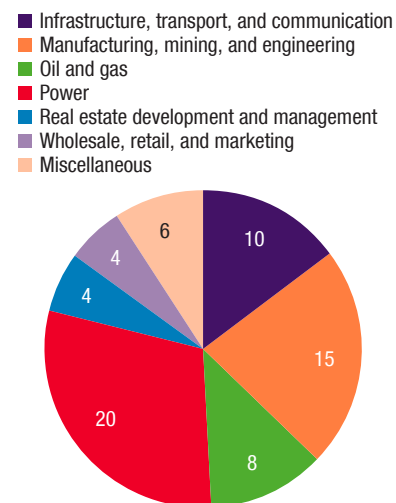
The SOE footprint in the power and oil and gas sectors is particularly large. Out of 67 nonfinancial commercial SOEs, 28 are in the power or oil and gas sectors, while 15 are in the manufacturing sector (Box Figure 3.1).¹ Previous analysis also shows that the total assets of SOEs are significant, consistent with the survey results presented in this chapter, and are heavily concentrated in the energy and transportation sectors.² However, despite holding sizeable assets, SOEs share of employment is relatively low. Total SOE employment, including financial SOEs, accounted for only about 0.8 percent of the formal workforce in FY 2018/19.

The overall revenues of all commercial SOEs in FY 2018/19 were about PRs 4 trillion (10 percent of GDP), with total assets of about PRs 19 trillion (50 percent of GDP). Despite their important role in the economy, financial performance of many SOEs is weak, with one-third of them consistently generating losses (NHA, power sector distribution companies (DISCOs), Pakistan Railways, and Pakistan International Airlines that owns the Roosevelt Hotel in New York and the Scribe Hotel in Paris are among the major ones). Commercial SOEs recorded losses of PRs 118 billion in FY 2018/19. Box Figure 3.2 illustrates performance of the SOE sector over the past few years, suggesting large persistent losses since FY 2015/16.

¹18 financial sector SOEs are explicitly excluded for the purposes of our analysis.

²See Ministry of Finance Implementation and Economic Reforms Unit “SOE Federal Footprint 2016–17.”

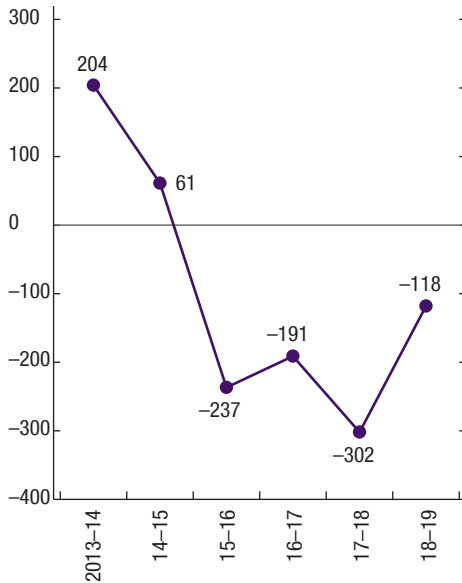
Box Figure 3.1. Portfolio of Non-Financial Commercial SOEs, FY 2018/19
(Number of SOEs)



Source: Finance Division, Government of Pakistan (2021).

Box 3. Footprint and Performance of SOEs in Pakistan (continued)

**Box Figure 3.2. SOEs Net Profit/Loss
FY 2013/14–2018/19**
(PRs. billions)



Source: Finance Division, Government of Pakistan (2021).

Privatization has slowed down over the past decade, with only 5 transactions taking place versus 167 transactions completed during 1991–2010.³ The authorities have recently undertaken a comprehensive exercise to examine SOEs based on their functions and financial performance to identify those to be (1) retained under state ownership; (2) restructured; and (3) privatized. The reform process to improve performance of the SOE sector includes an active engagement with the IMF and World Bank. The authorities are planning to establish a Central Monitoring Unit with a central database and analysis of all the SOEs.

³Government of Pakistan, Completed Transactions.

Box 4. IMF Technical Assistance

The IMF Statistics Department (STA) technical assistance (TA) helps countries in the ME&CA region take stock of the SOE sector and improve the classification and recording of SOEs. Since 2010, STA has fielded more than 70 TA missions to ME&CA countries on government finance or public sector debt statistics, including sustained engagement in the CCA region financed by the Swiss State Secretariat for Economic Affairs (SECO)-funded project during 2017–19. Delineation of the public sector and classification of SOEs have been a core part of this TA. Armenia and Georgia have greatly benefitted from TA that conducted a sectorization exercise to identify whether SOEs should be inside or outside of the general government sector. In Georgia, the exercise covered 241 entities and made the country the first one in the Central Asia and Eastern Europe region to successfully carry out such a comprehensive sectorization of SOEs. In Uzbekistan, TA has helped to fill gaps in the coverage of government operations, including through reviewing the government’s inventory of public corporations and identifying those for inclusion in the government sector. Recent TA in Tunisia has focused on compiling debt and other data for 22 SOEs for 2016–19, as well as training the officials on the conceptual framework and use of an SOE data compilation file to translate accounting data from financial statements into government finance statistics in an integrated manner.

Another closely linked TA workstream of STA has focused on institutional sector accounts, an integrated framework to assess the interrelationship between the real and financial sectors, and between the government sector and the rest of the economy. The institutional sector accounts allow for the delineation of corporations into “public sector” and “private sector,” thus making it possible to compile accounts for the public sector by aggregating the public corporations with the government sector. Since many ME&CA countries only have nascent compilation systems for institutional sector accounts, TA programs have focused on establishing development plans, and identifying and integrating existing data sources, including data for cross border statistics, monetary statistics, and government finance statistics as well as administrative data. During the past five years, much of the TA in sector accounts to the ME&CA region has been delivered through Middle East Regional Technical Assistance Center (METAC) to MENA countries. During 2018–20, METAC provided TA to Tunisia to develop sectoral financial accounts and balance sheets. It also started a project in 2019 to help Egypt compile sector accounts and balance sheets, which is expected to continue through FY 2022/23. Initial efforts were also made to assist Lebanon in this area, and there are plans to work on sector accounts and balance sheets in West Bank and Gaza, starting in 2021.

Prepared by Thomas Alexander, Clement Ncuti, Phil Stokoe, and Zaijin Zhan (all STA).

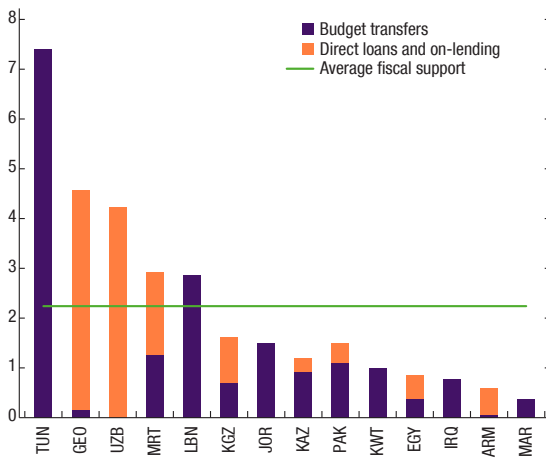
This page intentionally left blank

The Fiscal Impact and Risks from SOEs

SOEs' performance and the realization of fiscal risks from SOEs can significantly affect public finances. The IMF *April 2020 Fiscal Monitor* finds that governments have provided significant support to SOEs and that SOE debt and other obligations to the private sector in joint projects can pose a risk to public finances (IMF 2020a). The IMF has also formulated a policy framework for the financial oversight of public corporations and proposed criteria to assess their economic and social viability (Allen and Alves 2016).

An in-depth analysis of the interactions among governments and their SOEs in the ME&CA region is challenging due to the lack of systematically collected data within and across countries. The fiscal impact of SOEs is not well measured and analyzed across countries, as few SOEs publish their annual financial statements, and even when they do, such financial data are not systematically collected. Despite these constraints, a few studies have provided useful insights on SOEs in a subset of ME&CA countries. For example, a World Bank study on governance reform of SOEs in the MENA region presents four country studies (Egypt, Iraq, Morocco, and Tunisia) and finds that while SOEs are often a drain on public resources, the state uses multiple ways to keep SOEs afloat (World Bank 2015). Quasi-fiscal activities undertaken by select SOEs in MENA are analyzed and, in some cases, costed, in a report done by the OECD (OECD 2013). Several countries (Armenia, Tunisia, and Uzbekistan) have also conducted fiscal transparency evaluations which help reveal the footprint and fiscal risks of their SOE sectors (IMF 2016, 2019c, 2019d).

Figure 12. Direct Fiscal Support to SOEs
(Percent of GDP, 2019)



Sources: National country authorities; IMF country desks; and IMF staff calculations.

A Large Fiscal Impact Across the Region

Governments in the region provide significant fiscal support to SOEs through different means (Figure 12).¹ Direct fiscal support was about 2.2 percent of GDP on average, and reaching above 7 percent of GDP in 2019, in Tunisia, largely to compensate SOEs for below-market pricing. Given that ME&CA countries spend on average 3 percent of GDP on health and 3.5 percent of GDP on education, support to SOEs may reduce fiscal space for other priority spending. In several countries (Kazakhstan, Kuwait, Lebanon, Pakistan, and Tunisia) direct support takes the form of explicit subsidies or transfers.² Governments also inject equity to support or bailout SOEs

for the purpose of restructuring or lowering debt ratios or to resolve arrears. For example, equity injections into Georgia's SOEs were about 1.8 percent of GDP during 2017–18. Direct loans and on-lending are another major way governments lend support to SOEs, as in Georgia, Mauritania, and Uzbekistan.³

Some SOEs, particularly in the energy sector, are also an important source of government revenue.⁴ In oil-exporting countries across the region, SOEs have contributed more than 20 percent of general government revenue in recent years (Figure 13, panel 1). In Algeria and Qatar, about half of the government revenue has been paid by the national oil companies over the past decade, and this share is even higher for Kuwait and Saudi Arabia (Figure 13,

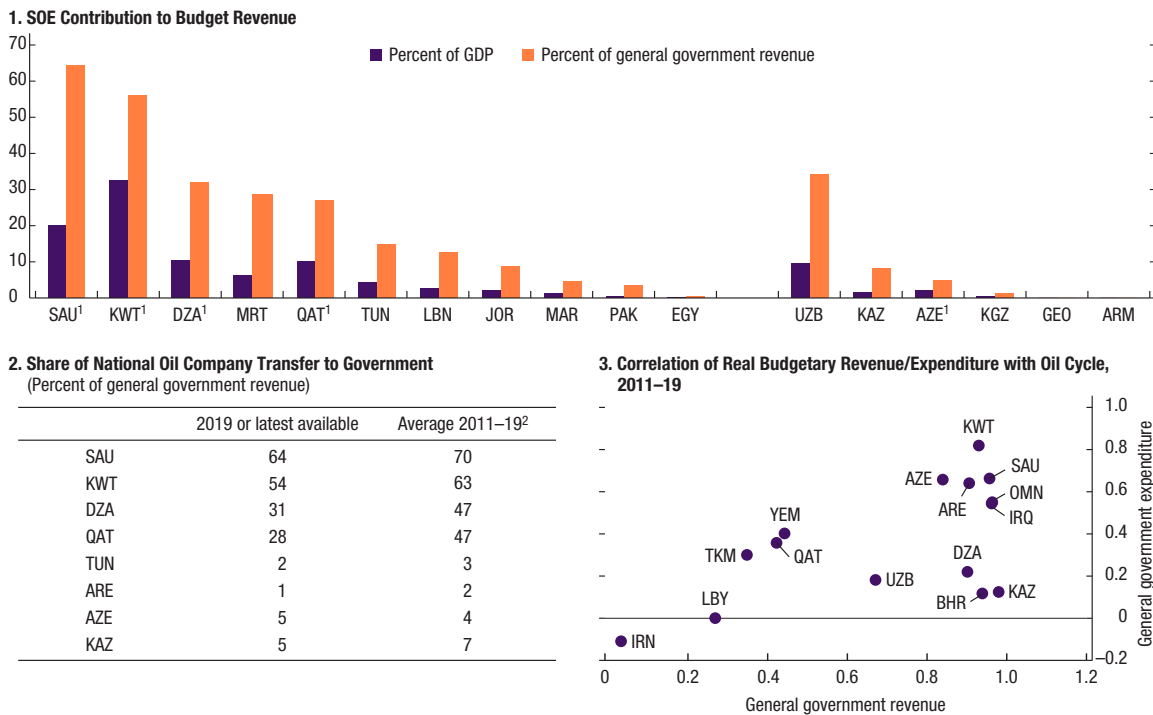
¹See Annexes 5 and 6 for information on the data sources and survey questions, respectively, used in this chapter.

²Countries also support SOEs through earmarked revenues, such as Morocco which provided 0.4 percent of GDP to SOEs through earmarked taxes in 2019.

³Direct loans and cash advances to SOEs are provided directly by the government, while through on-lending, the government borrows from a financial institution on behalf of an SOE and repays this debt using SOEs' funding. These forms of financial support are granted either when SOEs cannot access financing, especially foreign currency financing, or when the cost of financing is too high. Such direct or on-lent loans are usually classified below the line as financing operations; however, when there are limited prospects that the receiving SOEs will be able to repay or to generate a profit, these loans should be recorded above the line as part of expenditure, which worsens the deficit.

⁴The revenue contribution by SOEs in the energy sector, especially the oil and gas sector, is a reflection of governments' choice of taxing the oil rent. Governments can achieve similar revenue collection objective by implementing an income/rent tax, or production sharing with private companies.

Figure 13. Revenue Impact of SOEs on the Government Budget
(2019 or latest available)

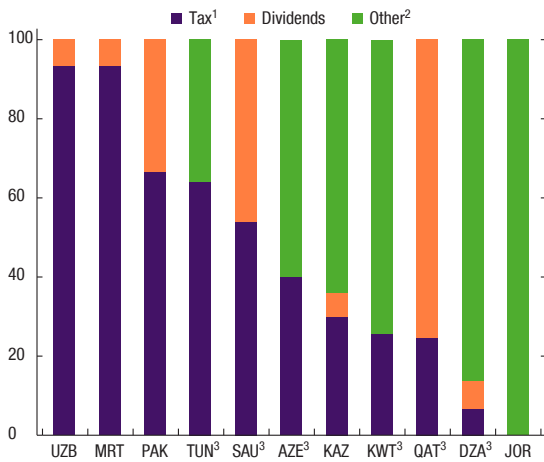


Sources: Government Finance Statistics; World Economic Outlook; Natural Resource Governance Institute; national country authorities; and IMF staff calculations.
 Note: In panel 3, the figure plots correlation between annual changes in oil price (simple average of Brent, WTI, and Dubai) and changes in real general government revenue (horizontal axis)/expenditure (vertical axis). Government revenue and expenditure are deflated by consumer price indices.
¹Includes only transfers by the national oil companies to the budget.
²Excluding missing values.

panel 2); in Iraq more than 80 percent of budget revenues are oil export proceeds transferred from the largest oil SOE, State Organization for Marketing of Oil, as well as transfers from other profitable SOEs in the oil sector. With a few exceptions (Armenia, Egypt, and Georgia) where SOEs contribute less than 1 percent of government revenue, non-oil SOEs also contribute significantly to the budget. A few examples include tobacco companies in Tunisia, the phosphate mining SOE in Morocco (Office Chérifien des Phosphates), and the public telecommunication operator in Lebanon.

Governments collect revenues from SOEs mainly via direct taxes and dividends (Figure 14). More than half of budget revenues from SOEs are paid in the form of taxes in Mauritania, Pakistan, Saudi Arabia, Tunisia, and Uzbekistan. Pakistan, Qatar, and Saudi Arabia have also reported significant dividend payments in recent years, with dividends representing up to 80 percent of SOE payments to government in Qatar in 2018 (see Annex 3 for accounting treatment). SOEs also make payments to the budget in other forms, such

Figure 14. Composition of SOE Payments to Government
(Percent of total SOE payment, 2019 or latest available)



Sources: National country authorities; Natural Resource Governance Institute; and IMF staff calculations.

¹Includes royalties.

²Includes export duties, and fees and other payments to government.

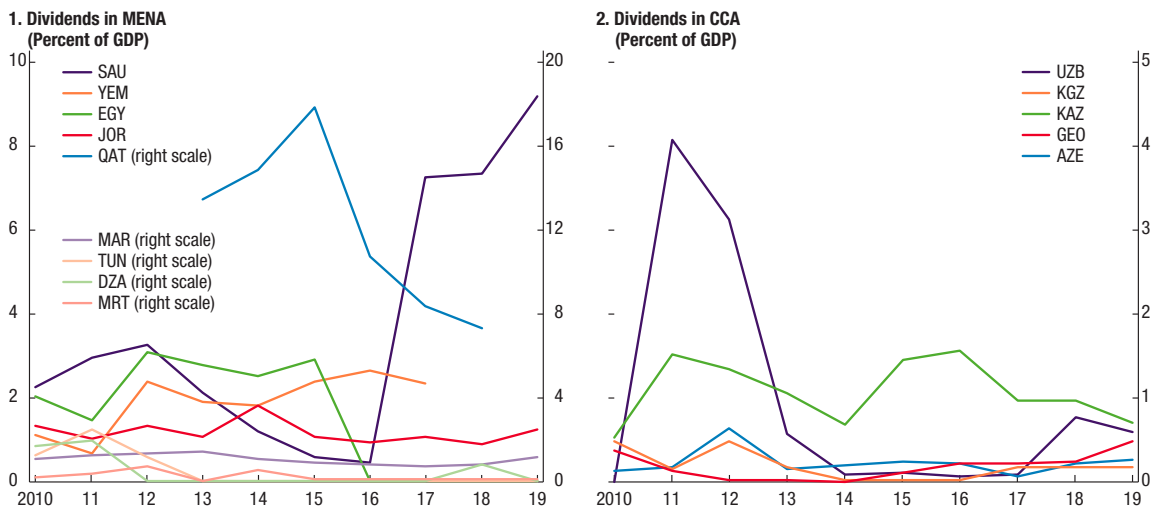
³Includes only transfers by the national oil companies to the budget.

as an oil export duty in Kazakhstan, or fees on sales of goods and services in Jordan.

Revenues from SOEs could introduce significant volatility into public finances. This is most pronounced in oil-exporting countries, as total government revenue remains highly synchronized with the oil and gas price cycles, largely due to payments made by state-owned or private oil companies, and often results in government expenditure being highly correlated with oil prices (Figure 13 panel 3). Dividends paid by SOEs also display significant volatility, with several countries having experienced a large surge, such as Uzbekistan during 2011–12 and Qatar during 2013–15, which turned out to be temporary (Figure 15). This volatility also exists in oil importers, although less pronounced, given the relative size of SOE revenues. For instance, during the COVID-19

crisis, Pakistan reported government revenue shortfalls due to lower revenue from the SOE sector, while SOEs in Kazakhstan have temporarily increased dividends paid to the government to help finance emerging spending needs.

Figure 15. Dividends Paid by SOEs to the Budget, 2010–19



Sources: Government Finance Statistics; World Economic Outlook; Natural Resource Governance Institute; national country authorities; and IMF staff calculations.

Complex Fiscal Interactions

In principle, SOEs performing market activities should operate without government support and contribute to the government budget. Many oil companies in the region are highly profitable, not reliant on budget support, and contribute immensely significantly to government revenues each year. In addition, governments could increase revenues from SOEs by improving the return on their SOE assets (IMF 2018). However, across the region, there are also many unprofitable—and even lossmaking—SOEs (see Chapter 2) that require continuous fiscal support. Many SOEs have an unprofitable business model and end up being a permanent drag on the budget. Their underperformance and inefficient use of resources directly impact public finances because of forgone revenues and fiscal costs needed to support continued operations, crowding out much needed pro-growth and social spending.

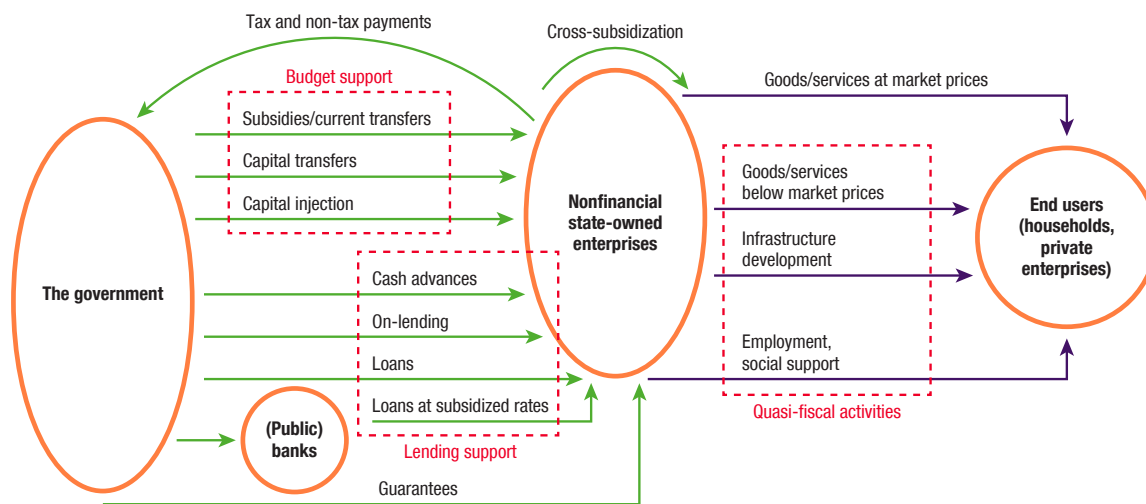
Fiscal interactions with SOEs are difficult to capture, given the middleman role they play when undertaking activities on behalf of the government. Figure 16 shows the stylized fiscal interactions and identifies the main financial flows linking the government, SOEs, and end users.⁵ Most countries in the region depend on SOEs to provide essential goods and services, infrastructure development and employment opportunities (see Chapter 4). To ensure universal access, public services are often provided by SOEs at regulated prices set below cost recovery, requiring the government to compensate SOEs for the resulted losses. For example, in the energy sector, SOEs incur losses if governments do not ensure the full pass-through of international oil prices to consumers or if tariffs are maintained significantly below cost recovery levels. Other subsidized goods and services in the region include food items, water, heating, and public transport (railways, buses).

In many cases, SOEs are required to generate employment and facilitate income redistribution. Some governments have depended on SOEs to reduce unemployment through hiring, for instance, in Algeria, Azerbaijan, Iran, Iraq, Kazakhstan, Mauritania, Pakistan, Sudan, Tunisia, and the United Arab Emirates.⁶ In addition, SOEs are entrusted with a role to support sectors that are considered critical by the government from an economic, political, or social standpoint. For example, in Morocco, the state-owned group Office Chérifien des Phosphates has access to 70 percent of the world's phosphate reserves. It holds a large share of the world phosphate market and is one of the leading fertilizer manufacturers, thereby contributing about 20 percent of

⁵See Annex 4 for the example of Tunisia's cross-arrears of SOEs, with financial flows between the government, SOEs, and end users.

⁶Tamirisa and Duenwald (2018).

Figure 16. Illustrative Fiscal Relations



Source: IMF staff.

Morocco’s exports. In Egypt, 53 economic authorities⁷ operate in many strategic sectors, including transportation (Suez Canal Authority) and housing (New Urban Communities Authorities).

Finally, SOEs implement investment projects outside their core business. Governments may use SOEs to undertake noncommercial investment on their behalf, delegating to SOEs the responsibility of providing public investment, often without adequate compensation.⁸ Governments facing capacity constraints can also leverage the know-how of large SOEs for strategic and socially important projects. For instance, Saudi Aramco has engaged in building social infrastructure (a university and a stadium), supporting small- and medium-sized enterprises, undertaking non-oil related research, as well as contributing to the development of an industrial city.⁹ Similar arrangements have been reported by other national oil companies,¹⁰ as well as SOEs in oil-importing countries. For instance, SOEs provided 30 percent of total public investment in Jordan in 2017 and 55 percent in Morocco 2008–15,

⁷Established pursuant to a Presidential Decree, following Law No. 61 (1963), with each having their own specific regulatory framework.

⁸In Morocco and Tunisia, despite significant investment undertaken by SOEs for both commercial and noncommercial purposes, capital transfers to SOEs represented less than 20 percent of SOEs’ investment spending in 2019.

⁹Saudi Aramco received some compensation for projects undertaken on behalf of the government through reduced tax liabilities (Saudi Aramco 2019).

¹⁰National oil companies in Qatar and Kazakhstan have undertaken social infrastructure investment (see Qatar Petroleum 2020, KazMunaiGas 2020).

both of which are oil importers.¹¹ This engagement in non-core activities risks distracting SOEs from their main businesses and may undermine their efficiency.

Governments use various means to compensate SOEs for lossmaking activities. Subsidies are the main form of compensation for quasi-fiscal activities involving the provision of public services at below market prices.¹² They amounted to more than 3 percent of GDP in Lebanon and 1.5 percent of GDP in Morocco and Armenia in 2019. Support to SOEs could also be provided through the banking system (often via state-owned banks) using government guarantees or preferential credit, with governments ultimately responsible for the difference between the market interest rate and the subsidized interest rate (for example, Iraq). Furthermore, SOEs may benefit from inputs provided by other SOEs at below market prices as a means to reduce losses due to below cost recovery tariffs. In Uzbekistan, the public electricity company (Uzbekenergo) benefited from such an implicit subsidy of close to 2 percent of GDP as the electricity is generated from underpriced gas provided by the oil and gas SOE (Uzbekneftegaz).¹³

In the absence of commensurate compensation, the aforementioned activities can create complex cross-subsidies and arrears that ultimately hinder fiscal management. SOEs that are not fully compensated often face difficulties meeting their payment obligations to the government, social security funds, and other SOEs or private companies providing production inputs. Writing off SOEs' accumulated payables to improve their financial situation thus may have potentially large fiscal impacts and spillovers to the rest of the economy. In Tunisia, for example, SOEs owed more than 5.5 percent of GDP in arrears to the government in 2020, while the government owed about 7.9 percent of GDP to SOEs; and cross arrears between SOEs are estimated at about 2.5 percent of GDP.¹⁴

Fiscal Transparency

Effectively managing fiscal interactions requires transparency. For example, identifying all financial flows between the government, SOEs, and end users can significantly improve fiscal planning while ensuring that SOEs' compen-

¹¹IMF (2017b), Kingdom of Morocco Audit Court (2016).

¹²In Yemen, 80 percent of the total fiscal support is in the form of support for electricity and heating, and in Egypt more than 90 percent of the total subsidies to SOEs is paid to the electricity company.

¹³World Bank (2020).

¹⁴IMF (2021a), appendix on SOEs.

Figure 17. Survey Responses on Fiscal Transparency

	1	2	3	4	5
	Legal explicit non-commercial SOE mandate	Legal requirement to compensate for losses undertaken on behalf of government	Support to SOEs reported to parliament and public	SOEs included in public sector financial statements	SOEs included in headline fiscal indicators
AFG	Red	Green	Orange	Red	Red
DZA	Green	Green	Green	Red	Orange
EGY	Red	White	Orange	Green	Orange
JOR	Green	Green	Orange	Red	Green
MAR	Green	Green	Green	Green	Orange
MRT	Green	Green	Green	Green	Orange
OMN	Red	Red	Orange	Green	Red
PAK	Green	Green	Green	Red	Red
SAU	Green	Green	Orange	Red	White
TUN	Red	White	Green	Red	Orange
WBG	Red	White	Red	Red	White
ARM	White	Red	Red	Red	Red
GEO	Red	White	Green	Red	Orange
KGZ	Green	Red	Red	White	White
MENAP	Green	Green	Orange	Red	Orange
CCA	Orange	Red	Red	Red	Orange
ME&CA	Green	Green	Orange	Red	Orange

Sources: National country authorities; and IMF staff calculations.

Note: The figure shows survey responses by the authorities. See Appendix 6 for the survey questions. The countries are ordered alphabetically and by region, in Figures 17 and 19. Positive answers are represented in green, negative answers in red, and the answer in between in orange (that is, in column 3, orange would correspond to the following answer: "Yes, support to SOEs is reported to parliament, but the information is not public"). White or blank denotes missing response. Medians are used for regional groupings, with a score of 1 for green, 0.5 for orange, and 0 for red. Egypt survey responses cover only a subset of SOEs.

sation is adequately costed.¹⁵ It also helps governments make the case for tariff reform, by making explicit the actual costs of subsidized services.

Survey responses by the authorities indicate the ME&CA region faces several transparency shortcomings (Figure 17).¹⁶

- Less than half of the survey respondents indicate that their legislation requires an explicit definition of noncommercial mandate for individual SOEs (Figure 17, column 1).
- Very few countries have a legal requirement to compensate SOEs for any losses associated with quasi-fiscal activities (Figure 17, column 2).
- Only seven countries inform Parliament of government support to SOEs and publish this information (green cells); five countries only inform

¹⁵For more details on methods to estimate and report the costs of quasi-fiscal activities, see Allen and Alves (2016).

¹⁶A discussion on transparency related to fiscal risks is discussed in the next section.

Parliament (yellow cells); and four countries do neither (red cells) (Figure 17, column 3). Furthermore, the 2019 Open Budget Survey shows that 14 countries in the region do not present information on quasi-fiscal activities in budgetary documents and four countries present only partial information. In this aspect, Morocco's annual report on SOEs and budget annex on subsidies provide an example of the best practice in the ME&CA region and could be emulated in many other countries where transparency is limited (see Box 5). As recommended by the IMF's Fiscal Transparency Code governments should regularly publish comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.¹⁷

- Only four countries (Egypt, Mauritania, Morocco, Oman) include SOEs in public sector financial statements (Figure 17, column 4).
- The majority of countries does not consolidate SOEs into fiscal reports or fiscal indicators (Figure 17, column 5). Doing so could reduce incentives to bypass the government budget constraint and improve fiscal planning. Jordan already includes the Water Authority of Jordan and National Electric Power Company (NEPCO) in the government fiscal deficit and public debt statistics since 2018, while Georgia and Oman incorporate SOEs debt into public debt.

Fiscal Risk Management Framework

In addition to their direct fiscal impact, SOEs create risks for public finances.¹⁸ This is because SOEs' finances can, and often do, have adverse repercussions on government finances. When they materialize, these risks can entail substantial fiscal costs, weakening public finances and complicating fiscal management. Governments can face risks from SOEs recurring losses, under investment, and/or excessive borrowing. Ultimately, the government bails out SOEs through transfers, equity injections and, in the more extreme cases, by assuming or restructuring their debt.

Fiscal risks can arise from governments' explicit commitment to support SOEs (Table 1). This gives rise to balance sheet and operational risks. First, governments may provide loans to SOEs that create an explicit fiscal risk in the case where SOEs cannot meet their debt payments. In the Kyrgyz

¹⁷The advanced transparency practice calls for all direct and indirect support between the government and public corporations is disclosed and, based on a published ownership policy, a report on the overall financial performance of the public corporations sector, including estimates of any quasi-fiscal activities undertaken, is published on at least an annual basis. See IMF (2019a).

¹⁸Beyond fiscal cost implications, risks from SOEs can impact the overall economy if they lead to excessive external borrowing and become a drag on the country's official reserves or spillover to the banking sector. See Baum and others (2020) for some fiscal risks impacts on revenue, expenditure, and net financial position.

Table 1. Fiscal Risks from SOEs

Explicit Fiscal Risks	Implicit Fiscal Risks
Lower dividends or tax receipts from SOEs	SOEs' arrears, debt assumptions
Higher budget transfers	Political risks
Debt guarantees	Commodity prices' shock
On-lending and loan subsidies	Insolvency (bail out)
Equity injections (undercapitalized SOE)	Exchange rate risk from SOEs' external debt
Infrastructure projects (PPAs and PPPs)	Legal dispute

Source: IMF staff.

Republic, for example, the stock of budget loans to SOEs amounted to almost 20 percent of GDP in 2018, and the government restructured SOE debt worth 1.4 percent of GDP during 2015–18.¹⁹ Second, many governments across the region guarantee SOEs' debt, including external debt, with five countries reporting guarantees above 10 percent of GDP (Figure 18). Governments may have to service this debt in case SOEs fail to do so. Third, on-lending operations generate explicit fiscal risks, as the government directly borrows on behalf of SOEs and is responsible for servicing this debt, which SOEs should finance. Government on-lending to SOEs could be sizable, such as in Uzbekistan where it reached 13 percent of GDP in 2017.²⁰ In Tajikistan, on-lending to the energy company Barki Tojik (equivalent to 17 percent of GDP) is mostly serviced by the government.²¹ In Afghanistan, government on-lending of almost 2 percent of GDP to the electricity SOE (Da Afghanistan Breshna Sherkat) creates a large fiscal risk given that the company has experienced operational losses for several consecutive years.²² Fourth, subsidized loans often provided by state-owned banks to SOEs might also constitute significant fiscal risks due to government debt assumptions in case of default. In Algeria, IMF staff estimates that government guarantees mostly benefiting SOEs' rose from 3 percent of GDP in 2005 to 19 percent of GDP in 2020 amid a decline in oil revenue and continued spending pressures for social transfers and investment.²³

Governments may substitute fiscal costs with fiscal risks from SOEs, often generating implicit fiscal risks (Table 1). To lower the deficit or debt, governments may transfer large costs to SOEs as they are generally not consolidated in these fiscal accounts, thereby replacing fiscal costs with fiscal risks. For instance, in Tunisia, the government recruitment policy following the Jasmine Revolution was partly assumed by SOEs to reduce fiscal costs. Another example are public-private partnerships signed by SOEs, where the government provides a minimum revenue guarantee or a payment guarantee

¹⁹World Bank (2020b).

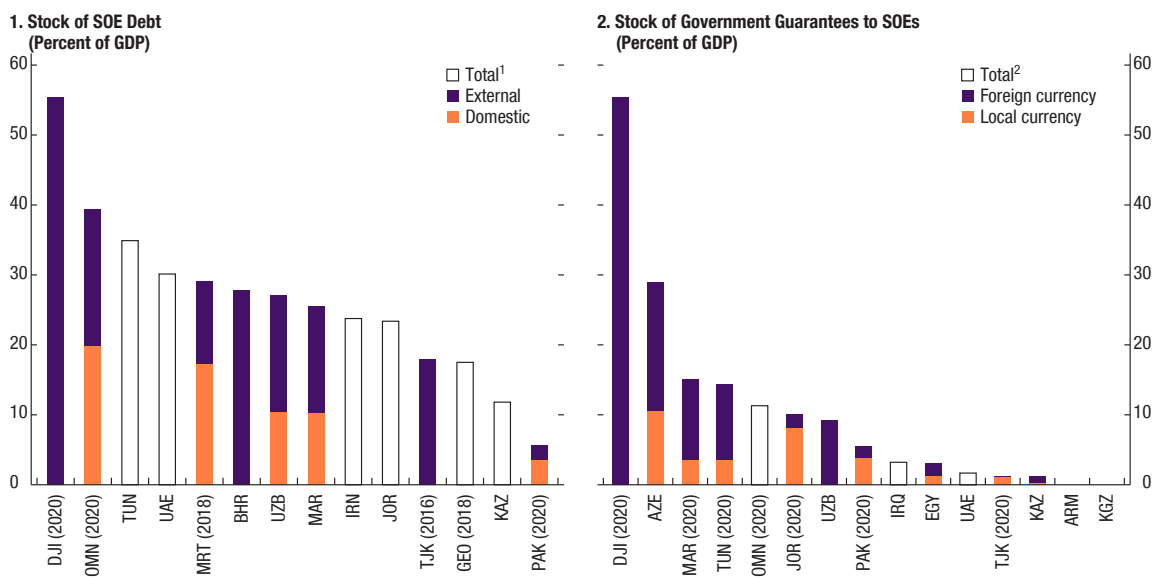
²⁰IMF (2019d).

²¹Menlasheva and Sobolev (2019).

²²IMF (2021c).

²³IMF (2017a).

Figure 18. SOEs' Debt and Government Debt Guarantees to SOEs (2019)



Sources: National country authorities; and IMF staff calculations.
 Note: The total amount of Egypt's guaranteed debt is around 14.8 percent of GDP at end-FY2019/20, including Economic Authorities, which are not included in the SOE coverage for Egypt in this paper.
¹The breakdown between external and domestic debt is not available.
²The breakdown between foreign currency and local currency denomination is not available.

to the private partner. In Georgia, the total value of the payment guarantees provided through power purchase agreements is estimated at 19 percent of GDP, which the government would have to service in case the electricity SOE defaults on its payment.²⁴ The government may also have to provide compensation in case of early termination or a force majeure event.

Other implicit fiscal risks may arise from the perception that the government will bail out financially distressed SOEs. Government ownership often generates fiscal risks as governments may be required to inject capital to cover losses incurred by SOEs or face valuation risk when divesting SOEs at prices lower than expected. More broadly, there is often a general perception that the government will bail out distressed SOEs as the economic, political, and social impact of liquidation would be too large. In Jordan, the electricity SOE NEPCO had accumulated losses of 16 percent of GDP as of end-2019, exceeding the limit of 75 percent of the paid-in capital that would require the liquidation of the concerned company according to the Jordanian company law, absent of capital increase.²⁵ For NEPCO to continue operating, the government provided extensive support through loan guarantees (7.6 percent of

²⁴Ministry of Finance of Georgia (2019).
²⁵National Electric Power Company, Jordan (2019).

GDP) and Treasury advances (8 percent of GDP).²⁶ Governments may also be exposed to risks when SOEs with large external debt incur difficulties in making repayments. In 2015, the National Fund of the Republic of Kazakhstan (part of the general government) transferred 1.8 percent of GDP to cover the external debt payment of the national oil company KazMunaiGas due to the SOE's shortages of foreign currency. Legal disputes can also generate fiscal risks to the government if an SOE required to compensate a plaintiff is unable to honor the litigation settlement without government support.

Establishing a strong risk management framework within SOEs is the first line of defense against fiscal risks. As in private companies, SOEs should put in place an internal risk management system, which empowers the Board to address risks (see Chapter 4). This would greatly help limit the exposure to and occurrence of risks that may require the government to intervene. Some countries such as Azerbaijan and Kazakhstan have created holding companies to manage their SOEs' portfolios, which bring both opportunities and challenges for limiting fiscal risks (see Box 6).²⁷

Improving fiscal risks management requires strengthening the legal and institutional framework, as well as building capacity within the Ministry of Finance to assess and monitor SOEs. This requires regularly collecting timely and reliable reporting from SOEs and identifying fiscal risks from SOEs, while gradually improving the fiscal risk management framework. Some countries have started to put in place some of the building blocks for better management of fiscal risks from SOEs, supported by IMF technical assistance (see Box 7).

An effective legal framework empowers the government to assess, measure, and monitor fiscal risks from SOEs. This allows the Ministry of Finance to enforce its fiscal and financial oversight powers over SOEs. In this area, most survey respondent countries in the region have already adopted a legal framework for fiscal risks, and SOEs are generally integrated into the overall risk management framework (Figure 19, columns 1 and 2).

Typically, a centralized fiscal risk assessment function would be located in the Ministry of Finance. This is because the Ministry of Finance has a consolidated view of public finances across sectors and can integrate risks from SOEs into fiscal policy planning. However, to be effective, adequate resources

²⁶IMF (2021d).

²⁷Kazakhstan's holding company Samruk Kazyna has been managing a large portfolio of SOEs for the central government since its creation in 2008. In late 2020, Azerbaijan set up a holding ("Azerbaijan Investment Holding") and transferred a number of SOEs to its management (Republic of Azerbaijan 2020). In contrast, a recently concluded sectorization exercise in Georgia recommends that the holding "Partnership Fund" be included within the general government as it does not operate as an independent institutional unit but rather mainly acts on behalf of the government (IMF 2020b).

need to be allocated and capacity building will be required over time. Armenia created a Fiscal Risk Assessment Division in 2016,²⁸ and Tajikistan instituted a Fiscal Risks Coordination Council for the management of SOE fiscal risks in 2019.

Identifying the main fiscal risks—both explicit and implicit—is critical for assessing government exposure to SOEs’ operations. The survey results indicate that most countries in the region have already estimated some fiscal risks from SOEs (Figure 19, column 3) but so far, the focus has primarily been on explicit risks. To support this analysis, the IMF has developed a framework for assessing the financial soundness of SOEs, through key indicators reflecting SOEs’ profitability, solvency, and liquidity.²⁹ It recommends that initially the largest fiscal risks generated by SOEs should be analyzed and then quantified, starting with SOEs that are macro-critical or benefiting from significant government guarantees. In the medium term, scenario analysis and sensitivity analysis could be developed to determine how government payments and receipts vary with changes in the assumptions.

There is scope to improve transparency on fiscal risks from SOEs. The majority of ME&CA countries neither prepare nor publish a fiscal risk statement incorporating SOEs (Figure 19, column 7). CCA countries are more advanced in this area, for instance Armenia, where budget documents present an assessment of fiscal risks related to 20 major corporations (both public and private) in the energy, transport, and water sectors³⁰ and Georgia, where the government publishes a fiscal risk report (see Box 8 for the Georgian experience). Publishing information and data would help raise awareness, both for policymakers and the general public, and build investor confidence. Countries should take a gradual approach that could span over several years and aim at aligning with principles defined in the IMF Fiscal Transparency Code, that is, publishing regular summary reports on risks to their fiscal prospects, including risks related to SOEs. Governments could start by publishing qualitative information on key risks in the budget document, before moving to a comprehensive fiscal risks statement.

In addition to assessing and reporting fiscal risks from SOEs, measures to mitigate and provision these risks are needed. Governments in the ME&CA region have used various risk mitigation strategies. Algeria, Morocco, Oman, and Saudi Arabia report setting guidelines on SOEs’ financing and investment plans, such as borrowing limits or ceilings on foreign exchange exposure (Figure 19, columns 4 and 5). Additionally, most countries report using a more stringent approach where the government can veto SOEs’ borrowing

²⁸IMF (2019c).

²⁹IMF Fiscal Affairs Department’s State-Owned Enterprise Health Check Tool (forthcoming).

³⁰IMF (2019c).

Figure 19. Survey Responses on Fiscal Risk Management Framework

	1	2	3	4	5	6	7
	Law on fiscal risk assessment	SOEs integrated in fiscal risk management framework	Fiscal risks from SOEs quantified	Guidelines on SOE financing and investment plans	Limits on government exposure to SOEs	Veto power on SOE borrowing and asset changes	Published fiscal risk statement
AFG	Green	Green	Green	Red	Green	Green	Red
DZA	Green	Green	Green	Green	Green	Green	Red
EGY	Green	Green	Green	Red	Red	Green	Red
JOR	Green	Green	White	Red	Red	Green	Red
MAR	Green	Green	Green	Green	Green	Green	Red
MRT	Green	Green	Red	Red	Red	Red	Red
OMN	Green	Green	Red	Green	Red	Green	Red
PAK	Green	Red	Green	Red	Green	Red	Green
SAU	Green	Green	Green	Green	Green	Green	Red
TUN	Green	Green	White	Red	Green	Red	Red
WBG	Red	Red	Red	Red	Red	Red	Red
ARM	Orange	Green	Green	Red	Red	Green	Green
GEO	Green	Green	Green	Red	Green	Red	Green
KGZ	Green	Green	Green	Green	Green	Green	Green
MENAP	Green	Green	Green	Red	Green	Green	Red
CCA	Green	Green	Green	Red	Orange	Green	Green
ME&CA	Green	Green	Green	Red	Green	Green	Red

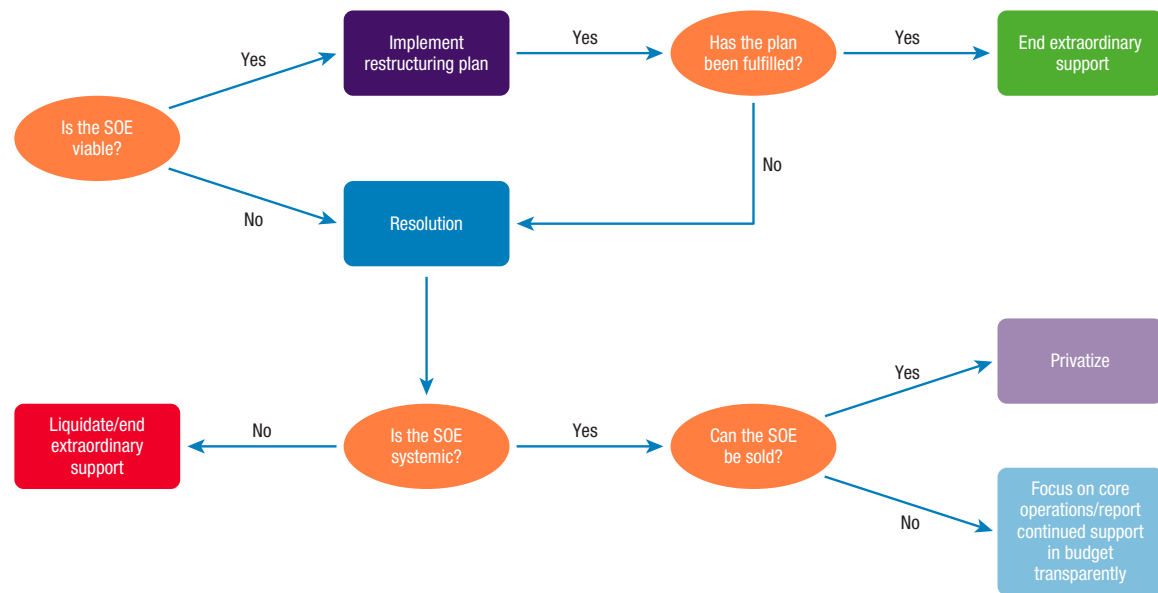
Sources: National country authorities; and IMF staff calculations.
 Note: The figure shows survey responses by the authorities. See Appendix 6 for the survey questions. Egypt survey responses cover only a subset of SOEs.

and sale of assets (Figure 19, column 6). Some countries impose ceilings on aggregate lending or guarantees to the SOE sector, which would be approved by parliament in the context of the budget process. For instance, the budget law in Tunisia puts a cap on annual issuance of debt guarantees to SOEs (6.3 percent of GDP in 2020)³¹ and SOEs are required to pay fees for guarantees provided; however, this has not been implemented in practice. At the same time, SOEs still require the government to bear residual risks, regardless of the government’s risk management framework. As a result, building budget buffers and contingencies in anticipation of fiscal risk realization is prudent. Armenia and Tunisia have budget contingencies, but such funds are often used to finance other outlays. Morocco plans to establish a special budget fund that would be used to manage the government’s transaction in financial assets with SOEs, for example, the capital injection expected to generate a realistic rate of return.

Lastly, if circumstances demanded, a framework for determining when to provide support to distressed SOEs would help countries manage fiscal risks.

³¹However, this ceiling has not proven sufficiently binding as the government increased it several times since 2016 (IMF 2021a), appendix on SOEs.

Figure 20. Government Decision to Provide Support to SOEs



Source: IMF staff.

This framework should not be a one size fits all and should be implemented flexibly, considering each country’s and each SOE’s specific circumstances. Such a framework could guide policymakers and lead to decisions that minimize taxpayer cost and social impact as well as improve economic outcomes (Figure 20).³² To begin with, it would be important to determine if the SOE needing support is solvent. If so, then the authorities and SOE should agree on a business plan which, if implemented, should lead to the end of extraordinary financial support. If the SOE is not viable, but is systemic or strategic, the authorities should seek to refocus on core activities (this may require restructuring and/or additional capital) and find private buyers for non-core parts of the company. If the SOE is not systemic, the government should seek to privatize the SOE and if unsuccessful, liquidate the company. In applying this framework, governments should set clear targets on SOEs to ensure their accountability. For example, as part of Egypt’s reform and development of its SOEs the authorities have placed the companies into three groups: (i) those suffering increasing losses, debt accumulation, and declining productivity; (ii) companies with adequate profitability; and (iii) companies with profitability below expectations. As a next step the authorities will formulate company-specific strategies to improve performance.

³²See Richmond and others (2019) for a discussion on the so-called triage exercise of SOEs.

Box 5. Morocco Fiscal Reporting on SOEs

Morocco has published a comprehensive report on the SOE sector in the Annex of its annual budget law since 1998. SOEs are supervised by the Directorate of Public Corporations and Privatization in the Ministry of Economy, Finance and Public Administration Reform, which benefits from a strong institutional position and implements good practices, including the publication of an annual report on SOEs on its website since 2010.

The SOE report provides a consolidated view of SOEs' financial performance and fiscal interactions with the central government. It analyzes the size and composition of central government's portfolio of SOEs and estimates their main economic and financial indicators on a consolidated basis. It also provides a detailed analysis of government support to SOEs and their contribution to the budget and discusses the main public investment projects that SOEs carry out on behalf of the government. It analyzes the main financial and performance indicators for both market and nonmarket SOEs for each sector. The report also identifies the main sources of fiscal risks, though risks are not systematically estimated and assessed. Finally, the report takes stock of ongoing SOE sector reforms and identifies reform priorities going forward.

Sources: Royaume du Maroc (2019); and IMF staff.

Box 6. Kazakhstan: The Holding Company Experience

Kazakhstan has entrusted its holding company Samruk Kazyna with a significant portfolio of nonfinancial SOEs. As of end-2019, Samruk Kazyna held assets equivalent to 38 percent of GDP, which generate significant revenue (15 percent of GDP, or equivalent to three-quarters of total government revenue). The holding company also has debt of 12 percent of GDP. Major SOEs in its portfolio include the oil and gas giant KazMunayGas, the uranium producer Kazatomprom, the national airline Air Astana, the electricity system operator KEGOC, the telecommunication operator Kazakhtelecom, and the postal operator Kazpost. It enjoys operational independence according to a co-operation agreement signed with the government in 2012.

Samruk Kazyna provides centralized monitoring to SOEs under its management and has contributed to good reporting and transparency. Its annual report provides a wide range of information for SOEs under its management, including key performance and financial indicators, investment plans and ongoing projects, and corporate governance practices. In terms of fiscal management, Samruk Kazyna allocates the borrowing envelope set by the Ministry of National Economy among SOEs and ensures its compliance. The centralized cash management practice within Samruk Kazyna helps diversify idiosyncratic liquidity shocks by granting loans to companies facing liquidity shortages. Samruk Kazyna also plays an important role in planning and implementing strategic investment projects for its SOEs and has actively participated in the government's privatization program by identifying candidate assets under its management. Moreover, Samruk Kazyna has used its own resources to implement low-profit social projects initiated by the government.

Despite its past performance, active monitoring of risks is warranted. Samruk Kazyna could face liquidity risks in servicing its debt given the volatile income streams paid by SOEs in the form of dividends and the limited diversification of revenue sources (70 percent of Samruk Kazyna's total revenue in 2019 was related to oil and gas activities). In the past, the holding company has provided loans to SOEs facing liquidity shortages using surplus resources from cash-rich SOEs. To the extent that some of these liquidity difficulties may reflect deeper structural issues of the concerned SOEs, this practice as a stand-alone support to SOEs could delay necessary remedial measures.

Sources: Social Development Foundation, Samruk Kazyna Trust (2019); and IMF staff.

Box 7. How Technical Assistance on SOEs in MENA Helps Improve Transparency and Strengthen Oversight

The IMF provides extensive TA to MENA countries on SOEs. It targets primarily the transparency and fiscal risk challenges that governments face in their oversight of SOEs, while recognizing the broader issues at stake—for example, allocative efficiency of economic resources between the private and public sectors—given their sizable economic role.

The TA is multi-faceted and includes the following: (1) reforming the legal framework of SOEs, in particular how oversight is structured and exercised by various stakeholders; (2) training of government officials in Ministries of Finance and SOEs on how to monitor the financial performance of SOEs, identify the various risks they pose to the budget—often based on tools developed by the IMF Fiscal Affairs Department—and formulate mitigation strategies; and (3) improving the coverage and quality of fiscal reporting on SOEs. In fragile states, aware of capacity limitations, the IMF Middle East Regional Technical Assistance Center (METAC) takes a pragmatic approach, favoring simple but effective reform steps such as putting together a basic inventory of SOEs (“know what you own”), clarifying the role of government ownership, and designing practical risk-based supervision matrices.

Where political commitment is strong, countries can progress toward better transparency over reasonable timeframes with METAC support. Successful examples include:

- Egypt gradually improved fiscal risk disclosure from SOEs, first in an internal report for the Minister of Finance and the cabinet, and then in a more comprehensive document to be published in 2021.
- Egypt and Tunisia now publish a report on the financial performance of SOEs.
- Afghanistan is strengthening SOEs’ oversight and has incorporated SOEs in its annual Fiscal Strategy Paper.
- Sudan has finalized an inventory of SOEs, drawing information from the company registrar.

Given weaknesses in SOEs’ financial information compilation and reporting in MENA countries, a gradual approach to strengthening financial supervision is warranted, prioritizing first SOEs with the largest fiscal risks and focusing on those risks that are most relevant for the budget—for example, a transparent process for approval of budget subsidies, debt financing, and guarantees.

Prepared by Jonas Frank and Benoit Wiest (METAC).

Box 8. Georgia's Fiscal Risks Statement

Georgia is one of the first countries in the ME&CA region to publish a detailed analysis of fiscal risks in its annual budget documentation. This Fiscal Risks Statement (FRS) presents a discussion on macroeconomic risks as well as risks from SOEs, public-private partnerships and power purchase agreements, and natural disasters. In each of these areas it identifies sources of risks and estimates the magnitude of their fiscal impact if they materialize, using scenario analysis. The FRS also estimates Georgia's consolidated public sector balance sheet, with nonfinancial SOEs' assets representing 29.1 percent of GDP in 2019 (about 20 percent of consolidated public sector assets).

This FRS provides information on the framework for managing SOEs, their footprint, and fiscal impact. It offers a unified register covering 236 SOEs, including both central government and local governments' SOEs. It discusses ongoing efforts to reclassify SOEs within the general government perimeter based on criteria defined in the IMF 2014 *Government Finance Statistics Manual*. Detailed data on fiscal support and SOEs' dividends are also provided, distinguishing budget support from loan/on-lending support. The FRS also discusses quasi-fiscal activities by SOEs and estimates their costs.

The FRS develops a risk rating system for its main SOEs and estimates contingent liabilities from SOEs. Based on solvency, profitability, and liquidity indicators, it analyzes the financial performance of 68 SOEs representing more than three-quarters of SOEs' total turnover. These are then ranked in risk categories and contingent liabilities from them are estimated. In 2018, 29 companies were considered high risk and their total liabilities amounted to 12.1 percent of GDP, of which 35 percent were from the Georgian Railways, 25 percent from the electricity system, and 17 percent from the United Water Supply Company of Georgia. The FRS provides further details on SOEs' that generate the largest fiscal risks.

Source: Ministry of Finance of Georgia (2019); and IMF staff.

This page intentionally left blank

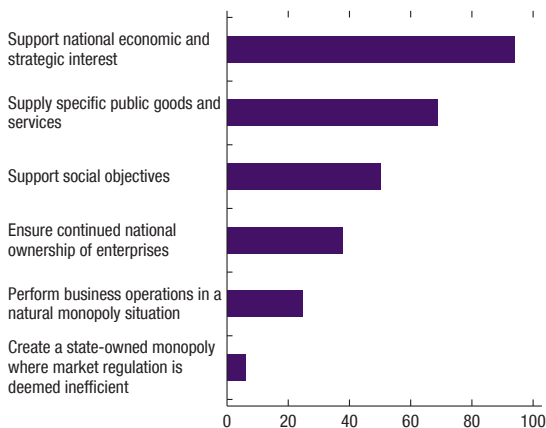
Corporate Governance

Consistent with international trends following the privatizations of the 1980s and 1990s, the ME&CA region saw an increased focus on corporate governance, propelled by a shift toward a market-based economy, the drive to attract foreign investment, and the development of the financial sector in the region (OECD 2012a, Koldertsova 2010). The need to render SOEs more transparent and accountable, while at the same time ensuring that they operate in a context of robust regulatory framework designed to ensure their efficiency and profitability, has resulted in a growing interest of policy makers in good governance of SOEs. While improved corporate governance is associated with a number of positive outcomes for both private and state-owned companies (Claessens and Yurtoglu 2012), the empirical literature on the corporate governance of SOEs remains scarce and fragmented across different disciplines. One of the reasons for the latter could be because measured corporate governance (or *de jure* standards) can differ significantly from implementation (*de facto* practices).

This chapter discusses both *de jure* and *de facto* aspects of corporate governance as well as competitive neutrality. The first section presents the results of a survey on SOE corporate governance across countries from the ME&CA region, which in line with previous literature (Richmond and others 2019), focuses on measures of stated SOE governance policies against the World Bank Corporate Governance Toolkit and OECD recommendations (World Bank 2014, OECD 2015b, Annex 7).¹ The second section illustrates the importance of corporate governance in improving SOE performance by shedding light from selected case studies from the region and discussing differences which may arise between *de jure* measures and *de facto* practices. The final section discusses barriers to a level playing field between SOEs and private enterprises and policy options to address them.

¹See Annexes 7 and 8 for details.

Figure 21. Objectives for SOE Ownership
(Percent of respondents)



Sources: National country authorities; and IMF staff calculations.

What Are Countries' Objectives for SOE Ownership?

According to the OECD, the ultimate purpose of state ownership of enterprises should be to maximize value for society, through an efficient allocation of resources (OECD 2015b). In the ME&CA region (Figure 21), the rationales for establishing or maintaining state enterprise ownership include one or more of the following for most countries: (1) supporting national economic and strategic interests—cited by nearly all countries; (2) supplying of specific public goods and services; and (3) supporting social objectives. While the specific roles for SOEs and the rationales that underpin their ownership

may differ across countries and regions, best practices usually require that governments consider and communicate the ways in which a given SOE adds public value.

De Jure SOE Corporate Governance

Ownership Policy

Best practices require that the state provide SOEs, the market, and the general public with predictability and a clear understanding of the state's overall objectives as an owner. This is because multiple and contradictory rationales for state ownership can lead to either a very passive conduct of ownership functions, or conversely result in the state's excessive intervention in matters or decisions which should be left to the enterprise and its governance organs. To do this, governments need to first know what they own, by establishing comprehensive SOE lists. Second, they should decide the rationales for state ownership and clearly communicate them to the public, and to all parts of the government that exercise ownership rights or are otherwise involved in the implementation of the state's ownership policy. Lastly, governments need to establish well-structured, merit-based and transparent board nomination processes, independent from political interference. These pillars are covered under the broad umbrella of ownership policy (Figure 22).

The coverage of SOE lists is relatively strong in the sample. Most countries report having SOE lists at the national level and also include subnational SOEs in their registers. Nonetheless, some fully lack a consolidated SOE list

Figure 22. Ownership Policy and Governance Framework

	1		2			3			4			5			6			7			8		
	SOE List		SOE Ownership			SOE Ownership			SOE Ownership			SOE Ownership			Board Members			Board Members			Board Members		
	Coverage	Consolidated	Ownership document	Centralized operational oversight	Centralized fiscal oversight	Ownership document	Centralized operational oversight	Centralized fiscal oversight	Ownership document	Centralized operational oversight	Centralized fiscal oversight	Selected centrally?	Independents required?	Competencies required?	Selected centrally?	Independents required?	Competencies required?	Selected centrally?	Independents required?	Competencies required?	Selected centrally?	Independents required?	Competencies required?
AFG	Green	Green	Orange	Light Green	Green	Orange	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
DZA	Red	Red	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Orange	Red	Red	Orange	Red	Red	Orange	Red	Red	Orange	Red
EGY	Green	Green	Green	Light Green	Green	Green	Light Green	Green	Green	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
JOR	Orange	Orange	Orange	Red	Green	Orange	Red	Green	Orange	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
MAR	Green	Orange	Green	Light Green	Green	Green	Light Green	Green	Green	Light Green	Green	Green	Green	Red	Orange	Orange	Red	Orange	Orange	Red	Orange	Orange	Red
MRT	Green	Green	Red	White	Green	Red	White	Green	Red	White	Green	Light Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
OMN	Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
PAK	Green	Orange	Orange	Light Green	Green	Orange	Light Green	Green	Orange	Light Green	Green	Orange	Light Green	Green	Orange	Light Green	Green	Orange	Light Green	Green	Orange	Light Green	Green
SAU	Green	Green	Orange	Red	Green	Orange	Red	Green	Orange	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
TUN	Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Green	Green	Red	Orange	Orange	Red	Orange	Orange	Red	Orange	Orange	Red
WBG	Red	Red	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
ARM	Green	Green	Green	Light Green	Green	Orange	Light Green	Green	Orange	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
GEO	Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Orange	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
KAZ	Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
KGZ	Green	Green	Green	Light Green	Green	Green	Light Green	Green	Green	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
UZB	Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
MENAP	Green	Light Green	Orange	Light Green	Green	Orange	Light Green	Green	Orange	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
CCA	Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
ME&CA	Green	Green	Red	Light Green	Green	Red	Light Green	Green	Red	Light Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green

Sources: National country authorities; and IMF staff calculations.

Note: The figure shows survey responses by the authorities. See Appendix 8 for the survey questions. Countries are ordered alphabetically, by region in Figures 22–24. In green are the responses that are most aligned with the associated guidelines, while in red are those that are misaligned. Orange is used to represent measures that are partly in alignment with the guidelines. Hues of these three colors are used to convey the intensity of the alignment with corporate governance guidelines. White corresponds to missing responses. Egypt survey responses cover only a subset of SOEs.

(Algeria, West Bank and Gaza), and others are missing subnational SOEs (Jordan, Morocco, Pakistan). The latter creates a gap in coverage that complicates a comprehensive assessment of economic importance, financial performance, and fiscal risks that arise from these companies.

An effective ownership policy document is not found in most ME&CA countries. The policy is often considered a pillar of a strong rationale and strategy for owning SOEs. It should, among others, define the overall rationales for state ownership, the state's role in the governance of SOEs, how the state will implement its ownership policy, and the respective roles and responsibilities of those government offices involved in its implementation. It should also be reviewed periodically with broad public participation. The lack of ownership policy documents is a significant gap in the exercise of ownership policy; only eight countries in our sample report having ownership

policy documents in place, with only four making such document publicly available (Armenia, Egypt, Kyrgyz Republic, Morocco).²

The region also lags behind best practices on the issue of centralizing ownership. Government ownership, by definition, tends to produce diffuse oversight, given the large size of the state, including the number of SOEs and diverse sectors they are involved in. Because of this, SOE management often has to report and negotiate with many parties—including regulators, sectoral ministries, treasury, presidency or ruler’s court and, where applicable, parliament or ruling party. This myriad of interests creates risks to accountability, incentive structures, and agenda setting (Vernon 1984, Lawson 1994). As a result, managers and public officials sometimes use their pivotal positions to maximize their own power, budgets, and hiring discretion. In addition, in the cases where the regulator and the owner of SOEs is the same government agency, this could lead to “regulatory capture” and endanger the principles of competitive neutrality³ (Laffont and Tirole 1991; see Section 4.5 for an in-depth discussion). Accordingly, best practice is to separate policy and ownership functions, with the ownership function centralized in a single government agency (OECD 2015b). Within the country sample, some have established both centralized operational and fiscal oversight units (Afghanistan, Algeria, Egypt, Morocco, West Bank and Gaza), while others only have one of them (Armenia, Kyrgyz Republic, Mauritania, Uzbekistan), but progress in this area remains spotty for most countries.

Many countries have gaps in their SOE board composition requirements. Good ownership functions should also include an active participation in a transparent selection of SOE boards that are both independent and qualified.⁴ However, independence and competency requirements for SOE boards in the ME&CA sample are lacking.⁵ About three-quarters of the countries in the sample have in place explicit competency, experience, and skill requirements for SOE board membership, but in some cases (Algeria, Armenia, Jordan, Kazakhstan, Pakistan, Uzbekistan, West Bank and Gaza) only for

²In March 2021 Uzbekistan’s Cabinet of Ministers adopted an ownership policy document, supported by EBRD TA.

³Competitive neutrality is a fundamental principle of competition law and policy; it recognizes that government business activities should not benefit from undue advantages (or disadvantages) over the private sector merely due to government ownership or control.

⁴This is achieved by establishing a structured nomination process that would be facilitated through a central entity, ideally free from political interference and ministerial concerns and with adequate competencies, with the responsibility for representing the state in the nomination process. In the survey, independence is considered when the board member is not a representative of the state.

⁵While some countries may have in place explicit competency requirements, they are often not tailored to each SOE’s needs and/or refer to general qualifications that are not appropriate for a sound selection process (for example, being a citizen of the country, having good reputation and no criminal record, a certain age, or a university degree).

a subset of SOEs. In about one-third of the sample there are no legislative requirements for a minimum number (or share) of independent board members in some SOEs. In Egypt, the roles of the boards are stipulated in a law, but the selection criteria of board members are not clear.

Many countries have—to varying extents—a centralized board selection process. In countries where the state enterprise ownership function is centralized for example through a dedicated unit—such as in China, Korea, Sweden, and Thailand—this ownership unit has the direct responsibility for nominating members to SOE boards, whereby the decision often benefits from advisory functions (OECD 2018b). In decentralized models, line ministries select supervisory and management board members, adding to risks of non-transparency, political influence, conflicts of interest, and different procedures across the government (Richmond and others 2019). Most countries in the sample report a centralized board selection process by either a centralized unit tasked with SOE oversight or a separate administrative entity (for example, a state asset or holding company). Countries such as Algeria, Georgia, Kazakhstan, Morocco,⁶ and Tunisia, where a political entity (cabinet, ministries, or parliament) selects the SOE board could benefit from centralizing the process in an independent unit to avoid risks of prioritizing sectoral objectives of SOEs over broader countrywide objectives and/or financial value maximization.⁷

Financial Oversight

On the pillar of financial oversight framework, the survey covers three broad areas: financial performance, operational performance, and reporting (Figure 23). The area on reporting covers both publication of individual SOE financial statements and an aggregate SOE sector report.

Financial and operational performance oversight appears to be relatively good across the sample of countries. Both annual financial targets (profitability, return-on-equity, capital structure, and dividend targets) and performance targets (such as production, exports, and employment) are mandated in nearly all responding countries, while evaluations of both also take place in virtually all countries. Less prevalent is the evaluation of environmental, social, and governance (ESG) performance, yet countries such as Armenia, Oman, and Saudi Arabia report having such evaluation reports for at least the majority of SOEs. In addition, eight countries in the sample (Afghani-

⁶In July 2021, Morocco enacted laws creating a centralized National Agency responsible for managing state holdings and monitoring the performance of SOEs, which within five years will gradually assume shareholder functions, including board appointments, on behalf of the state.

⁷Board appointments carried out by the Ministry of Finance could be sufficient in cases where the Ministry of Finance is exercising its shareholder function and is able to avoid risks of prioritizing sectoral objectives.

Figure 23. Financial Oversight Framework

	1		2		3		4		5		6		7		8		9	
	Financial Performance		Operational Performance		Operational Performance		Operational Performance		Annual Financial Statements		Annual Financial Statements		Annual Financial Statements		Annual Financial Statements		Annual Financial Statements	
	Targets?	Evaluation?	Targets?	Evaluation?	Targets?	Evaluation?	Targets?	Evaluation?	IFRS?	Independent audit	Published	Reviewed?	Aggregate SOE report?	Aggregate SOE report?	Aggregate SOE report?	Aggregate SOE report?	Aggregate SOE report?	Aggregate SOE report?
AFG																		
DZA																		
EGY																		
JOR																		
MAR																		
MRT																		
OMN																		
PAK																		
SAU																		
TUN																		
WBG																		
ARM																		
GEO																		
KAZ																		
KGZ																		
UZB																		
MENAP																		
CCA																		
ME&CA																		

Sources: National country authorities; and IMF staff calculations.
 Note: The figure shows survey responses by the authorities. See Appendix 8 for the survey questions. Egypt survey responses cover only a subset of SOEs. IFRS = International Financial Reporting Standards.

stan, Algeria, Egypt, Kazakhstan, Kyrgyz Republic, Saudi Arabia, Uzbekistan, West Bank and Gaza) report having management compensation linked to SOE performance.

Comprehensive financial reporting and auditing requirements appear broadly in line with best practice in the sample, at least for some SOEs. As a first best, SOEs should be managed as publicly traded corporations. Even if they are not listed, they should adhere to reporting best practices for accounting and reporting standards as greater transparency may be correlated with lower cost of capital and higher dividend payout ratios (Kowalewski, Stetsyuk, and Talavera 2008). All countries require at least a subset of SOEs to have annual financial statements audited by independent external audit firms and reviewed by the oversight unit. With the exception of Oman, these statements are publicly available.

However, publication of consolidated SOE reports is relatively weak. Such reports are important as a key disclosure tool directed to the general public, the legislature, and the media, and should therefore convey clearly the

evolution of the sector and be easily accessible. Consolidated reports should include, among other things, information on the financial performance and value of SOEs, nonfinancial performance, and the total value of the state's portfolio. Information on the state's ownership policy, individual SOE mandates, individual performance and risk assessment, and financial transactions with government should also be included (OECD 2015b). Such reports exist and are reported to be publicly available in some countries—Algeria, Georgia, Mauritania, Morocco, Tunisia—but in most countries, they are either absent or not published on the internet.

Fiscal and Policy Interactions

The last pillar of the survey pertains to fiscal and policy interactions between SOEs and governments (Figure 24). As a main concern, governments should establish clear rules for fiscal support to maintain competitive neutrality and budgetary transparency and sustainability. In addition, dividend policies that set parameters for dividend payouts to shareholders foster operational independence of SOEs and help budgetary planning.

Almost all countries report financial support to SOEs with differing degrees. Most countries support SOEs through budgetary transfers, subsidies, or cash injections. Egypt, Jordan, and Uzbekistan report the provision of quasi-fiscal support, for example, via on-lending or guarantees.⁸ A few countries report “arm's length” financial relations with defined public service obligations (PSOs; Egypt, Tunisia, and West Bank and Gaza), where the government and the entities act independently without influencing each other. In the case of Egypt, Tunisia, and West Bank and Gaza, however, authorities also report financial or fiscal support, which appears to contradict arm's length; hence, they have been coded red in the heatmap. PSOs and arm's length relations are especially important to minimize fiscal risks for the government and on the flipside, to ensure that the government does not interfere with day-to-day operations of SOEs.⁹ This modality of budgetary support also helps ensure budgetary transparency and sustainability. No countries cite the use of central bank support except Jordan, which cites support through guarantees and nearly all countries except Jordan, Saudi Arabia, and West Bank and Gaza report giving no structural support to SOEs (preferential procurement and/or competition restrictions).

⁸See Chapter 3 for further analysis and a discussion on the complex set of financial transactions between SOEs and the budget.

⁹OECD guidelines call for governments to underpin PSOs in laws or regulations, and to disclose the nature and extent of such obligations. Disclosing PSOs allows governments and the public to scrutinize SOE performance and to evaluate the effectiveness of fiscal support against stated objectives.

Figure 24. Fiscal and Policy Interactions with Government

	1	2	3	4	5
	Financial Support				Dividend policy
	Fiscal and quasi-fiscal support	Central bank support?	Structural support?	Arms' length financial relations?	
AFG	Red	Green	Green	Red	Green
DZA	Red	Green	Green	Red	Green
EGY	Orange	Green	Green	Red	Green
JOR	Orange	Orange	Red	Red	Green
MAR	Red	Green	Green	Red	Green
MRT	Red	Green	Green	Red	Green
OMN	Green	Green	Green	Green	Green
PAK	Red	Green	Green	Red	Green
SAU	Red	Green	Red	Red	Green
TUN	Red	Green	Green	Red	Red
WBG	Red	Green	Red	Red	Red
ARM	Red	Green	Green	Red	Green
GEO	Red	Green	Green	Red	Red
KAZ	Red	Green	Green	Red	Green
KGZ	Red	Green	Green	Red	Green
UZB	Orange	Green	Green	Red	Green
MENAP	Red	Green	Green	Red	Green
CCA	Red	Green	Green	Red	Green
ME&CA	Red	Green	Green	Red	Green

Sources: National country authorities; and IMF staff calculations.
 Note: The figure shows survey responses by the authorities. See Appendix 8 for the survey questions. Egypt survey responses cover only a subset of SOEs.

In contrast, dividend policies are relatively widespread across the region. Dividends can be important revenue sources for the government, and a well-defined policy can help governments maintain revenue stability and improve medium-term fiscal budgeting. In addition, a strong dividend policy along mutually agreed performance parameters can help ensure that SOEs have adequate resources to fund operational costs and undertake necessary investments by preventing ad hoc requests by governments for extraordinary dividend distributions. Only three countries report not having such policies in the region (Georgia, Tunisia, West Bank and Gaza).

SOE Governance Index

A composite index of SOE governance practices is constructed for cross-country comparison (Figure 25). The index covers authorities' reported policies on ownership policy, financial oversight, and fiscal and policy interactions, but does not reflect the

implementation of the policies. This snapshot of stated policies in place in 2020 can be helpful to provide an approximate relative comparison of policies vis-à-vis OECD guidelines (see Annex 7). The results are also compared against those of European countries documented in prior literature (Richmond and others 2019) as this chapter uses the same survey and methodology (see Annex 8 for details).

Differences across countries are mostly driven by heterogeneous corporate governance standards in ownership policy and policy interactions, and less so in oversight policy. Based on the sample, CCA countries tend to score less across the three dimensions of corporate governance when compared to the MENAP countries¹⁰ (see Figure 25). While we cannot rule out sample bias, this trend could be explained by different interpretations of questions by the authorities in the survey. In addition, fragile and conflict affected states also face their own challenges (for example Sudan in Box 9).

¹⁰For the purpose of regional comparison, we use the median SOE corporate governance indexes in order to limit the impact of outliers. The same trends would still apply by using averages instead of medians.

When compared with Central, Eastern, and South-eastern Europe (CESEE) (Richmond and others 2019), our sample shows that CCA has a lower SOE governance index while MENAP scores higher. While the CESEE region scores a median of 9.1, the CCA region scores 8.3, whereas MENAP scores 9.5. As another comparison, a frontier country, Sweden, scores 16.5, the maximum. Nevertheless, the median country's index—in both CCA and MENAP—reflects more favorable ownership policy standards than the CESEE region. One caveat

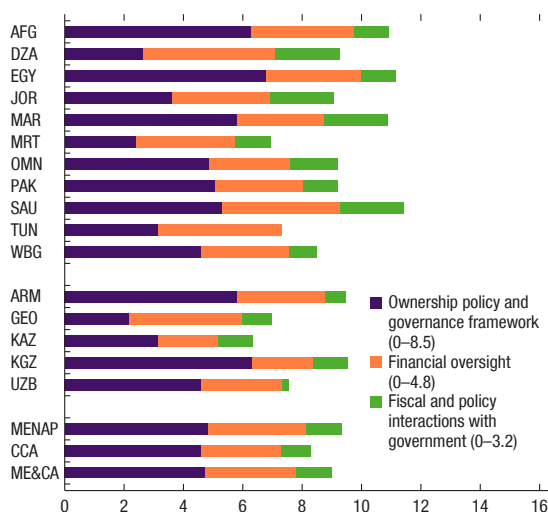
is that the index for CCA and MENAP reflects the “stated” corporate governance measures by end 2020, while the CESEE index is associated with the stated measures in early 2019. In the span of two years, ME&CA countries may have made efforts to strengthen SOE corporate governance and overall governance more generally as illustrated in the second section of this chapter.

In conclusion, most countries in the ME&CA region have scope to better align their stated SOE corporate governance measures to best practices and international guidelines. In particular, ME&CA authorities could further strengthen the ownership policy and governance framework, and better manage the fiscal and policy links with SOEs. This includes broadening the scope of SOE monitoring through the inclusion of subnational enterprises, producing and publishing ownership policy documents and SOE aggregate reports, strengthening SOE board requirements and appointment procedures, and establishing a centralized SOE oversight unit and fiscal risk assessment units.

SOE Corporate Governance and Performance

Claessens and Yurtoglu (2012) show that improved corporate governance is associated with a number of positive outcomes for both private and state-owned companies. These include better access to external finance by firms, lower costs of capital and higher firm valuation, improved strategic

Figure 25. SOE Governance Index



Sources: National country authorities; and IMF staff calculations.
Note: Score is out of a maximum of 16.5. Higher values denote closer adherence to the OECD guidelines and greater fiscal transparency. See Annex 8 for full description.

decision making and operational performance, reduced risk of corporate crises and scandals, and better relationships with stakeholders. Moreover, public corporate governance standards—notably the OECD guidelines on corporate governance of SOEs (OECD 2015b)—have been associated with improved management and oversight of SOEs and helped in enhancing the transparency and accountability (OECD 2020a). The World Bank toolkit on corporate governance of SOEs (World Bank 2014) provides anecdotal evidence suggesting that financial performance of many SOEs has improved as a result of improved governance practices as well as other factors such as budgetary reforms, restructuring measures, and capital market discipline. Boxes 10, 11, and 12 highlight three cases in Jordan, Pakistan, and Uzbekistan where reforms are being undertaken to improve corporate governance in an effort to improve the performance of individual SOEs or the broader SOE sector.

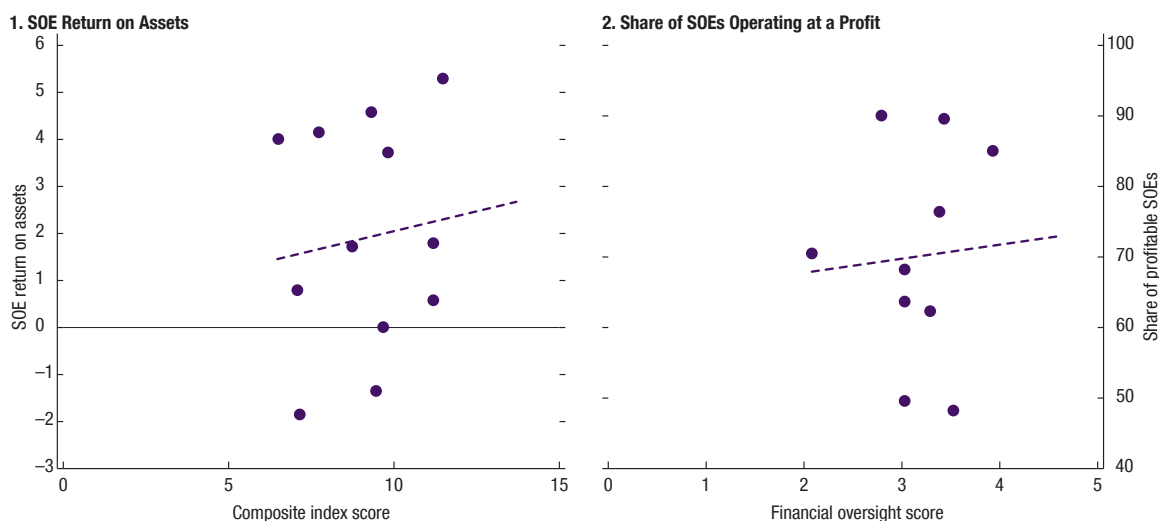
That said, the empirical literature on corporate governance of SOEs remains scarce. The scarcity of such research is further fragmented under different disciplines (for example, management, public policy, and economics, among others) (Grossi, Papenfuß, and Tremblay 2015). Daiser, Ysa and Schmitt (2017) provide a systematic analysis of empirical literature on the subject, and they find that such research is a growing field with diverse opportunities for investigation and that the existing research is focused primarily on regression analyses and lacks qualitative empirical research. They also note that about half of the studies tackle Chinese SOEs, pointing to a lack of diverse research across regions.

Hertog (2010) illustrates how many countries in the GCC were successful in creating highly profitable and well-managed SOEs, against the preconceived expectation from rentier-seeking public sectors. He argues that political insulation provided for SOEs played a major role in their success. Below, we explore some correlations between corporate governance measures and SOE performance in the region.

Corporate Governance Measures and Performance in ME&CA

To explore the relationship between SOE performance and governance measures in the ME&CA region, we combine governance indices with measures of SOE performance using our sample of countries from the region. We find that a higher composite SOE governance index score is associated with higher return on assets (ROA) of SOEs. In particular, a higher financial oversight index is associated with a higher share of SOEs operating at a profit in a given country (see Figure 26). Although we do not find robust relationships across all measures of SOE performance—in part due to limited data availability and a small sample size—the illustrated results suggest, as most literature does, that better governance is associated with better SOE performance.

Figure 26. SOE Performance vs Governance Index Scores
(2019 or latest available)



Sources: National country authorities; and IMF staff calculations.

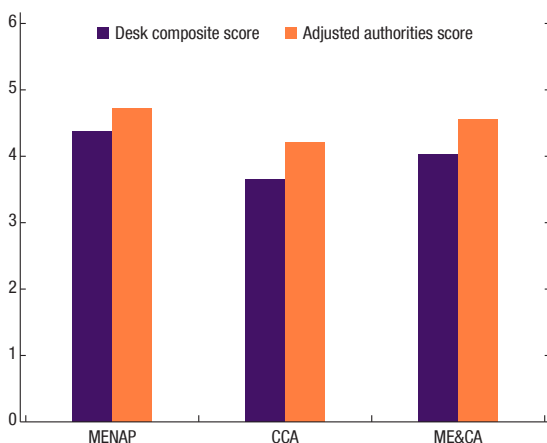
A potential link between governance and performance could be that weak SOE corporate governance measures leave large scope for clientelism, political capture, conflict of interests, and other types of activity, which are proven to impact negatively the performance of SOEs (Baum and others 2019). The unclear relationship between measured corporate governance and actual performance can be due differences between legislated governance (*de jure*) versus those actually implemented (*de facto*), as will be discussed below.

De Jure Versus De Facto Corporate Governance¹¹

Implementation of corporate governance policies can often differ from what is established by law, driving a wedge between *de jure* and *de facto* corporate governance measures. This gap can be noticeable in a few areas: (1) many countries may report the existence of an ownership policy document, but this does not imply that it is used for operational purposes; (2) board members may not be properly qualified and instead political appointees, while independent board members may not be truly independent (aligned to the requirements of publicly listed companies) and can often be part of a pre-selected “independent” roster; (3) financial disclosure will require independent audits to be conducted, but these may or may not be done by external auditors (instead relying on the country’s auditor general), or making use

¹¹Prepared jointly with Gian Piero Cigna, Milica Delevic, Anastasia Rodina, and Yuliya Zemlytska (all EBRD). Refer to Annex 9 for a conceptual discussion of *de jure* versus *de facto* corporate governance.

Figure 27. Adjusted SOE Governance Index
(Index, 0–10)



Sources: National country authorities; IMF staff; and IMF staff calculations.
Note: Score is out of a maximum of 10.

of an external auditor that is also providing non-audit services to the same company.

To illustrate the potential deviation of the practice from the stated standards, we compare an adjusted aggregate SOE corporate index based on authorities' stated response with one based on the responses of IMF country teams (see Annex 8, Table 8.5 for details). We use the former as a proxy of de jure standards, and the latter as a proxy of de facto practices. With some exceptions, countries' self-reported scores are better than those assessed by IMF teams. As can be seen in Figure 27, MENAP countries fare better than CCA countries in the authorities' reported scores, while CCA fares better than MENAP in the IMF desk assessment.

This finding should be interpreted with care

as this could reflect many factors beyond the implementation of governance standards, including extent of country teams' knowledge of specific SOE issues or different interpretation of the questions.

Focusing on the subcategories (Figure 28), results are broadly similar in two key areas: List of SOEs and policy interactions between the government and SOEs. The largest divergences between IMF country teams and authorities' responses are in annual financial statements and SOE management, for both MENAP and CCA regions. In addition, responses also diverge in the areas of dividend policy and financial performance target setting for MENAP countries, and in operational performance evaluation in the CCA region. Interestingly, CCA authorities' responses were more negative than IMF country team assessments in the area of central fiscal oversight. This may point to an underestimation of fiscal risks by IMF country teams.

Ensuring a Level Playing Field: Competitive Neutrality¹²

Leveling the playing field for all economic agents and fair competition can also help reduce SOE inefficiencies and has the potential to increase private and foreign investments. Corporate governance reforms can bring about significant improvements to the operation of SOEs, strengthen their public accountability and, if present, reduce macroeconomic risks that stem from the potentially inefficient operation of SOEs. At the same time, SOEs

¹²Prepared by Umidjon Abdullaev (EBRD).

Figure 28. SOE Governance: De Jure Versus De Facto

		1	2	3	4	5	6
		MENAP		CCA		ME&CA	
		IMF desk survey	Authorities survey	IMF desk survey	Authorities survey	IMF desk survey	Authorities survey
Soe list	Coverage	Green	Green	Green	Green	Green	Green
	Consolidated	Green	Light Green	Green	Green	Green	Green
Soe management	Ownership document	Red	Orange	Red	Red	Red	Red
	Centralized operational oversight	Light Red	Orange	Light Red	Light Red	Light Red	Light Red
	Centralized fiscal oversight	Green	Green	Green	Light Red	Green	Green
Financial performance	Targets	Orange	Green	Green	Green	Green	Green
	Evaluation	Green	Green	Green	Green	Green	Green
Operational performance	Targets	Green	Green	Green	Green	Green	Green
	Evaluation	Green	Green	Red	Orange	Green	Green
Annual financial statements	IFRS	Orange	Orange	Orange	Light Green	Orange	Orange
	Independent audit	Orange	Green	Orange	Green	Orange	Green
	Published	Orange	Green	Orange	Orange	Orange	Green
	Reviewed	Green	Green	Light Red	Orange	Orange	Green
	Aggregate SOE report	Red	Green	Red	Red	Red	Red
Policy interactions	Fiscal and quasi-fiscal support	Red	Red	Red	Red	Red	Red
	Central bank support?	Green	Green	Green	Green	Green	Green
	Structural support?	Green	Green	Green	Green	Green	Green
	Arms' length financial relations	Red	Red	Red	Red	Red	Red
	Dividend policy	Orange	Green	Green	Green	Green	Green

Sources: National country authorities; IMF staff; and IMF staff calculations.

do not exist in a vacuum and a wider positive impact of corporate governance reforms in SOEs may be highly conditional on the existence of well-functioning markets, fair competition, adequate regulation, and efficient competition policy enforcement. Thus, mitigating the negative economic impact of inefficient SOEs and increasing their competitiveness involves not only strengthening their corporate governance practices but also addressing a number of other distortions that are sometimes associated with SOE inefficiencies. In this respect, several countries around the world have introduced policies and mechanisms that, along with better governance of SOEs, aim to achieve the so-called “competitive neutrality” between SOEs and private sector players.

Competitive neutrality policies can best be described as measures aimed at preventing the introduction of new, or eliminating existing, policies that give an unfair competitive advantage to SOEs. OECD (2012b) provides a useful taxonomy of these distortions. These may include, among others, structural

constraints in sectors preventing new firm entry (for example, the existence of an incumbent vertically integrated SOE with restricted third-party access to critical infrastructure), exemptions of SOEs from various policies and regulations, uneven regulatory treatment between SOEs and private firms, administrative discrimination, cross-subsidization of commercial activities using the government support provided for carrying out noncommercial activities, different tax treatment as well as easier access to financing (likely at preferential terms).

Due to legacy reasons, political lobbying, bureaucratic impediments, or governments' strategic considerations, such challenges abound in the ME&CA region. In particular, many SOEs in the region do not operate in a competitive environment and, in many instances, enjoy a range of protections and benefits that put them in a stronger competitive position vis-à-vis private sector players and foreign entrants. Overall, available evidence suggests that achieving competitive neutrality in many countries of the region will require achieving neutrality in the areas of regulation, taxation, public procurement, access to resources, and separation of non-commercial and commercial activities of SOEs.

According to recent assessments, no country in the ME&CA region effectively separates noncommercial from commercial activities of SOEs.¹³ This means there is potential cross-subsidization of commercial activities and undercutting of private sector players (Arezki and others 2020). While separation of activities may be mentioned in the competition law or related legislation in some countries, effective implementation is lacking. In a number of countries in the region, some SOEs that hold a dominant and monopolistic position in selected sectors are exempt from the competition law or may be excluded from the competition law altogether (for example, Algeria, Egypt, Kuwait, Qatar, Saudi Arabia, Tunisia, and United Arab Emirates). There are also cases whereby SOEs are exempt or are treated differently in some specific legislation (for example, bankruptcy law) or receive special status or privileges in sector-specific regulations. This protection appears to implicitly extend also to the court system in some countries where firms reported difficulties enforcing court decisions against SOEs and public authorities (for example, Azerbaijan; see OECD and others 2020).

Moreover, the overall regulatory environment in some sectors creates a disadvantaged position for private sector players. In particular, in a number of countries, effective separation of the regulatory, policy and operational functions of government bodies may not exist, leading to the conflict of interest in sector structures (for example, telecom sectors in Egypt and Tajikistan where sector regulators or policy bodies are also responsible for overseeing the

¹³See Box 12 for examples of countries that have taken steps to improve competitive neutrality.

operation of state-owned telecom companies; Gyulumyan 2018, IFC 2020). Moreover, in some countries SOEs enjoy regulatory protection in various sectors (for example, electricity and gas, information and communication technology) that designates them as legal monopolies preventing the entry of new players (a number of sectors in Kuwait and, more specifically, access to international data networks in Tajikistan and Uzbekistan, which is limited only the main telecom sector incumbent; Arezki and others 2020; Gyulumyan 2018; IFC 2018).

SOEs often have favorable tax treatments that facilitate securing/winning public procurement contacts over potential private sector (domestic or foreign) suppliers, thereby hampering fair competition across companies. In some countries, public procurement laws do not cover SOEs (Egypt) or give flexibility to SOEs to develop their own rules (Algeria, Jordan; Arezki and others 2020). In several countries, some SOEs including nonincorporated public entities also benefit from certain tax exemptions (for example, Egypt, Lebanon, Libya, Kuwait; Arezki and others 2020). In Uzbekistan, SOEs have regularly received company-specific tax and customs duty exemptions to carry out specific investment projects (World Bank 2020a).

The practice of providing extensive support measures, guarantees, and subsidies is present in many countries too, allowing SOEs to continuously operate under soft budget constraints. Moreover, a common lack of effective monitoring and evaluation of such support measures leads to a limited understanding of the effectiveness of public funds provided to SOEs and reduces SOE accountability. This is further exacerbated by the common absence of the requirement on SOEs to demonstrate a positive rate of return on their capital and investments, allowing some enterprises to report consistent losses on their operations (Arezki and others 2020). Similarly, many SOEs in the region have benefited from access to debt financing on preferential terms with sometimes negative effects on the health of the banking sector and macroeconomic stability more widely (for example, in Tajikistan). Systematic assessment and review of the impact of state aid to SOEs on competition are uncommon. Some countries have just recently considered introducing the term of “state aid” and related provisions to the legislation (Uzbekistan).

Ensuring competitive neutrality requires a comprehensive government approach spanning central government, ministries, and sector-specific agencies and regulators. This is because a single authority will likely not have sufficient mechanisms for addressing the range of concerns related to a lack of competitive neutrality. Basic tenets of the approach are clearly identified in the OECD recommendations, though specific implementation across countries will depend on local circumstances including, among others, on the degree of involvement of the state in the markets and the importance

of state-driven industrial policies (OECD 2012b, UNCTAD 2014). These measures aim to (1) identify and clearly separate commercial and noncommercial activities of SOEs; (2) achieve proper cost allocation by identifying the costs of commercial and noncommercial activities; (3) ensure that SOEs demonstrate a commercial rate of return in their operations and do not undercut private sector players; (4) achieve transparent compensation for noncommercial activities and public sector obligations of SOEs; (v) achieve tax and regulatory neutrality to ensure the same tax and regulatory burden is applied to private firms and SOEs, while special exemptions and exclusions are minimized and limited to achieving priority strategic and policy objectives; (6) achieve equal financing terms for both SOEs and the private sector; and (7) ensure equal and non-discriminatory treatment of private (domestic and foreign) firms and SOEs in public procurement rules (OECD 2012b). If effectively implemented, such measures should reduce barriers to entry for potential competitors, ensure that SOEs and private sector players operate under the same conditions, and minimize inefficient public sector support to SOEs.

Box 9. SOE Reform in Fragile States: The Case of Sudan

SOEs play a large role in the Sudanese economy, in sectors such as transport, communication, agriculture, energy, mining, and finance. With IMF technical assistance, the Ministry of Finance and Economic Planning (MoFEP) has identified the following shortcomings related to SOE oversight, common to many fragile states:

- The definition of SOEs is unclear. The two laws regulating the basic categories of “government parastatals and institutions” and “governmental companies” are not clear enough, creating opportunities for arbitrage classification. Moreover, there is no explicit ownership policy defining when a firm can be classified as an SOE or as a private firm with partial government ownership.
- The supervision of SOEs is limited and fragmented. While the overall oversight lies with the MoFEP, some line ministries are delegated oversight power either by a sectoral law or other regulations. Responsibilities are therefore diluted, creating opportunities for line ministries to set-up new SOEs that escape MoFEP oversight.
- The lack of financial information and reporting, coupled with a fragmented oversight, hinders sound fiscal policymaking. Financial statements are not always available, and when audits are undertaken, they are rarely available on time. This lack of transparency limits the MoFEP to effectively monitor fiscal risks and take policy actions.

Key steps to improve transparency and better mitigate fiscal risks from SOEs include: (1) clarifying the SOE definition and government’s ownership policy; (2) delineating the respective powers of MoFEP and line ministries; (3) building an inventory of SOEs with key administrative and financial indicators; and (4) publishing annually audited financial statements of SOEs. These reforms will allow Sudan in the medium term to assess whether and to what extent SOEs’ strategic objectives fit government policy.

Prepared by Jonas Frank and Benoit Wiest (METAC).

Box 10. Pakistan’s SOE Act of 2021

In 2020 and early 2021, the Pakistani authorities have been working on a SOE Governance and Operations Act that is aimed at enhancing the governance framework, management, and financial efficiency of SOEs in the country. As of March 2021, the Act has been approved by the Cabinet and submitted to the National Assembly.

An IMF technical assistance mission in early 2020 noted that the corporate governance of SOEs in Pakistan was weak, which may explain—at least in part—the performance of the SOE portfolio, which displays low productivity and efficiency levels, which in turn generate substantial fiscal losses and contingent liabilities for the government (see Box 2 in Chapter 2). The existing ownership model is fragmented, with blurred roles between sectoral ministries and regulatory authorities in various sectors and a marginal role being played by the Ministry of Finance. This is the case in the energy sector—where the line ministry has the final say on tariff adjustments, in the aviation sector—where the regulator owns the civil aviation infrastructure, and in the financial sector—where the regulator is the majority shareholder of a systemic state bank. Members on SOE boards also appear to be currently selected by different political stakeholders. Operational and financial performance targeting, and evaluation are lacking due to the absence of a well-designed performance monitoring system, which has given rise to unanticipated fiscal risks from SOE operations. Internal audit functions have been weak and financial reporting has been riddled with several accounting exemptions that may have a significant bearing on the actual financial performance of the overall SOE portfolio.

The new SOE Act attempts to improve the performance of SOEs and limit the fiscal risks stemming from their operations by enhancing the corporate governance framework of SOEs. With respect to ownership and regulatory arrangements, the Act lays the groundwork for a gradual move toward a more centralized model whereby the responsibilities of ownership and oversight are more concentrated in a newly created SOE unit in the Ministry of Finance, and to separate the regulatory and policy making functions of the state with regards to its SOEs. The Ministry of Finance has already started to enhance its oversight functions with the publication of the “Federal Footprint – SOE Annual Report” to assess SOE portfolio risks in a more structured and more transparent way. For the selection of board members of SOEs, the Act proposes a “nomination committee” headed by the minister of the line-ministry in charge of the SOE along with four other members: the secretary of the division in charge, the finance secretary or his nominee, and two private sector experts with at least 20 years of experience. Under this new model, the majority of the SOE board members are expected to

This work has been supported by IMF technical assistance—conducted by Pasquale Di Benedetto and Mia Pineda (both IMF Legal Department)—in collaboration with the World Bank and the Asian Development Bank.

Box 10. Pakistan's SOE Act of 2021 (continued)

be independent directors, while the governance functions of the SOE will be separated from management.

With respect to ownership policy reforms, the SOEs will have to set company mandates and strategies through a statement of corporate intent. An ownership policy document will subsequently integrate this framework and will clarify the processes for developing strategy and negotiating performance agreements as well as the respective roles of all involved institutions. The reforms are also expected to strengthen the central role of the board in the oversight of SOE operations, and subsequently strengthen internal and external controls as well as reporting and disclosure standards. In that respect, the new Act provides a timeline for compliance with IFRS accounting standards and requires the disclosure of nonfinancial information (for example, details of a PSO agreement) and the aggregate reporting on an annual basis at a minimum. Under the new Act, the board of each SOE will be expected to adopt a three-year business plan every financial year, laying out targets, strategic direction, and operational and financial performance measures. This business plan mandated by the new Act is envisaged to serve as the performance agreement between the government and the SOE.

Box 11. National Electric Power Company of Jordan

National Electric Power Company of Jordan (NEPCO) is the Jordanian state-owned electricity transmission system owner, operator, dispatcher, and single wholesale buyer of electricity, fuel, and natural gas. Since 2011, the company has suffered from a high level of accumulated losses and liabilities as it absorbed the discrepancy between Jordan's fuel costs and end-user tariffs, with operating margins at a break-even level and slow growth in revenues. In 2018, the Government expressed its interest in strengthening the company's corporate governance practices to improve its efficiency and performance.

Within the context of a banking operation, the European Bank for Reconstruction and Development (EBRD) undertook a corporate governance review of the company and regulating framework and identified several challenges. A number of mitigating actions were proposed and incorporated into a corporate governance action plan (CGAP) attached to the documentation accompanying the US\$265 million loan provided by the EBRD to NEPCO (signed with the Government of Jordan, represented by the Ministry of Planning and International Cooperation). At the same time, the EBRD mobilized technical assistance to assist the company in improving its corporate governance, compliance, risk and financial strategy, procurement practices and implement the action plan, in line with best international standards (for example, the OECD Guidelines on Corporate Governance of State-Owned Enterprises). The work is being supported by external consultants under EBRD guidance and supervision.

To make governance a lever for better performance, a change of culture that would make the company more focused on its own commercial, financial, and operational performance was key from the EBRD's perspective. While the CGAP had many facets and deliverables, its four main objectives can be summed up as follows:

1. Company *leadership* with the knowledge, skills, and experience to oversee the cultural transformation from a "government department" to a commercial company. The identification and nomination process for board members and for the CEO, as well as their ongoing performance assessment was of essence in this respect.
2. The "domestication" and *ownership of corporate strategy*, which was previously given to NEPCO by the line Ministry. While the company would still need to follow the government's broader energy strategy, it is important that it does so in a way that makes commercial and financial sense. To this effect it needs to provide timely inputs to the government and be hands-on in cascading the government's master plan into a multiyear capital expenditure business plan down to annual budgets. In this respect, a strategy cycle was adopted, discussions were engaged with a broader

Prepared by Gian Piero Cigna (EBRD).

Box 11. National Electric Power Company of Jordan (continued)

management group on the content of the business plan, and a strategy department was created under the CEO.

3. The “*internalization*” of key control functions. In this case too, the existing culture assumed that the government should be controlling the business, not the business controlling itself. “Owners” of control functions needed to be created in the second line of defense, especially in risk management and compliance. Internal audit existed but was not clearly delineated as a third line, reporting to the Audit Committee. An integrity compliance program is also being created.
4. *Embedding* these changes so that they might become levers of cultural change. Each one of the previous three objectives cannot be achieved without embedding the new practices into NEPCO’s organizational DNA. In this respect, strategy was debated and shared in a broader management “away day.” Training was provided for every item of change and to all new functions.

The technical assistance project commenced in 2019 and is expected to continue until at least 2022. As a result of the technical assistance, the corporate governance at the company is improving, although challenges remain. On the positive side, there are now clear accountability and reporting lines between key function holders and the board. The dynamics at the board and its committees have improved and the company is starting to be guided by a defined strategy with clear key performance indicators (KPIs). These improvements contributed to NEPCO reaching better financial and operational results. However, reforming a strategic sector SOE is not easy and challenges remain. Progress in some aspects of the technical assistance project has been slower than anticipated. This has partially been driven by internal factors, including the need to sensitize stakeholders in NEPCO to the importance of a compliance function and the functioning of the “three lines of defense” model. External factors, including the ongoing COVID-19 pandemic also contributed to slower progress on areas including the hiring or appointment of staff to newly created functions, including compliance. Work in these areas remains ongoing, with EBRD, NEPCO, and the external consultant cooperating closely.

Box 12. Uzbekistan: Enhancing Governance and Anti-Corruption Reforms in SOEs

Beginning in 2018, a reform of the monopoly energy SOE in Uzbekistan—JSC Uzbekenergo (“Uzbekenergo”)—was launched and carried out on multiple fronts, with anti-corruption measures implemented in the context of the process of unbundling the Uzbek energy sector and broader ownership function transformations. During 2018–19, the EBRD coupled its financing of Uzbekenergo with a technical cooperation program to enhance internal control frameworks of the company. As an initial step, a gap analysis of existing compliance policies based on international standards (for example, OECD) in 2018 was completed by an expert consultant selected by the EBRD, which led to a comprehensive Compliance Action Plan (CAP) to assist the company in inter alia developing its systems and controls framework. EBRD continued to support the company into late 2019 with implementation of the CAP through the engagement of a consultant.

The implementation of the CAP took place alongside an array of structural reforms as Uzbekenergo was unbundled into three companies—JSC “Thermal Power Plants” (TPP), JSC “National Electric Networks of Uzbekistan” (NENU), and JSC “Regional Electric Networks.” In parallel, EBRD has provided support to the Ministry of Energy to develop a new draft electricity law, which should further support full unbundling and establish a number of international standards for sector corporate governance upon its approval in 2021–22. The government also pursued broader efforts to reform the overall governance framework of SOEs by adopting a state ownership policy also supported by the EBRD.

From the outset, there was clear high-level support for anti-corruption efforts from top government stakeholders and senior management in the context of the broader SOE reform agenda. However, the unbundling of Uzbekenergo and related anti-corruption reforms posed practical challenges as one SOE became three. This process and the implementation of the CAP had to adapt to new institutional arrangements, management changes, and SOE hierarchies.

Implementation of the CAP was undertaken at a time of considerable disruption for some employees, who were affected by the significant reorganization caused by unbundling. The leaders of the three new SOEs had to establish ‘tone from the top’ and drive company-wide messaging to emphasize the purpose of the compliance function and the importance of the suite of new policies launched, including among other things, a Code of Conduct and Conflict of Interest policies. The companies were provided with a set of trainings including “train the trainer” sessions and practical recommendations.

Prepared by EBRD staff.

Box 12. Uzbekistan (continued)

The unbundled companies continue to implement the CAP in the context of a broader Corporate Governance plan for the sector supported by the EBRD. A follow up transaction with Thermal Power Plants, the generation utility, in 2020 implies further support with improvements of the internal governance structures, which will be instrumental to enable the green transition of the company, further to the low carbon pathway for achieving the carbon neutral energy sector by 2050 developed with EBRD's technical assistance. The creation of compliance and integrity functions in the key electricity market players in Uzbekistan has also stimulated further interest to enhance standards for governance and internal controls across other SOEs.

Overall, practical evidence derived from EBRD's reform work in Uzbekistan—and also in Egypt, Jordan, and Tunisia—suggests a number of lessons when supporting SOEs with anti-corruption governance reforms. On a conceptual level, SOE boards and senior management need to gain an awareness of how to structure internal control functions along the “three lines of defense model,” how functions such as Internal Audit, Risk Management, and Compliance work together, and how these differ from one another and from non-risk compliance functions such as Quality Control. In particular, the difference between the third line of defense (Internal Audit, whose scope covers retroactive reviews and assurance) and the second line of defense (Compliance, which manages day-to-day corruption risks and is generally forward-looking) needs to be better understood. On a practical level, tackling barriers to implementing anti-corruption governance reforms will require sufficient internal resources at SOEs to effectively implement and enforce internal control frameworks (including a lack of IT resources), coupled with a group of qualified staff and/or recruitment pool for compliance and anti-corruption roles, and strong and stable support by top management for anti-corruption compliance-related reforms and strengthening of control functions. Lastly, anti-corruption measures need to be firmly embedded into broader SOE governance and sector reforms so that company-level interventions are aligned with overall institutional and regulatory environment as well as market incentives.

Box 13. Competitive Neutrality Case Studies: Australia and Finland

Australia implemented an effective competitive neutrality framework in mid-1990s. Following a comprehensive review of its competition policy and framework, Australia carried out a number of important reforms, including reducing exemptions of state-owned businesses from the competition law, schemes allowing third-party access to significant infrastructure, reforms of public monopolies and a comprehensive competitive neutrality framework (UNCTAD 2014). The latter specifically required the corporatization of SOEs with significant business operations, imposed equal commercial and regulatory obligations on SOEs, and implemented measures to neutralize the cost advantages that SOE may have vis-à-vis private sector competitors as a result of state ownership (Australian Government 2004). The framework also introduced an incentive mechanism for local governments to implement competitive neutrality reforms, by entitling those that made sufficient to receive the share of additional revenues (referred to as “competition payments”) raised as a result of competition reforms (Australian Government 2007). In addition, the reform established a separate unit, the Australian Government Competitive Neutrality Complaints Office, that served as a mechanism for handling complaints about potential unfair competition from SOEs, carrying out investigations and developing recommendations to the government on ensuring compliance with competitive neutrality obligations.

The economywide impact of implementing these reforms has been substantial. The competition policy reforms of the 1990s were estimated to have boosted Australia’s GDP by 2.5 percent and provided a range of benefits, including increased tax revenues, reduced costs and prices, as well as improved quality of targeted goods and services. While these reforms did incur adjustment costs (for example, reduced revenues and employment in some SOEs), net economywide benefits of the reforms have been estimated to be positive (Productivity Commission 2005).

More recently, Finland took steps in introducing explicit competitive neutrality provisions in its competition policy framework. In 2013, the Finnish Competition Act was amended with a chapter addressing competitive neutrality issues and highlighting the importance of achieving equal operating conditions for SOEs and private sector firms. In particular, the new additions to the law gave the Finnish Competition and Consumer Authority (FCCA) explicit powers to intervene in markets where SOEs are present if their operations are deemed to prevent or distort competition and if the pricing of goods and services provided by SOEs contradicts the requirements of market-based pricing. The Competition Act also gives the power to the competition authority to prohibit the local municipalities or state bodies from continuing their business activities if initial negotiations and measures do not help to rectify the situation in the market (FCCA 2014). In addition, SOEs follow the same reporting requirements as private firms and they must report any state guarantees or financial assistance received as part

Box 13. Competitive Neutrality Case Studies: Australia and Finland (continued)

of their operations. Financial performance of SOEs is monitored on a regular basis and is expected to be comparable to those of private sector firms operating in the same market. SOEs are required to keep separate accounts and prepare separate financial statements for their noncommercial activities (OECD 2012c). In 2020, the competition law was amended requiring public entities (for example, municipalities, state, and entities under their control) to maintain separate accounts for economic activities they are engaged in to facilitate the control of compliance with the requirement for market-based pricing of commercial activities (OECD 2020a).

This page intentionally left blank

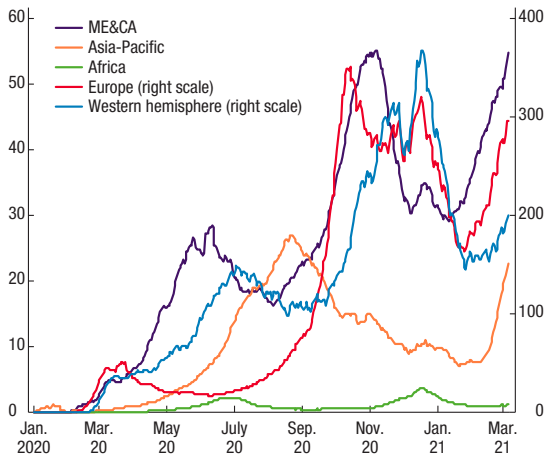
Impact of the COVID-19 Pandemic on SOEs

The COVID-19 pandemic has hit the ME&CA region hard—economically, financially, and socially—even as countries have proceeded cautiously with reopening. Infection rates in the region increased sharply at the beginning of the pandemic and remain elevated compared to some other regions (Figure 29). While the macroeconomic, financial, and health impact of the pandemic have been studied extensively, less is known about how the SOE sector has been affected, given that publicly available data across countries are not readily available. Most analyses to date have looked at the link between the COVID-19 crisis and state ownership (OECD 2020b, Robinett 2020), while policy recommendations have focused on reforming SOE corporate governance structures to minimize distortions (Abate and others 2020), the general principles for designing SOE support during crises (Harris and others 2020, Qiang and Pop 2020a, 2020b), and managing fiscal risks from SOEs (Baum and others 2020). Uniquely, EBRD (2020) looks at how the pandemic may reshape the view of state ownership in the future as well as its role in supporting the recovery.

Prior to the pandemic, many SOEs were displaying weaknesses in the context of lax oversight. While on aggregate, the SOE sector in many countries seem profitable, underlying difficulties were often hidden by substantial government support and many SOEs were already operating at a loss. At the same time, weak corporate governance, particularly in the areas of oversight and disclosure, made it difficult for policymakers and SOEs to identify, monitor, and react swiftly to shocks in some cases.

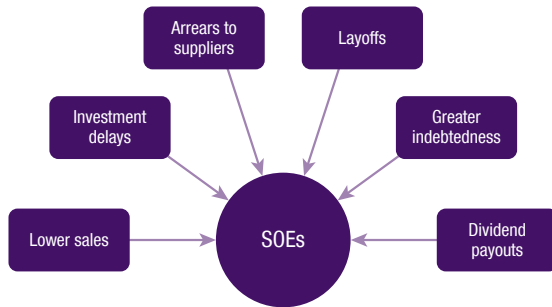
Lockdowns, containment measures, and reduced demand severely impacted SOEs, as well as most private firms. The COVID-19 shock may have impacted SOEs through several channels (Figure 30): lower revenues and profitability, employment cutbacks, investment delays, accumulation of arrears, higher indebtedness, and dividend payout pressures from the govern-

Figure 29. COVID-19 Infection Rates by Region
(Per million, 7-day moving average)



Sources: University of Oxford; and IMF staff calculations.
Note: According to criteria published by the WHO in May 2020, a positive rate of less than 5 percent is one indicator that the epidemic is under control in a country.

Figure 30. Potential Impact of COVID-19 on SOEs



Source: IMF staff.

end-2020 the ROA for SOEs rose to 2.1 percent, exceeding precrisis levels. In contrast, the ROA for private firms declined modestly early in 2020 and did not improve sharply in H2 2020.

The evolution of SOE profitability (Figure 31, panel 3) may be linked to wages (in addition to revenue). SOE wages continued to increase in the first

ment. This chapter assesses the impact of the COVID-19 on SOEs in ME&CA, by examining the extent to which these channels have played a role in the region.

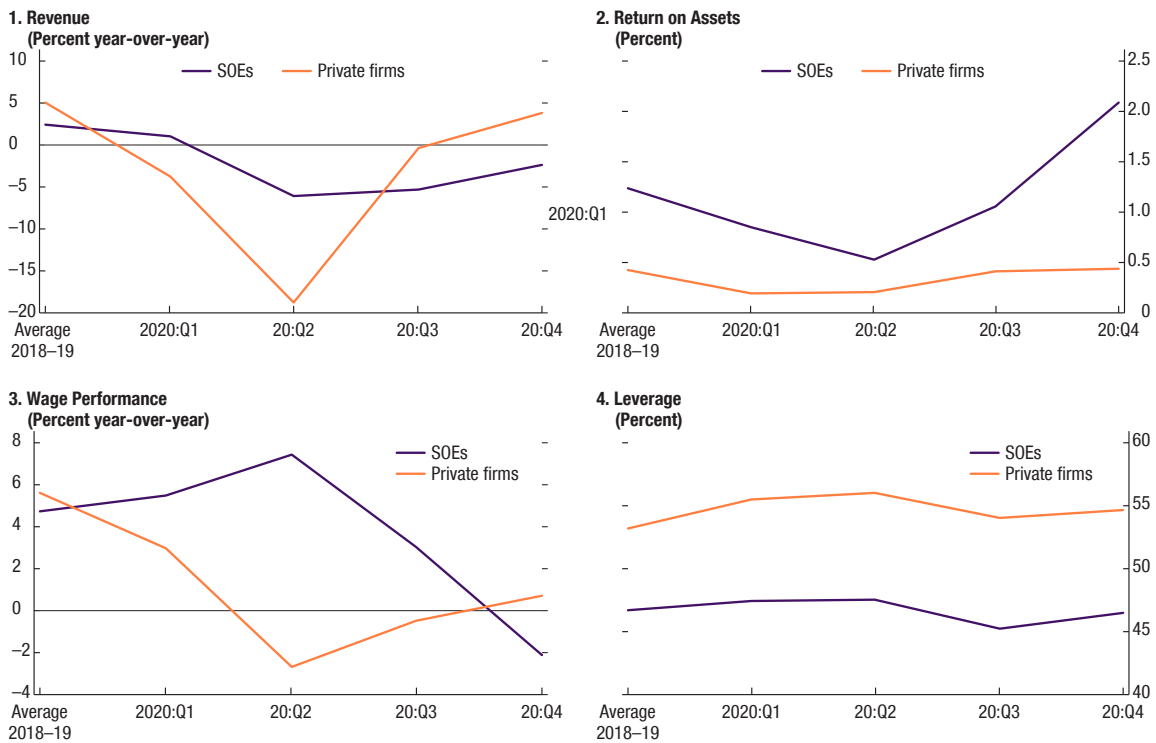
The Impact of COVID-19 on SOE Operations

The COVID-19 pandemic had a sizeable and protracted impact on SOE revenue, but less than private firms.¹ In MENAP countries, SOE revenue (sales) declined throughout 2020 although the rate of decrease was less in the second half of the year. Revenue growth hit its trough in Q2 2020, with an average drop of 6 percent year over year compared to almost 19 percent for private firms (Figure 31, panel 1). Beginning in Q3 2020, revenue growth began to improve, but SOEs did not benefit from a rapid rebound similar to the private sector. In Q4 2020, SOE revenues registered a decrease of 2.3 percent year over year, compared to an increase of 3.8 percent year over year for private firms.

In contrast, SOE profitability suffered more than that of private firms after the onset of the pandemic but recovered much faster in H2 2020 (Figure 31, panel 2). The ROA of SOEs declined during Q2 to 0.5 percent from 1.2 percent prior to the crisis. By

¹The firm level data cover publicly listed private firms and only 36 SOEs in the MENAP region (Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates). These SOEs are unlike most other SOEs operating in the region as they have professional management and good corporate governance standards and tend to be dominant market players. The analysis focuses on the immediate impact of COVID-19 during Q2–Q4 2020, due to data limitations. See Annex 10 for details.

Figure 31. Impact of COVID-19 on SOEs and Private Firms



Sources: S&P Global Market Intelligence; Compustat; and IMF staff calculations.
 Note: Figures show median values for each time period.

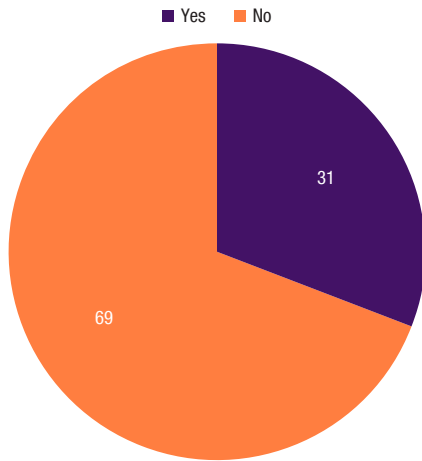
half of 2020 despite the COVID-19 shock, suggesting that SOEs may have been used to shield workers from the impact of the first pandemic wave. But after growing by 7.4 percent year over year in Q2 2020, they declined sharply in Q4 2020. In contrast, private sector wages adjusted to the shock much faster. They declined by 2.7 percent year over year in Q2 and recovered thereafter, registering an increase of 0.7 percent year over year by end-2020. SOE profitability in 2020 may have also been supported by generous government support (direct or through guarantees) or influenced by the dominant position the SOEs have in the sectors they operate in.

The COVID-19 pandemic does not appear to have worsened SOE indebtedness (Figure 31, panel 4). At end 2020, SOEs' ratio of debt to total assets was broadly unchanged relative to in the pre-COVID period (46.5 percent compared to 46.7 percent). In contrast, the indebtedness of private firms increased modestly to 54.7 percent compared to 53.2 percent prior to COVID-19.

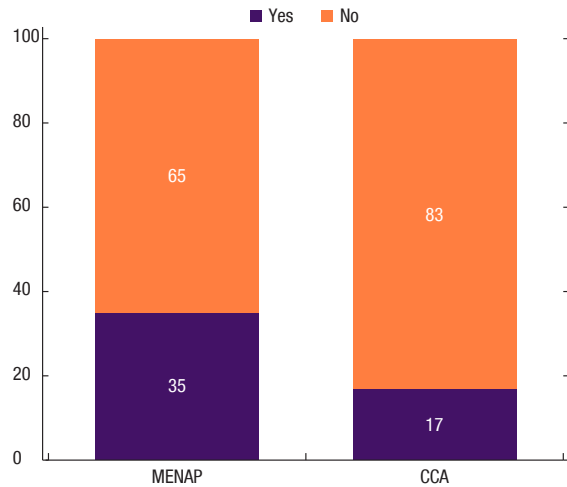
Figure 32. Mandates of SOEs During the COVID-19 Pandemic
(Percent of respondents)

Have the mandates of SOEs been changed since the start of the COVID-19 pandemic?

1. ME&CA



2. By Region



Sources: National country authorities; IMF staff; and IMF staff calculations.

The authorities survey indicates that SOEs have been used in some countries to directly aid the COVID-19 pandemic health response (Figure 32).² For example, in Egypt the government instructed the Holding Company for Medicines, Chemicals, and Medical Supplies to increase its subsidiaries’ production of disinfectants and sanitizer. In the Kyrgyz Republic, Mauritania, Qatar, and Tunisia, SOEs were used to provide medical equipment and distribute supplies. Additionally, state-owned airlines, like Etihad in the United Arab Emirates, have been used to transport supplies and repatriate nationals. In general, SOEs in the MENAP region have been more engaged in managing the overall pandemic response than SOEs in the CCA region.

SOEs have shielded their employees from the economic fallout of the COVID-19 pandemic (Figure 33). In most countries, SOEs did not report laying off or furloughing employees, except for Kazakhstan and the Kyrgyz Republic.³ The muted impact on employment may suggest that governments have used SOEs as automatic stabilizers (providing more stable forms of

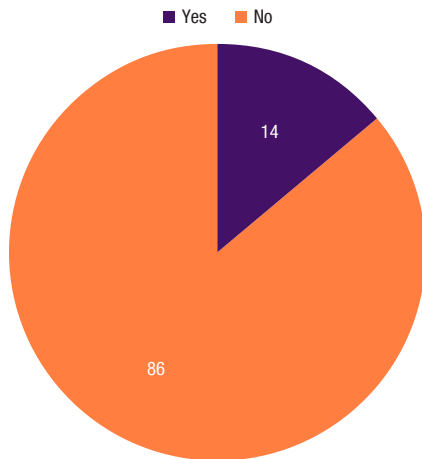
²The survey of country authorities included both quantitative and qualitative questions, but due to a low response rate, the focus is on the qualitative responses. To fill in gaps, a similar survey was sent to IMF country teams. If responses to both surveys were available for a country, the response of the country authorities was prioritized. Country examples throughout the remainder of the chapter are based on these survey responses, unless otherwise noted. See Annex 10.

³However, analysis of the airline industry presented later in this chapter indicates that some employees in this sector were laid off.

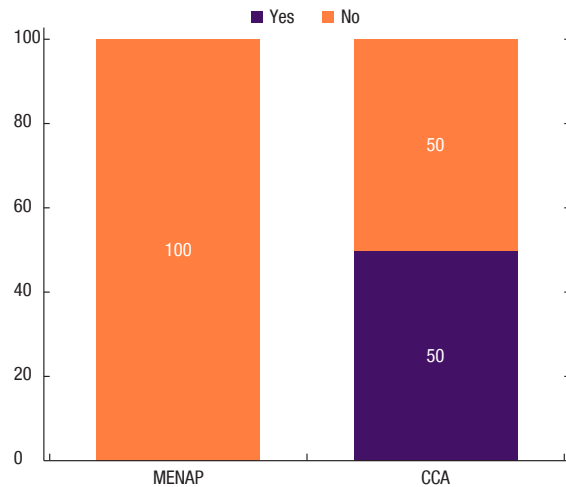
Figure 33. Impact of COVID-19 on SOE Employment
(Percent of respondents)

Have SOE employees been furloughed or become unemployed since COVID-19 started?

1. ME&CA



2. By Region



Sources: National country authorities; IMF staff; and IMF staff calculations.

employment) to cushion some of the impact of the COVID-19 shock on the economy.⁴

Despite the loss of revenue, SOE operations have largely continued during the COVID-19 pandemic (Figure 34). In most countries, SOEs reported continuing to honor most of their financial commitments to suppliers and creditors and execute their investment plans. In Egypt, despite recording losses, SOEs operations continued, including fulfilling most of their financial obligations towards suppliers and creditors and implementing their investment plans. However, SOEs in Algeria, Jordan, Kyrgyz Republic, Tunisia, and Uzbekistan reported accumulating arrears to creditors, the government, and private sector suppliers. Moreover, the pandemic did not appear to delay SOEs' investment plans except in Afghanistan, Algeria, Kyrgyz Republic, Mauritania, Tunisia, and Uzbekistan. These results highlight the different experiences of the CCA and MENAP regions.

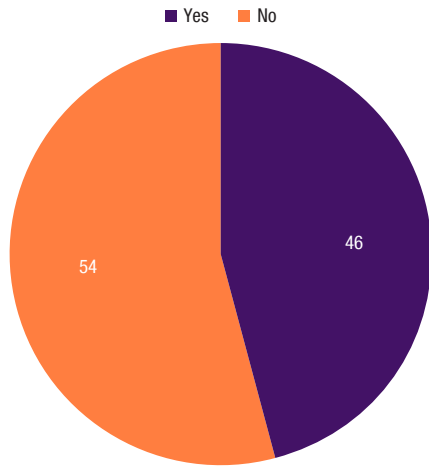
In general, governments have refrained from seeking financial support from SOEs to ease fiscal pressures, so that they can continue their operations without major disruptions (Figure 35). The survey responses suggest that only SOEs in Djibouti, Kazakhstan, Morocco, Oman, and Turkmenistan were

⁴See Richmond and others (2019) for some evidence of SOEs serving as an employment buffer against economic downturns.

Figure 34. Consequences of COVID-19 on SOE Investment
(Percent of respondents)

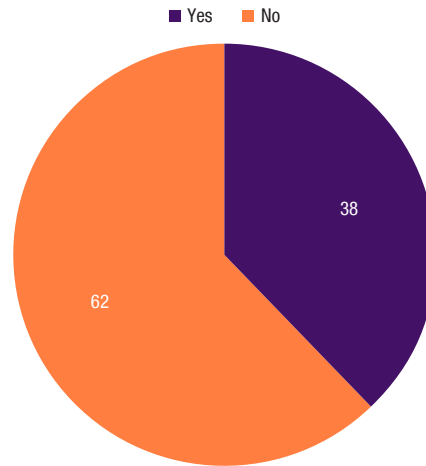
Have SOEs delayed any planned investments?

1.



Have SOEs delayed payments to governments, creditors, and private suppliers as a result of COVID-19?

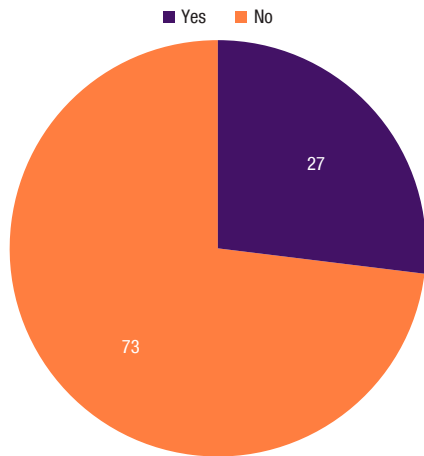
2.



Sources: National country authorities; IMF staff; and IMF staff calculations.

Figure 35. Potential Impact of COVID-19 on SOEs
(Percent of respondents)

Were SOEs asked to contribute financially to the budget?



Sources: National country authorities; IMF staff; and IMF staff calculations.

asked to contribute to public finances, mainly through dividends and ad hoc payments.

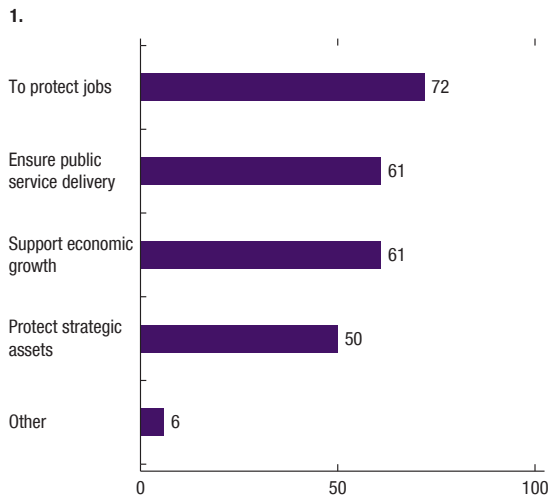
Government Support to SOEs

In response to the deteriorating economic conditions, most governments have provided some support to SOEs (Figure 36).⁵ The most common reason for government support appears to be to protect employment and avoid layoffs (Algeria, Azerbaijan, Bahrain, Egypt, Iran, Jordan, Mauritania, Morocco, Oman, Pakistan, Saudi Arabia, Tunisia, and Turkmenistan). However, most countries offered multiple motives. For example, Egypt, Jordan, Mauritania, Morocco, Saudi Arabia, Tunisia, and Turkmenistan listed maintaining public service delivery, supporting

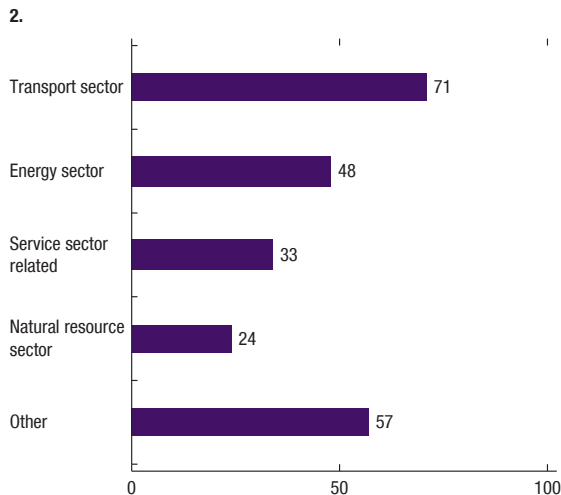
⁵While the survey explicitly asked about government support to SOEs in the context of COVID, it is not clear if in their responses the authorities distinguished between total financial support in 2020 and COVID-related support (beyond what they would have normally received). Moreover, a lack of data does not allow for a comparison of whether SOE support was greater or smaller than what the private sector received.

Figure 36. Government COVID-19 Support to SOEs
(Percent of respondents)

Rationale for additional SOE financial support?



What sectors have been the main beneficiaries of government support to SOEs?



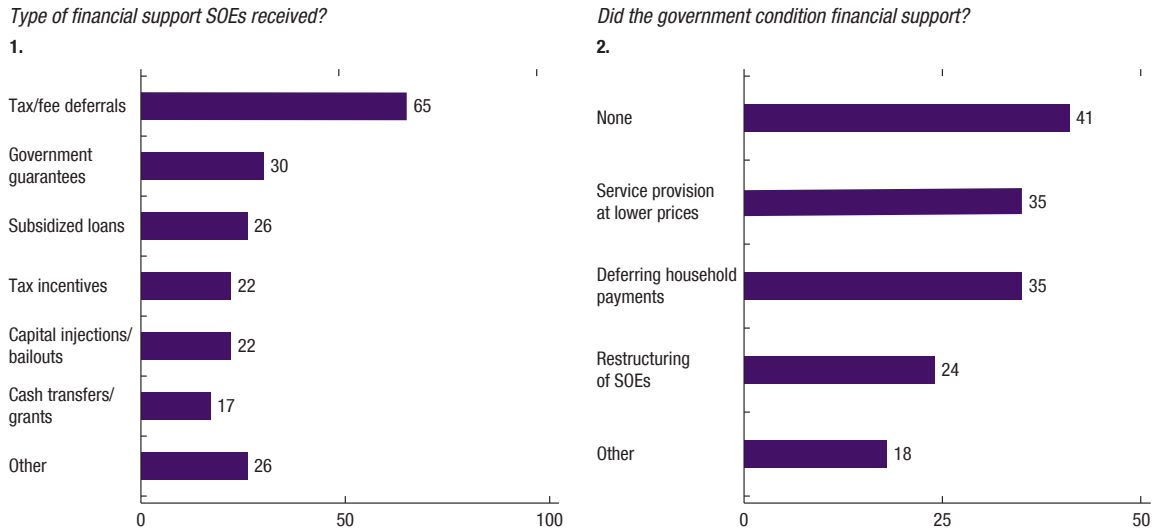
Sources: National country authorities; IMF staff; and IMF staff calculations.

economic activity, and protecting strategic assets in addition to protecting employment. A few countries provided one motive: in the United Arab Emirates, it was protecting strategic assets; in Lebanon, Georgia, and West Bank and Gaza, ensuring public service delivery; and in Djibouti supporting economic growth.

The main SOE beneficiaries of government support were in the transport and energy sectors, which were among the sectors most affected by the COVID-19 shock and possibly reflecting their large contribution to employment and economic activity (Figure 36, panel 2). The services sector also received government support possibly because of linkages to small- and medium-sized firms. Most countries, however, targeted support to a few sectors. Lebanon mostly supported the energy sector, while Djibouti and Qatar both supported their transport sectors. Azerbaijan supported the transport and services sectors, Bahrain the transport and aluminum manufacturing sectors, Egypt the transport and tourist sectors, Georgia the water utilities and waste management sectors, and Pakistan the transport and energy sectors. In a few countries, the government provided broad-based, multisectoral support (Jordan, Kyrgyz Republic, Mauritania, Morocco, Saudi Arabia, and Uzbekistan).

Tax deferrals were the main vehicle of support to SOEs (Figure 37, panel 1). In general, governments have used many instruments, most commonly tax/

Figure 37. SOE Financial Support: Instruments and Conditionality
(Percent of respondents)



Sources: National country authorities; IMF staff; and IMF staff calculations.

fee deferrals, followed by guarantees and subsidized loans.⁶ Tax/fee deferrals were used in Algeria, Azerbaijan, Egypt, Iran, Jordan, Kazakhstan, Kyrgyz Republic, Lebanon, Mauritania, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, Uzbekistan, and West Bank and Gaza. While tax incentives were used in Azerbaijan, Djibouti, Jordan, Mauritania, and Saudi Arabia, it is not clear if these incentives were given to private firms as well. Capital injections were used in Egypt, Morocco, Oman, Tunisia, and the United Arab Emirates. Of these countries, only Morocco conditioned a capital injection on SOE restructuring. Most countries relied on a single instrument—tax/fee deferrals in most cases—to deliver support (Algeria, Bahrain, Georgia, Kyrgyz Republic, Qatar, Tajikistan, Turkmenistan, Yemen, and West Bank and Gaza). However, some countries used multiple instruments (Egypt, Mauritania, Morocco, Saudi Arabia, Tunisia). In general, MENAP countries used a more diversified instrument mix than CCA countries.

Government support was unconditional in many cases (Algeria, Djibouti, Egypt, Georgia, Iran, Kazakhstan, Mauritania, Tajikistan, United Arab Emirates, and Uzbekistan) (Figure 37, panel 2). Among the countries that provided unconditional support, the most common instrument was tax/fee deferrals (Algeria, Iran, Kazakhstan, and Uzbekistan). Some countries provided conditional financial support, the most common reason being to ensure delivery of services at low prices (Azerbaijan, Mauritania, Pakistan, Saudi

⁶It is not known if similar support was provided to the private sector.

Arabia, Tunisia, and Turkmenistan). In Jordan, Morocco, Pakistan, and Saudi Arabia conditioned government support on SOE restructuring.

Sectoral Impact

Although the analysis above assesses the impact of COVID-19 on SOEs at the aggregate level, the experience of SOEs in different sectors may be distinct. This section looks more closely at the experience of SOEs in three industries: airlines, oil and gas, and electricity, which were among the most hard-hit industries during the pandemic.

All three industries suffered considerable losses but did not benefit from similar levels of government support. The airline industry experienced significant losses over an extended time and received considerable financial support (including equity injections), often without conditions. The impact on the oil/gas and electricity industries was experienced during a narrower window of time. Unlike the airline and oil and gas industries, the electricity industry suffered not only a direct hit (reduced demand) but also an indirect hit (inability of consumers to pay bills), compensated partly by lower oil prices. The oil and gas industry for the most part did not receive support, whereas in the electricity sector it was conditioned on safeguarding service delivery.

Airline Industry

The pandemic has taken a heavy toll on the airline industry. Air traffic declined precipitously beginning in March 2020, with the number of flight arrivals and departures in the region falling to less than 10 percent of their 2019 level (Figure 38). The number of flights steadily increased over the second half of 2020 but remained at less than half of their 2019 level.

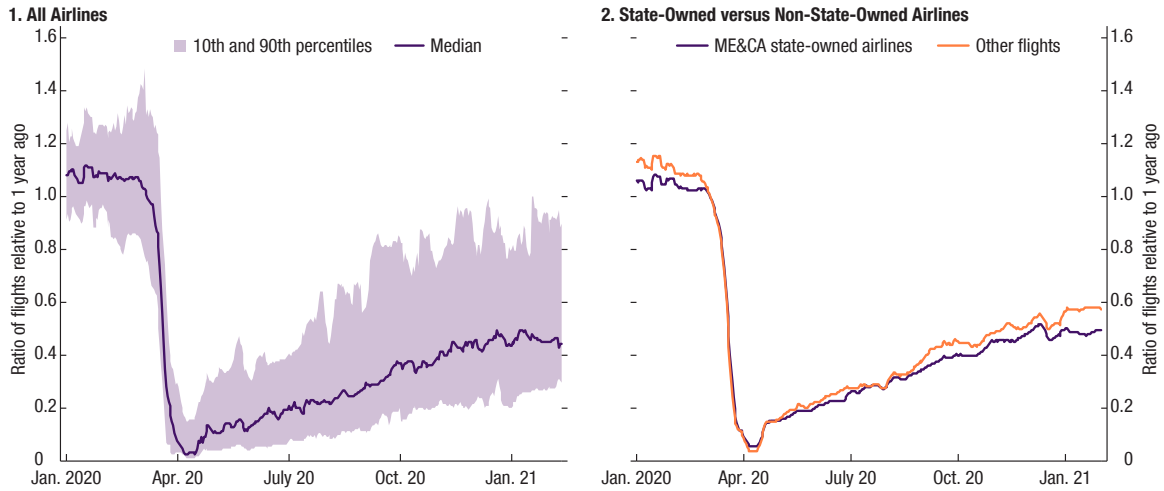
Many ME&CA countries have national airline companies, which are at least partially state owned. They fared similarly to private airlines, even though they were used by governments to repatriate citizens stranded abroad (for example, Egypt Air, Kuwait Airways)⁷ and distribute medical supplies and vaccines. In Jordan, all incoming and outgoing commercial passenger flights were suspended for five months,⁸ leading to a drop in Royal Jordanian's revenues by 84 percent year over year by end-Q3 2020.⁹ Airlines in the Gulf region cut employment and wages to cope with the shock. For example, Qatar Airways Group is estimated to have laid off some 20 percent

⁷*Abram online* (June 15, 2020).

⁸IMF (2021d).

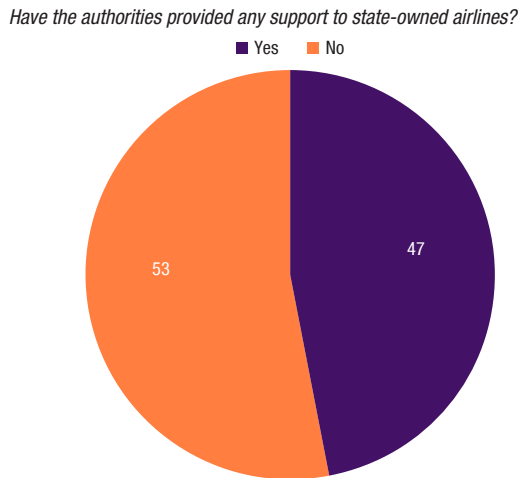
⁹Royal Jordanian (2020).

Figure 38. Flights in ME&CA Countries



Sources: FlightRadar24; and IMF staff calculations.
 Note: Flights which have an origin or destination within the ME&CA region are selected and flights without a reported operator are dropped. The ratio of flights relative to a year ago is calculated by taking a 7-day average of flights (to abstract from within week volatility) and comparing this to the 7-day average of flights 365 days previously.

Figure 39. Government Support to State-Owned Airlines (Percent of respondents)



Sources: National country authorities; IMF staff; and IMF staff calculations.

of its 40,000 workforce and cut salaries of non-Qatari pilots by up to 25 percent.¹⁰ To help mitigate the sharp decline in passengers, many airlines have expanded to other lines of business within the transportation sector, in particular their cargo services.

Governments across the region have stepped in to support state-owned airlines. Survey evidence suggests that state-owned airlines received government support in almost half of ME&CA countries (Figure 39) through subsidies, loan guarantees, cash transfers, equity injections, tax deferrals, and debt relief totaling at least US\$6 billion:

- *Azerbaijan*. US\$142 million in subsidies and US\$21 million in guarantees to Azerbaijan Airlines.¹¹

¹⁰Reuters (June 15, 2020).

¹¹The examples throughout this paragraph were provided by IMF country teams.

- *Egypt*. EGP5 billion (US\$318 million) in direct assistance and government-backed loans to EgyptAir.¹² The government also agreed to finance EgyptAir's loan of EGP2 billion (US\$127 million) until the company returned to 80 percent of its pre-COVID capacity.¹³
- *Jordan*. A comfort letter to allow Royal Jordanian to borrow up to JD50 million (US\$70 million) from a commercial bank.¹⁴
- *Qatar*. Equity injection of QR7 billion (US\$1.7 billion) to Qatar Airways from the Sovereign Wealth Fund.¹⁵
- *Tajikistan*. Tax deferrals and write-offs to Tajik Air.¹⁶
- *Saudi Arabia*. SAR6.4 billion (US\$1.7 billion) to Saudia in H1 2020 for payments for services and other receivables.¹⁷
- *United Arab Emirates*. The Dubai government provided an AED7.3 billion (US\$2 billion) cash injection into Emirates.¹⁸
- *Uzbekistan*. The government requested a state-owned bank to temporarily suspend payments on a US\$111 million to the national airline.¹⁹

Oil and Gas Industry

The oil and gas industry has faced unprecedented difficulties due to the COVID-19 pandemic. Oil prices plummeted to 18-year lows, driven by the collapse in oil demand (especially jet fuel) in March 2020, and the ensuing price war between some oil exporters. Several OPEC+ agreements have subsequently limited overall oil market supply. Oil prices began to stabilize in H2 2020 and by early February 2021, they had returned to pre-COVID levels (Figure 40).

In response to a sharp fall in oil demand, state oil companies undertook cost-cutting measures to contain losses. Qatar Petroleum, for example, the world's largest producer of liquefied gas, announced a 30 percent reduction in operating and capital expenses in 2020,²⁰ including the elimination of at least 800 jobs.²¹ Nevertheless, the company committed to pursuing its domestic and foreign expansion, including a 40 percent increase in annual

¹²Cornwell (2021).

¹³Reuters (May 17, 2020).

¹⁴IMF (2021d).

¹⁵Kaminski-Morrow (2020).

¹⁶IMF staff.

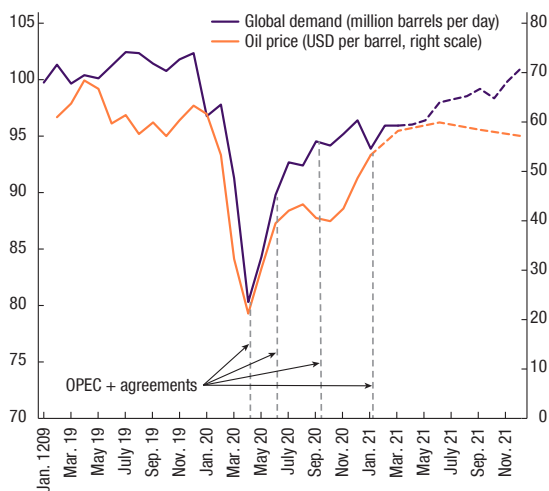
¹⁷Reuters (November 18, 2020).

¹⁸Dudley (2020).

¹⁹IMF staff.

²⁰Rodríguez (2020).

²¹Atalayar (June 17, 2020).

Figure 40. Global Oil Demand and Prices

Sources: US Energy Information Administration (EIA) Short-Term Energy Outlook; and IMF World Economic Outlook (WEO).

LNG production by 2024.²² Similarly, Kuwait Petroleum Corporation (KPC) instructed its subsidiaries to cut both capital and operating expenditures. In April 2020, KPC agreed with the Kuwaiti Ministry of Finance to reduce its 2020/21 budget by about 20 percent in line with efforts to tackle the fiscal deficit, and to cancel several upstream and downstream projects.²³ Kuwait also approved plans to restructure KPC's eight operating subsidiaries into the four main existing upstream and downstream subsidiaries over a two-year period, which will likely entail job losses. Saudi Aramco, one of the world's largest companies by revenue, also implemented cost-cutting measures, but still registered a decline in net income (Box 14).

Electricity Companies

The pandemic has also negatively impacted power companies. Electricity demand declined sharply in the short term and many customers (both households and businesses) faced payment difficulties. Compensating for some of these losses, many electricity companies, which rely on fuel to produce electricity, benefited from reduced input prices.

The negative impact of COVID-19 on electricity companies was stronger in the wake of the pandemic but dissipated as the year progressed. In Tunisia, Société Tunisienne de l'Electricité et du Gaz (STEG) saw demand for electricity decline by 20 percent year over year in April 2020, driven by firms which represented 60–65 percent of electricity demand (industry, services, and agriculture).²⁴ As a consequence, STEG delayed some of its renewable energy projects, also because of supply chain closures and workforce mobility restrictions. In Jordan, NEPCO couldn't fully benefit from lower oil prices given the nature of its supply contracts.²⁵ To cope with the shock, NEPCO delayed various investment projects, including the development of new plants. In Kazakhstan, Kazakhstan's Electricity Grid Operating Company dropped its production by about 15 percent in April 2020 relative to March

²²*ET Energy World* (April 7, 2020).

²³*Economist Intelligence Unit* (September 22, 2020).

²⁴Nouicer (2020).

²⁵IMF (2021d).

2020, in response to reduced demand due to COVID-19, which only began to recover in September 2020.²⁶

Several electricity distribution companies voluntarily suspended shutoffs as part of their COVID-19 response to ease the burden on consumers. For example, STEG guaranteed access to electricity and gas for all consumers, announced that service would continue for households that did not pay their bills during the lockdown and deferred payments by one month. Morocco's National Office of Electricity and Drinking Water (ONEE) also announced that during the COVID-19 crisis low-income households would benefit from a temporary billing suspension, continued electricity supply (with a prepayment meter), and special remote payment facilities.²⁷ To support ONEE, the government committed emergency aid of MAD1 billion (US\$104.1 million).²⁸

Going forward, the sector will face challenges on its road to recovery, with the loss of revenue posing continued financial risks for some power companies. The ability to recoup losses incurred during COVID-19 by charging higher tariffs, could require regulatory approval that may prove difficult if demand remains subdued. In addition, the accumulation of large unpaid bills could pose challenges if regulators push power companies to forgive client debts.

Long-Term Consequences of COVID-19

While the worst of the pandemic may soon be over, its effects may linger in some countries, requiring governments to address two main risks. First, withdrawing exceptional support may prove challenging as only a few countries indicated that financial support was provided for a timebound period (Kazakhstan, Mauritania, Oman, Pakistan, Saudi Arabia, and Uzbekistan). This situation is compounded by the lack of clear exit strategies, as about two-thirds of survey respondents indicated that there was no clear strategy for withdrawing financial support (Figure 41). A second risk is that support provided during COVID-19 may set a precedent for future support. However, some countries are moving to mitigate this risk. In Morocco, the authorities are seeking to restructure SOEs and refocus on core businesses (Box 15). In Oman, the authorities are seeking to merge entities, review SOE financial performance and subsidy/support requirements, and align their objectives with Vision 2040.

²⁶CEIC (accessed April 12, 2021).

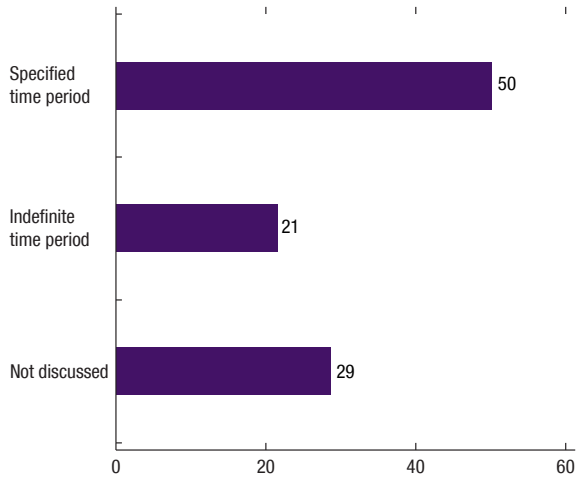
²⁷Guessous (2020).

²⁸Hatim (2020).

Figure 41. Risks Associated with COVID-19 Financial Support
(Percent of respondents)

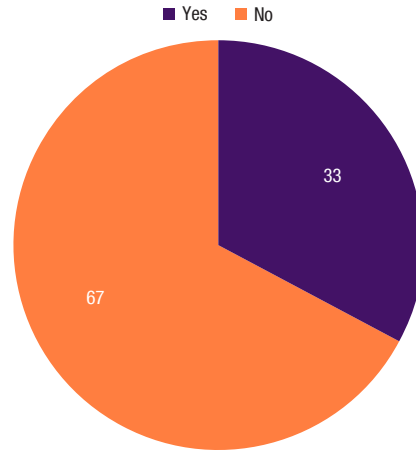
How long is COVID-19 financial support provided for?

1.



Is there an exit strategy to withdraw COVID-19 related support from SOEs?

2.



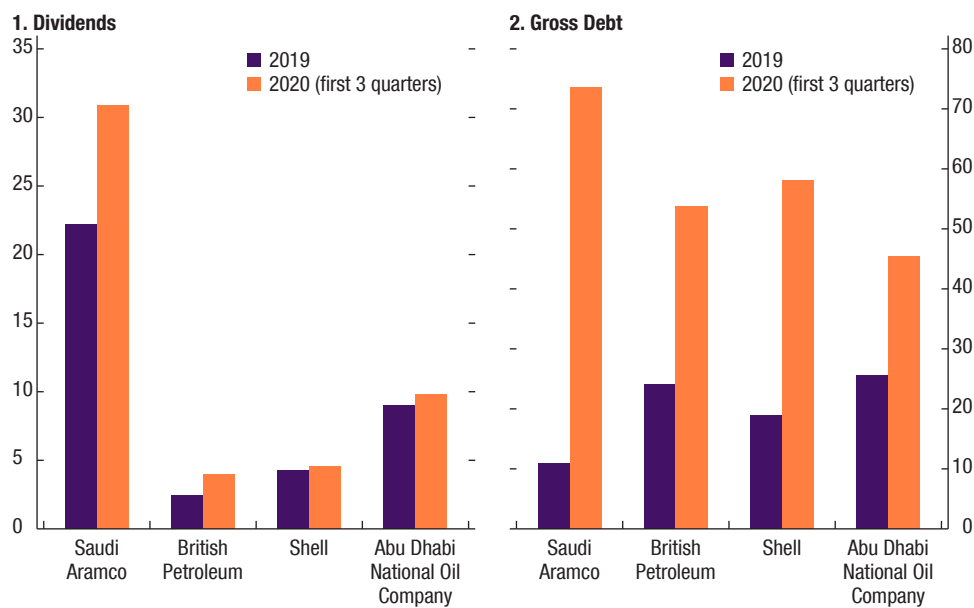
Sources: National country authorities; IMF staff; and IMF staff calculations.

Box 14. The Impact of COVID-19 on Saudi Aramco's Operations

In June 2020, Aramco laid off less than 1 percent of its more than 70,000 employees, while global energy firms resorted to extensive layoffs (10–15 percent of their workforce) during the COVID-19 pandemic.¹ Saudi Aramco's domestic workers were protected. At the same time, the company activated its business continuity plan for the entire organization and cut capital spending by 6.2 percent in 2020 H1.² As of end-2020, the company had also cut operating costs by 14.8 percent.³

Aramco saw a 50 percent year over year drop in net income during H1 2020, as demand for oil and prices continued to decline. In Q3 2020, results improved somewhat amid efforts around the world to ease mobility restrictions and cut oil production, helping the company post a profit of US\$11.79 billion, compared to US\$6.57 billion in Q2 (and US\$21.3 billion in Q3 2019). Still, Aramco's profits during January–September 2020 were down by about 45 percent relative to one year ago. Saudi Aramco finished 2020 with an overall drop in net income of 44 percent (US\$49 billion com-

Box Figure 14.1. Saudi Aramco Financial Performance
(Percent of revenue)



Sources: Company financial reports; and IMF staff calculations.

¹Reuters (June 18, 2020).

²CNBC (August 9, 2020).

³Saudi Aramco (2020).

Box 14. The Impact of COVID-19 on Saudi Aramco's Operations (*continued*)

pared to US\$88.2 million in 2019), compared to 66 percent in the case of Total⁴ and about 260 percent for Exxon Mobile.⁵ The acquisition of 70 percent of the Saudi Basic Industries Corporation (SABIC), a chemical manufacturing company, contributed to a large increase in Aramco's debt ratio. Finally, to strengthen its cash position, Aramco issued US\$8 billion in multi-tranche US\$-denominated bonds in November 2020.

The consecutive declines in Aramco's quarterly profits put pressure on Saudi Arabia's public finances as lower oil prices weighed on government revenues. Nevertheless, Aramco adhered to its commitment to pay a large dividend (US\$75 billion) to its shareholders (mainly the Saudi Government), a pledge it made after it floated part of its shares in 2019 in the world's biggest IPO. It also paid out US\$18.75 billion in dividends related to Q3 2020.⁶

⁴Meredith (2021).

⁵BBC (February 2, 2021).

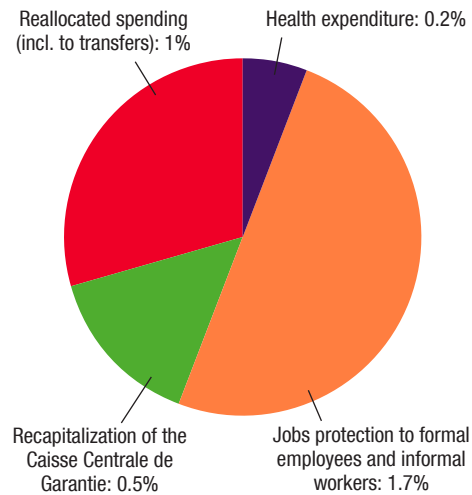
⁶*Saudi Aramco, Investors Dividends* (accessed April 12, 2021).

Box 15. SOEs in Morocco: Government Support During COVID-19

The Moroccan government provided about US\$1.7 billion in financial support to SOEs in 2020 to tackle the COVID-19 crisis.¹ About US\$500 million was direct support in the form of subsidies, loans, debt assumption, capital injection, and called guarantees. The rest, about US\$1.2 billion, was in the form of domestic guarantees to enable SOEs to borrow from local banks and repay their suppliers as a way to support the private sector. The government also issued an additional EUR250 million in guarantees to allow SOEs to borrow externally.

SOEs have also played an important role in channeling COVID-related support to those in need. They transferred about MAD9 billion (about US\$1 billion or 0.8-percent of GDP) to a special COVID-19 fund that was created by the authorities to channel voluntary contributions from private and public firms and high-wealth Moroccan citizens. The COVID-19 fund (Box Figure 15.1) has been used by the government to increase discretionary spending and has had a significant redistribution effect. In particular, it covered the costs of upgrading medical facilities and supported businesses and households impacted by the pandemic.

Box Figure 15.1. Distribution of COVID-19 Fund
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

¹This box is based on IMF (2021b).

Lessons and Policy Recommendations

Lessons

This paper set out to document the footprint and performance of the non-financial SOE sector, analyze fiscal risks stemming from SOEs and corporate governance standards, understand how COVID-19 has impacted SOEs, and extract lessons from the ME&CA region.

SOEs play an important role in ME&CA's economic activity, development, and employment. They range from multinationals with a global presence to network industries to activities that are served by private firms in other regions and span all sectors of the economy. Conservative estimates of the footprint in ME&CA (in terms of numbers, assets, and employment) suggest it is larger than in OECD countries in most instances, although with significant heterogeneity across countries. However, in most countries only a handful of large SOEs account for a large proportion of overall SOE assets and employment. SOEs in ME&CA frequently have weak operating performance, with many operating at a loss and reliant on direct or indirect government support, in line with previous findings from other regions. This large presence, coupled with large fiscal costs, significant corporate governance gaps, and preferential treatment for SOEs have implications for the competitiveness and dynamism of the private sector, overall growth, and ensuring the resilience of economies to future large shocks.

This paper distills a number of lessons from countries in the region:

- An appropriate SOE definition needs to take into account the national context. For example, while Georgia has no formal definition of an SOE, it has taken a comprehensive approach to include all entities in which the

government holds more than 25 per share (including local governments), which is feasible in a small country.

- Improved transparency and analysis of fiscal risks help to strengthen governance, SOEs' management, and fiscal planning. Morocco stands out for its annual SOE report that has been published online since 2008 and comprehensive reporting of its SOE sector in its annual budget law. This information will be used as the authorities seek to restructure SOEs. In Georgia, its Fiscal Risks Statement identifies sources of risks and estimates the magnitude of fiscal risks materializing using scenario analysis, supporting the authorities' efforts to manage and mitigate them.
- Improving SOE efficiency and performance can be supported with corporate governance reforms but may require a cultural change. The experience of Jordan's NEPCO suggests that corporate governance reforms can help focus a company on its commercial, financial, and operational performance. This focus has required building (1) leadership to transform the SOE into one "thinking" like a commercial company and (2) ownership of a corporate strategy, that fits with the government's broader sectoral strategy, but makes commercial and financial sense to NEPCO. These changes need to be embedded in the SOE so that new practices take hold and allow the enterprise to control itself rather than having the government control the business.
- Anti-corruption governance reforms require a multipronged approach. Strong and stable support for the reform by top management will be critical for success. At the same time, boards and senior management need to gain an awareness of how to structure internal control functions, which are seen as key to tackling corruption. Success also hinges on dedicating sufficient resources to the work (both physical and human).
- SOE sector reform is a multiyear, multistep process, involving numerous stakeholders. The experience of Pakistan shows that while some work can be advanced in parallel, proper sequencing is necessary. This is even more evident in fragile states facing significant capacity constraints such as Sudan, where the initial focus is on clarifying the definition of an SOE and compiling an inventory of SOEs.
- Lastly, technical assistance can facilitate the design and implementation of reforms. The IMF has, for example, provided TA including from a regional center based in the Middle East (METAC), related to statistical classification of SOEs, identification and management of fiscal risks, and modernization of legal frameworks. With METAC support Egypt has improved its fiscal risk disclosure, started publishing reports on SOE financial performance, and compiled sector accounts.

Recommendations

The recommendations offer broad guidance, which should be tailored to meet the country context, including the institutional strengths and weaknesses as well as technical capacities.

Countries need to know what they own as this is a prerequisite to (1) assess the level of public ownership in the economy; (2) allow an honest appraisal of the appropriateness of public ownership in the economy; and (3) permit a reallocation of resources to boost productivity and profitability and reduce the reliance on government subsidies.

- Countries should review the national definition of SOEs, making use of the guiding principles provided in GFSM 2014, to ensure it is relevant and takes into account country specifics. Sectorization exercises should be completed to identify which SOEs should be classified as part of the general government sector and which as public corporations.
- A list of all SOEs should be published (and prepared if not already done) to build a comprehensive picture of the SOE sector (across economic activity, employment, and budget).
- An aggregate SOE report should be published to reflect the status of government ownership in the economy.
- Consolidated accounts of SOEs should be prepared to help to determine their impact on the government and the economy.
- SOE performance should be assessed on an annual (or quarterly) basis, with an evaluation against public policy and individual SOE objectives as well as private sector comparators.

Fiscal management frameworks for SOEs need to be strengthened to effectively monitor and reduce government exposure to SOEs.

- As a first step the Ministry of Finance or Ministry of Economy should be empowered to assess and monitor fiscal risks from SOEs. Such a framework could be developed gradually and be subsequently integrated into the overall public financial management framework to ensure consistency.
- Improving fiscal risks management will require strengthening the legal and institutional framework, as well as building capacity within the Ministry of Finance to assess and monitor SOEs.
- Priority should be given to regularly collecting timely data and reliable reporting from SOEs and identifying fiscal risks from SOEs, if necessary, through legal means. This will require identifying key financial indicators

at both aggregate and individual SOE levels for effective monitoring (for example, profit and loss statements, cash flow statements, balance sheets.

- Greater transparency and disclosure of SOE debt and SOE guaranteed debt are warranted to adequately monitor and reduce fiscal risks.
- In countries where the SOE footprint is very large or governments face capacity constraints, the initial focus could be on a subset of SOEs that generate the greatest fiscal risk or have the largest impact on economic activity. Further, a specific SOE monitoring unit could be established in countries where SOEs are very large and an important part of the public sector.
- To mitigate fiscal costs and risks, SOE mandates and ownership rationale should be clarified to limit quasi-fiscal activities while ensuring there is adequate compensation of SOEs for the remaining quasi-fiscal activities.

More transparency would go a long way toward effectively managing fiscal interactions and ultimately improving the financial standing of SOEs.

- The full range of fiscal interactions should be reported to Parliament and published on a regular basis. To start with, countries should at least provide information on the main operational and financial results achieved by SOEs as well as on the fiscal support received by SOEs and their contribution to the budget. In addition, governments should transparently report the cost of quasi-fiscal activities.
- For SOEs that distribute dividends, the dividend payments need to be governed by a proper dividend policy and transparent reporting. Countries should apply best fiscal reporting practices that distinguish dividends paid out of different sources, which would enhance the transparency and sustainability of fiscal policy.
- Governments should consider incorporating into their balance sheet information such as the state holdings in SOEs, as well as government's receivables from SOEs and payables to SOEs which are not captured in cash-based reports to track government exposure to SOEs.

Policymakers need to develop clear policies and conditions for when to provide extraordinary, as well as regular, support to SOEs, including by asking whether the SOE is viable and requiring a restructuring plan to be implemented.

- As a condition for financial support, there should be a commitment by the SOE to improve its corporate governance practices and audit procedures as well as enhance reporting, disclosure and, transparency by developing and

including measurable targets and indicators that could be monitored by the state as part of the performance evaluation.

- For SOEs that face prolonged financial difficulties and large losses are expected, governments should consider conducting a triage—SOEs that are not viable and do not have a critical policy mandate should be divested, and SOEs deemed strategic or systemically important need to be reformed and restructured to restore their viability.
- SOE restructuring could be made easier if SOEs are incorporated and operating under corporate law.
- At the same time, serious consideration should be given to privatization in sectors that would be better suited to private sector involvement.

Governance shortcomings should be addressed.

- Most countries need to strengthen strategic thinking around SOEs (and their mission) and ask whether the objectives of state ownership are being met.
- More centralized oversight of SOEs should be adopted to address risks to accountability, incentive structures, and agenda setting.
- SOE board composition requirements should be improved to support objective and independent judgement, while avoiding potential conflicts of interest.
- Centralization of the board selection process can help in professionalizing SOE boards as it lowers risks of non-transparency, political influence, conflicts of interest, and different procedures across the government.
- Regular audits should be conducted by both the auditor general and an independent external auditor that is not providing non-audit services. They should be timely and publicly disclosed.
- As a first best, SOEs should be as transparent as publicly traded corporations.
- At the same time, all the best governance standards on paper are not worth much if they are not implemented in practice. Therefore, attention should be paid equally to de jure and de facto governance practices.

Beyond the implementation of corporate governance standards, the regulatory environment and preferential fiscal support should be examined to ensure a level playing field between SOEs and private enterprises.

- Clearly separate commercial and noncommercial SOE activities.

- Impose transparent compensation for noncommercial activities and public sector obligations of SOEs.
- Ensure the same tax and regulatory burden is applied to private firms and SOEs and reduce barriers to entry.
- The terminology “state aid” should be introduced. There should be an assessment of the impact of state aid on the banking sector, macroeconomic stability, and budget with the ultimate goal to be reduced state aid.

Governments should consider alternative ownership structures for a given enterprise and whether these would achieve the same objectives in a more efficient manner.

- A helpful exercise that governments can make in this direction is the triage of all SOEs on the basis of (1) financial viability; (2) public policy priorities (for example, strategic interests); and (3) market failures (for example, natural monopoly), to identify the SOEs that should be either maintained under state ownership, or subject to privatization, or rather liquidated.
- Of the SOEs that should be maintained, such an exercise should also take stock of SOE incorporating forms. For instance, when SOEs have their own constituting laws, which define parameters such as board size and composition, these laws may need to be reviewed and updated as their narrow definitions often pose barriers to good corporate governance.
- Where the state intends to retain ownership, professional management should be hired (or privatizing management).
- A partial stock exchange listing (minority position) could also be considered as it automatically requires higher transparency and disclosure standards.

The experience from COVID-19 thus far, and in particular the extraordinary financial support provided to SOEs, reinforces the need for SOE reforms in both governance and fiscal risk management areas given their strong linkages, with an immediate focus on improving oversight, reporting, and assessment of fiscal risks.

- Financial support during the current pandemic or during any other extraordinary shock should be timebound and the same for all companies, except when it is to support government objectives.
- Explicit exit strategies for the withdrawal of exceptional financial support need to be developed.
- Areas for quick wins include improving disclosures (ownership lists, budget costs, government guarantees, economic contribution, etc.).

Finally, governments and policymakers need to be aware that improved governance and fiscal risk management will not solve all SOE problems, such as economies of scale or technological gaps. This means that there needs to be an objective reexamination of the rationale and need to participate in many economic activities that could be better served by private enterprises. Even after an objective determination of the need for SOEs, they should play a constructive role in generating strong, diversified, and sustainable growth in a post-COVID world.

- *At the individual SOE level*, there is a need to improve efficiency and reduce their reliance on government financial support (possibly achieved through restructuring or partial privatization). This would allow the government to redeploy freed-up resources toward projects with higher growth multipliers. An improved financial position of SOEs could also free up non-government domestic credit, which could be reallocated towards the private sector.
- *At the government level*, there needs to be a commitment to leveling the playing field with the private sector, including by taking measures to separate the commercial and noncommercial activities of SOEs, minimizing financial and nonfinancial support or preferential treatment to SOEs, and reducing barriers to entry for potential competitors. In some cases, this could require changes in legislation to ensure that SOEs are bound by the same conditions as private sector firms, while in other cases it will require enforcing the laws.

This page intentionally left blank

Annex 1. Definitions of SOEs

Annex Table 1.1 Definitions of SOEs Used by ME&CA Countries

Country	SOE Definition
Algeria, Armenia, Afghanistan, Jordan, Pakistan, Tajikistan, West Bank and Gaza, Yemen	Nonfinancial companies with at least 50 percent direct or indirect state ownership (central government), excluding health institutions and education institutions.
Egypt	Egyptian SOEs fall under the purview of various line ministries; are regulated by different laws; and may be classified as public sector enterprises, public business sector enterprises, military production companies, or companies under the economic authorities. For the purpose of this survey, the IMF country desk has used information from published reports and excluded financial sector SOEs (banks, insurance companies, and financial intermediation companies), and health and education SOEs. We have provided information pertaining to Egyptian public sector enterprises, public business sector enterprises and military production companies. The desk has also not included Economic Authorities (EAs, state-owned entities which in some cases engage in the production of goods and services) under the SOE definition as there may be cross-ownership. For instance, many EAs own SOEs fully or partially.
Georgia	Registry of SOEs includes information submitted by public institutions. National Office of Statistics of Georgia and other administrative sources on enterprises incorporated with share participation of the central and local authorities that are classified as significant for fiscal risk analysis. Such SOEs are considered to be the following: <ul style="list-style-type: none"> - every SOE of the central government; - municipal enterprises with over 25% of state ownership and with an annual turnover exceeding 200K GEL or with annual payroll exceeding 15K GEL.
Iraq	The amended Public Companies' Law no. 22 in 1997 defines the public company as "a self-funded economic unit which is fully owned by the state, has a legal personality, financially and economically independent, and operates according to economic bases."
Kazakhstan	The list encompasses state-controlled republican property (joint stock companies and limited liability partnerships and SOEs) including property of national management holding companies, national holding companies and national companies where the government has a stake except health and educational establishments.
Kyrgyz Republic	A business based on the right of economic management is defined as an entity whose property and income are owned by the government and are assigned to the business in question to perform business activities.
Lebanon	This source uses the following criteria to define an SOE: (1) enjoys administrative and financial autonomy; (2) is partially or totally controlled by government; (3) engages predominantly in commercial/economic activities. Based on these three criteria, there are 24 SOEs among the 110 public institutions operating in Lebanon. To make it compatible with the definition adopted in Chapter 1, "Public hospitals" and "Banque du Liban" are excluded from the list which reduces the number of SOEs to 22.
Mauritania	Within the meaning of Order 90-09 of April 4, 1990, the term "state-owned enterprise" means: <ul style="list-style-type: none"> - public establishments: specialized legal entities governed by public law, providing management of a public service, with their own assets and financial autonomy and with no private participation; - state-owned corporations: industrial or commercial public limited companies, in which the government and/or other public entities hold: <ul style="list-style-type: none"> - either the entire share capital (hereinafter referred to as "national companies"); - or part of the share capital, with the remainder of the shares held by private parties (hereinafter referred to as "semi-public companies").
Morocco	State-owned enterprises are Public Establishments and Public Limited Companies in which the Treasury has a direct stake and which operate in the commercial sector.
Saudi Arabia	Nonfinancial majority owned listed and non-listed entities. Unlisted entities only relate to the portfolio of the Public Investment Fund. Listed entities relate to companies with shareholdings held by either the Public Investment Fund, the Government of Saudi Arabia or the Public Pension Agency.
Uzbekistan	Nonfinancial companies with at least 90 percent direct or indirect state ownership (central government)

Source: National country authorities.

This page intentionally left blank

Annex 2. Chapter 2 SOE Survey and Data in ME&CA Countries

The analysis of the size, employment, and performance of SOEs uses data from the IMF's quantitative survey of ME&CA countries, as well as additional data extracted from country-specific reports for cases where authorities' survey responses were missing or significantly inconsistent with the way in which SOEs were defined in the quantitative survey. To understand how the footprint of SOEs has evolved over time, the survey asked about the role of SOEs in 2010, 2015, and 2019 (or latest available). Information collected at the aggregate level included the number of SOEs, number of employees, as well as recent financial data and performance. To explore how the footprint of SOEs varies across sectors, some disaggregated information was also collected at the sectoral level on employment and value added, following the ISIC (rev. 4) classification.

The survey provided valuable information on the size and scope of SOEs in the region; however, the data responses were limited in many respects. The survey had a response rate of about 50 percent, and responses varied depending on the nature of the question. In particular, the response rates for total assets and revenues were high, while the responses to SOEs' share in each sector's value added were limited. In total, survey responses from 14 countries are used (Afghanistan, Algeria, Armenia, Georgia, Jordan, Kazakhstan, Kyrgyz Republic, Mauritania, Morocco, Pakistan, Tajikistan, Uzbekistan, West Bank and Gaza, and Yemen). Responses were also received for Egypt but were not used in the analysis, as the authorities' responses only referred to a subset of SOEs and instead information was provided by the IMF country team based on a broader measure. For Yemen, responses on SOE revenues in 2015 were omitted as they could not be verified.

To complement the survey data, the analysis presented here also uses recent external country-specific reports, which focus on the SOEs' footprint. However, these reports are often limited in the scope of SOEs they cover, for

Annex Table 2.1. SOE Country Reports and Information Provided by IMF Staff

Country	Report/Source Used	Year	Explanation of Data Used
Azerbaijan	Asian Development Bank (2020) <i>Reforms, Opportunities and Challenges for state owned enterprises.</i>	2017	Total number of SOEs excluding finance, real estate, public administration, and defense. Education and health SOEs are not excluded. If these two sectors are also excluded to align the definition with other countries, the number of SOEs in Azerbaijan decreases from 7091 to 4496 entities
Egypt	IMF country team	2019	The data is selected to align with the definition of SOEs in the survey. The survey response is not used because the authorities reported data on public business sector enterprises (PBSEs) only, which is only subset of all SOEs.
Iraq	Government of the Republic of Iraq (2016), <i>Performance and fiscal risks from non-financial state-owned enterprises in the Republic of Iraq.</i>	2015	All government defined SOEs excluding those owned by the Ministries of Education, Finance, and Health. Companies partially owned by the government are not considered as SOEs.
Lebanon	Lebanon Institute of Finance (2021), <i>Briefing Note on SOEs in Lebanon</i>	2019	There is no legal definition of SOE. The majority of SOEs are public institutions governed by Decree 4517 of 1972, which does not differentiate between public institutions involved in commercial activities and others. Other SOEs are governed by specific laws. This source uses the following criteria to define an SOE: (i) enjoys administrative and financial autonomy; (ii) is partially or totally controlled by government; (iii) engages predominantly in commercial/ economic activities. Based on these three criteria, there are 24 SOEs among the 110 public institutions operating in Lebanon. To make it compatible with the definition adopted in Chapter 1, "Public hospitals" and "Banque du Liban" are excluded from the list which reduces the number of SOEs to 22.
Saudi Arabia	OECD (2017) <i>The Size and Sectoral Distribution of State-Owned Enterprises</i>	2015	Nonfinancial SOEs, including majority-owned unlisted and listed entities. The SOEs covered, however, significantly underrepresent the overall SOE sector. Unlisted entities only relate to the portfolio of the Public Investment Fund. Listed entities relate to companies with shareholdings held by either the Public Investment Fund, the Government of Saudi Arabia or the Public Pension Agency.
Tajikistan	IMF country team provided information on assets/GDP	2015, 2018	The data covers financials for the 13 largest and most economically important SOEs.
Tunisia	Tunisia 2020, <i>Budget Annex Report on SOEs</i>	2019	The data is selected to align with the definition of SOEs in the survey.
Turkmenistan	IMF country team, based on 2019 Art IV	2019	The SOE sector is significant (2,400 registered enterprises as of 2018) and executes most of the public sector investments.
OECD	OECD (2017) <i>The Size and Sectoral Distribution of State-Owned Enterprises</i>		Nonfinancial SOEs, including majority-owned unlisted and listed entities, statutory and quasi corporations. The SOEs covered, however, significantly underrepresent the overall SOE sector.

example, focusing on selected sectors or only large SOEs, and often define SOEs in different ways. In part this is because country authorities often do not have a full picture of the SOE footprint in their country and transparency is limited. The data extracted from these reports are intended to align, where possible, with the definition of SOEs which was used in the quantitative survey, specifically "nonfinancial companies with at least 50 percent direct or indirect state ownership (central government), excluding health institutions and education institutions." In some cases, however, broader definitions of SOEs are used in the reports than that used in the survey.

Additional Data Used

Comparison with OECD Countries

To compare SOEs in ME&CA with OECD countries, OECD data on the number of all nonfinancial SOEs and their employment in 2015 are used.¹ OECD countries include: Australia, Austria, Canada, Chile, Colombia, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Mexico, Netherlands, New Zealand, Norway, Poland, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

The definition of SOEs used by the OECD is slightly narrower than the one used in this paper. Specifically, only SOEs which are “engaged in economic activities in the marketplace” are covered and therefore it excludes “entities that fulfil a primarily public policy or administrative function.”

Population Data

Population data are sourced from the IMF *World Economic Outlook*.

SOE Sectoral Distribution Data

Sectoral distribution data are sourced from Orbis Bureau Van Dijk Database and have limited data available on the sectoral distribution of nonfinancial state-owned enterprises globally, with at least 50 percent direct or indirect state ownership, excluding health and education institutions. MENAP countries in the Orbis database include data for Afghanistan, Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Pakistan, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, Yemen. CCA countries in the Orbis database include data for Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Uzbekistan.

¹See OECD (2017).

This page intentionally left blank

Annex 3. Treatment of Dividend Payments to Government by SOEs

According to the IMF Government Finance Statistics Manual 2014, dividends paid by SOEs to the government can be recorded either as revenue (above-the-line) or as financing (below-the-line), depending on the funding sources:

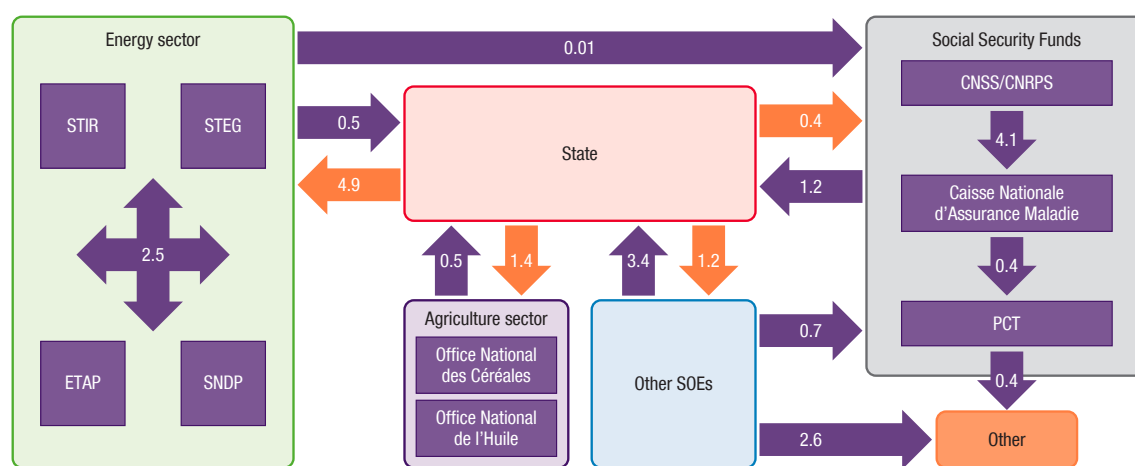
- Dividends paid out of distributable income should be recorded above-the-line (as a form of *property income* under *other revenues*), as such transaction results in an increase in government's financial assets (currency and deposits) and thus improves the government's net worth.
- Dividends paid out of other sources—such as privatization receipts, other sales of assets, accumulated reserves, borrowing or other credit arrangements, and holding gains—should be treated as financing flows and recorded below-the-line (as *withdrawal of owner's equity from the SOE* under *Equity and investment fund shares*). In particular, the so-called “super dividends,” that is, large payments out of accumulated reserves—including unpaid dividends from previous years—or as a result of significant asset sale, fall in this category.

Based on IMF Government Finance Statistics Manual 2014.

This page intentionally left blank

Annex 4. Tunisia

Annex Figure 4.1. Tunisia: Cross-Arrears of State-Owned Enterprises, 2019 and 2020
(Percent of GDP)



Sources: Tunisian authorities' budget; IMF (2021a); and IMF staff calculations.

Note: The data on State-SOE arrears are for June 2020, all other data are for 2019 as included in the 2020 budget annex, and information from CNAM and PCT. Arrows in orange are arrears from the government to SOEs; arrows in purple are arrears from SOEs to other entities (SOEs, government, social security funds, etc.). ETAP = Entreprise Tunisienne d'Activités Pétrolières; CNSS = Caisse Nationale de Sécurité Sociale; NRPS = Caisse Nationale de Retraite et de Prévoyance Sociale; PCT = Pharmacie Centrale de Tunisie; SNDP = Société Nationale de Distribution des Pétroles; STEG = Société Tunisienne de l'Electricité et du Gaz; STIR = Société Tunisienne des industries de Raffinage.

This page intentionally left blank

Annex 5. Chapter 3 Data Sources

Chapter 3 relies primarily on the responses made by the national authorities to the IMF's quantitative and qualitative surveys. The quantitative survey enquires about government support to SOEs (subsidies or budgetary lending/on-lending), payments made by SOEs to the budget (tax and non-tax revenues), explicit government guarantees to SOEs, and SOEs' debt stock. Full or partial responses have been received from Armenia, Georgia, Jordan, Kazakhstan, the Kyrgyz Republic, Mauritania, Morocco, Pakistan, Tunisia, Uzbekistan, and Yemen. The qualitative survey enquires about national practices of analyzing and managing fiscal risks from SOEs, and 15 countries have responded. In addition to the ten countries (with the exception of Yemen) that have responded to the quantitative survey, Afghanistan, Egypt, Oman, Saudi Arabia, and West Bank and Gaza have provided answers to the qualitative questions.

When responses are missing or incomplete, other information sources are utilized. Major alternative sources include:

- The IMF Government Finance Statistics Database ¹ where subsidies to public enterprises are available for 18 countries, and dividends received by the budget are available for 20 countries in the ME&CA region
- The National Oil Company Database collected by the Natural Resource Governance Institute,² which covers income taxes, dividends, royalties, and other payments made by the national oil companies to the budget. Information is available for Algeria, Azerbaijan, Kazakhstan, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates, and Tunisia

¹Accessible via IMF Data.

²Accessible at national oil company data. Accessed on January 26, 2021.

- The 2019 Open Budget Survey conducted by the International Budget Partnership, which assesses the fiscal reporting and transparency practices with 20 ME&CA countries participating in 2019.

Country-specific sources such as IMF country reports and other public reports with references provided throughout the chapter, as well as publicly disclosed budgetary information as in Egypt and Lebanon.³

³For Egypt, see SOE—Companies Treasury Relationship Summary. Accessed on June 8, 2021. For Lebanon, payments made by major SOEs come from the citizen budget dashboard. Accessed on March 24, 2021.

Annex 6. SOE Fiscal Survey

The IMF survey conducted in Winter 2020 assesses the fiscal framework and practices against international best practices. The survey includes 15 questions in the areas of SOE mandate, financial interactions with the government, and government oversight of SOEs, and the fiscal risks management framework.

Sixteen countries—11 MENAP countries (Afghanistan, Algeria, Egypt, Jordan, Mauritania, Morocco, Oman, Pakistan, Saudi Arabia, Tunisia, and West Bank Gaza) and five CCA countries (Armenia, Georgia, Kazakhstan, Kyrgyz Republic, Uzbekistan)—responded to at least part of the fiscal questionnaire. Regional aggregates are based on medians responses. The list of questions and answers are presented on the following pages.

Annex Table 6.

1. Do SOEs undertake investment/social spending etc. on behalf of the government to meet public sector obligations?	
<i>Select one.</i>	
	Yes
	No

2. Legislation generally provides for explicit non-commercial mandates for individual SOEs.	
<i>Select one.</i>	
	Yes
	No

3. Is there a legal requirement that public entities must be compensated for any losses associated with activities (including investment) undertaken on behalf of the government?	
<i>Select one.</i>	
	Yes
	No

Framework for government support

4. Is SOE financial/budget support (including guarantees) reported to Parliament or to the public?	
<i>Select one.</i>	
	Yes
	No

Financial support from the government

5. The government and/or central bank provides financial support to SOEs by:	
<i>Select all that apply.</i>	
<input type="checkbox"/>	Transfer or subsidies or cash injections – (budgetary support)
<input type="checkbox"/>	Budgetary loans, on-lending or guarantees - (quasi-fiscal support)
<input type="checkbox"/>	Preferential procurement or competition restrictions – (structural support)
<input type="checkbox"/>	Central bank lending directly to SOEs
<input type="checkbox"/>	Central bank guarantees for borrowing
<input type="checkbox"/>	Lending by state-owned banks
<input type="checkbox"/>	The government has an arms-length financial relationship with SOEs (i.e., the government provides lending terms that would be the same received by private companies, free from undue influence or pressure)

Framework for managing fiscal risks

6. Is there a law, regulation, or policy that mandates the assessment, measurement, monitoring of fiscal risks?	
<i>Select one.</i>	
	Yes
	No

7. Are SOEs integrated in the overall fiscal risk management framework?	
<i>Select one.</i>	
	Yes
	No

8. Does the Ministry of Finance or relevant government institution have a fiscal risk assessment function and mechanism for addressing SOEs deemed at risk?	
<i>Select one.</i>	
<input type="checkbox"/>	Yes, the Ministry of Finance or relevant government institution has a fiscal risk assessment function (Answer question 8.1)
<input type="checkbox"/>	Yes, there is a fiscal risk assessment function but it is not centralized (Answer question 8.1)
<input type="checkbox"/>	No, there is no risk assessment function

(continued)

Annex Table 6. (continued)

8.1 Are the fiscal risks from SOEs quantified?	
<i>Select one.</i>	
	Yes
	No
9. Are there general guidelines on SOEs' financing and investment plans (for example, borrowing limits, ceiling on foreign exchange exposure, etc.)?	
<i>Select one.</i>	
	Yes
	No

10. Are there limits on government exposure to SOEs (e.g., an annual limit on guarantees)?	
<i>Select one.</i>	
	Yes
	No

11. Does the Ministry of Finance or relevant government institution have a veto power on SOEs' borrowing, and/or sale and pledging of assets to limit fiscal risks?	
<i>Select one.</i>	
	Yes
	No

12. Is a fiscal risk statement published regularly?	
<i>Select one.</i>	
	Yes (Answer question 12.1)
	No

12.1 Does the fiscal risk statement include information on SOEs?	
<i>Select one.</i>	
	Yes
	No

Reporting framework

13. When budgeting, accounting, and reporting, is there any differentiation between commercial and non-commercial SOEs?	
<i>Select one.</i>	
	Yes
	No

14. Are public sector financial statements produced integrating SOEs?	
<i>Select one.</i>	
	Yes
	No

This page intentionally left blank

Annex 7. Summary of OECD Corporate Governance Standards

Ensuring an effective legal and regulatory framework for state-owned enterprises. To avoid market distortions, the legal and regulatory framework for SOEs should create a level playing field in markets where SOEs and private sector companies compete. Such a framework implies clear separation between the state's ownership function, simplified operational practices for SOEs, uniform application of general laws and regulations to all enterprises including SOEs, and no privileged access to SOEs for factors of production, including finance.

The state acting as an owner. The state should act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness (for example, no involvement of government in the day-to-day management of SOEs; the state should let SOE boards exercise their responsibilities and respect their independence).

Equitable treatment of shareholders. The state and SOEs should recognize the rights of all shareholders and ensure their equitable treatment and equal access to corporate information (for example, SOEs should be highly transparent with all shareholders, develop an active policy of communication and consultation with all shareholders, and protect the rights of minority shareholders).

Relations with stakeholders. The state ownership policy should fully recognize the SOEs' responsibilities toward stakeholders and request that they report on their relations with them (for example, large SOEs, and SOEs pursuing important public policy objectives, should report on stakeholder relations).

Based on OECD (2015b) and World Bank (2014).

Transparency and disclosure. SOEs should observe high standards of transparency such as developing consistent and aggregate reporting and an annual independent external audit based on international standards.

Responsibilities of SOE boards. SOE boards should have the necessary authority, competencies, and objectivity to carry out their function of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions (for example, SOE boards should be assigned a clear mandate, responsibility for the company's performance, and be fully accountable to the owners; they should be constituted in such a way that they can exercise objective and independent judgment).

Annex 8. SOE Governance Index

A new survey conducted in Winter 2020–21 by IMF staff of ME&CA country authorities assesses corporate governance and regulatory framework against the World Bank Corporate Governance Toolkit and OECD recommendations (World Bank 2014, OECD 2015b, Annex 7). Sixteen out of 29 countries responded to the survey. The survey includes 18 questions reflecting de jure SOE governance frameworks with questions spanning three broad areas: (1) ownership policy, (2) financial oversight frameworks, and (3) fiscal and policy interactions. The question-and-answer weights and summary scores are described in Annex Figure 8.1 and Annex Tables 8.1–8.4.

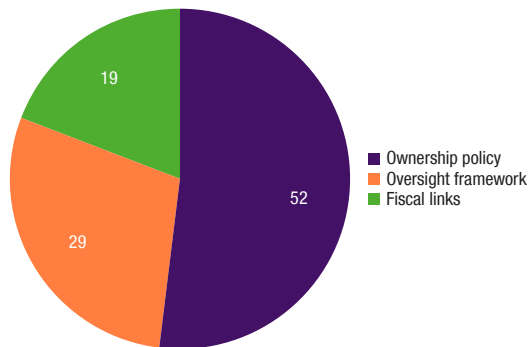
Ownership Policy

This section covers areas government policy objectives for SOEs, independence of SOE management, legal framework within which SOEs operate. There are eight questions in this section accounting for 8.5 points out of the total 16.5 points in the entire survey (52 percent section weight). The questions and answers weights are in Annex Table 8.1.

Financial Oversight Framework

This section covers SOE reporting and transparency standards and monitoring of SOE financial and operational performance. There are six questions in this section accounting for 4.8 points out of the total 16.5 points in the entire survey (29 percent section weight). The questions and answers weights are in Annex Table 8.2.

Annex Figure 8.1. SOE Governance Index Weights (Percent)



Source: IMF staff.

Fiscal and Policy Interactions with Government

This section covers fiscal and policy interactions between SOEs and governments. There are four questions in this section accounting for 3.2 points out of the total 16.5 points in the entire survey (19 percent section weight). The questions and answers weights are in Annex Table 8.3.

Adjusted SOE Governance Index

A parallel survey of country teams in the IMF Middle East and Central Asia Department was conducted to gather desk assessments of corporate governance and regulatory frameworks in ME&CA countries. This survey also covered the areas of 1) ownership policy, (2) financial oversight frameworks, and (3) fiscal and policy interactions as described above. However, it included only 11 of the 18 questions from the country authorities survey. To compare IMF desk assessments with the authorities' responses, staff created an adjusted governance index based on the 11 questions. The question-and-answer weights and summary scores are described in Annex Table 8.5–8.7.

Annex Table 8.1

Ownership Policy	Score
1 Please select one of the following:	1 weight
There is a single list of SOEs operating in the country with full coverage of all existing SOEs.	1 point
There is a single list of SOEs operating in the country, but with partial coverage of SOEs operating in the country.	0.5 point
There are multiple lists of SOEs operating in the country with full coverage of all existing SOEs.	0.75 point
There are multiple lists of SOEs operating in the country, but with partial coverage of SOEs operating in the country.	0.25 point
There are no lists.	0 point
2 Are at least some SOEs categorized by policy or strategic relevance?	0.5 weight
Yes	1 point
No	0 point
3 Is it common practice to exempt at least some SOEs from some of the general laws on taxation, regulation or insolvency?	1 weight
Yes	0 point
No	1 point
4 How is SOE operational and fiscal oversight organized in your country? Select all that apply.	2 weight
There is no oversight unit within the government or as a separate administrative entity	0 point
SOE operational oversight is decentralized to line ministries, other agencies or levels of government (i.e., municipalities, provinces, states).	0.25 point
Operational oversight is centralized within the government at least for a majority of SOEs (e.g. Ministry of Finance or Economy).	0.75 point
Operational oversight is centralized in a separate administrative entity for a majority of SOEs (e.g., state asset company or holding company).	1 point
Fiscal oversight of SOEs is provided by the Ministry of Finance	1 point
Fiscal oversight of SOEs is decentralized	0.25 point
There is no fiscal oversight of SOEs	0 point
5 Is there an ownership policy document or documents, disclosed to the public that includes, for example, overall rationale for government ownership, the state's role in the governance of SOEs, how the state will implement its ownership policy, and the respective roles and responsibilities of those government offices involved in its implementation?	1 weight
Yes, the ownership document is publicly available	1 point
Yes. However, the ownership document is not publicly available	0.25 point
No. There is no ownership document	0 point
6 As common practice, the selection and/or nomination of board members, both executive and non-executive, is conducted by:	1 weight
A centralized unit tasked with SOE oversight	1 point
Cabinet	0.75 point
A centralized unit as a separate administrative entity (e.g. holding company)	1 point
Sectoral ministries or other agencies	0 point
Parliament	0 point
None of the above	0 point
7 Do legislative requirements call for a minimum/certain percentage of independent SOE board members, who are not representatives of the state:	1 weight
Yes – for all SOEs	1 point
Yes – for a subset of SOEs	0.5 point
No	0 point
8 Is it general practice for the SOE board or management selection processes to include explicitly formulated requirements for competencies, experiences and skills, that are evaluated in a formalized, documented procedure?	1 weight
Yes – for all SOEs	1 point
Yes – for a subset of SOEs	0.5 point
No	0 point

Annex Table 8.2

Financial Oversight	
1 Are the following policies/targets established for at least a majority of SOEs:	0.2 weight/each
Annual financial performance targets	Yes - 1 point
Annual operational performance targets, such as production export or employment targets	Yes - 1 point
Annual financial performance evaluation	Yes - 1 point
Annual operational performance evaluation	Yes - 1 point
2 Is it common practice for annual financial statements of SOEs to be audited by independent external audit firms?	1 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
3 As a general rule, is it common practice to make audited financial statements publicly available?	1 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
4 Is it common practice for the oversight unit(s) to review and take action based on audited financial statements?	0.5 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
5 Is it common practice for annual financial statements of SOE to be prepared according to international standards other than national standards (e.g, IFRS, US GAAP)?	0.5 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
6 Is there an aggregate public annual report that evaluates financial and operational performance of the SOE sector as a whole?	1 weight
Yes, there is an aggregate annual report and is publicly available	1 point
Yes, there is an aggregate annual report, but it is not publicly available	0.25 point
No	0 point

Annex Table 8.3

Fiscal and Policy Interactions with Government	
1 Are the following policies/targets established for at least a majority of SOEs:	0.2 weight
Dividend policy	Yes - 1 point
2 Legislation generally provides for explicit non-commercial mandates for individual SOEs.	1 weight
Yes	1 point
No	0 point
3 The government and/or central bank provides financial support to SOEs by: (select all that apply)	1 weight
Transfer or subsidies or cash injections – (budgetary support)	0 point
Budgetary loans, on-lending or guarantees – (quasi-fiscal support)	0 point
Preferential procurement or competition restrictions – (structural support)	0 point
Central bank lending directly to SOEs	0 point
Central bank guarantees for borrowing	0 point
Lending by state-owned banks	0 point
The government has an arms-length financial relationship with SOEs (i.e., the government provides lending terms that would be the same received by private companies, free from undue influence or pressure)	1 point
4 Does the Ministry of Finance or relevant government institution have a fiscal risk assessment function and mechanism for addressing SOEs deemed at risk?	1 weight
Yes, the MOF or relevant government institution has a fiscal risk assessment function	1 point
Yes, there is a fiscal risk assessment function, but it is not centralized	0.5 point
No, there is no risk assessment function	0 point

Annex Table 8.4

Number of countries in the survey	Number of respondents	Response rate		
29	16	55		
Summary Results				
	Total	Ownership policy	Oversight Framework	Fiscal links
Max possible score	16.5	8.5	4.8	3.2
Max achieved score	11.8	7	4.6	2.2
Min achieved score	6.6	2.3	2.1	0
Average achieved score	9.3	4.7	3.4	1.3
Median achieved score	9.5	4.9	3.4	1.2

Annex Table 8.5

Ownership Policy	52 percent
1 Please select one of the following:	1 weight
There is a single list of SOEs operating in the country with full coverage of all existing SOEs.	1 point
There is a single list of SOEs operating in the country, but with partial coverage of SOEs operating in the country.	0.5 point
There are multiple lists of SOEs operating in the country with full coverage of all existing SOEs.	0.75 point
There are multiple lists of SOEs operating in the country, but with partial coverage of SOEs operating in the country.	0.25 point
There are no lists.	0 point
2 How is SOE operational and fiscal oversight organized in your country? Select all that apply.	2 weight
There is no oversight unit within the government or as a separate administrative entity	0 point
SOE operational oversight is decentralized to line ministries, other agencies or levels of government (i.e., municipalities, provinces, states).	0.25 point
Operational oversight is centralized within the government at least for a majority of SOEs (e.g. Ministry of Finance or Economy).	0.75 point
Operational oversight is centralized in a separate administrative entity for a majority of SOEs (e.g., state asset company or holding company).	1 point
Fiscal oversight of SOEs is provided by the Ministry of Finance	1 point
Fiscal oversight of SOEs is decentralized	0.25 point
There is no fiscal oversight of SOEs	0 point
3 Is there an ownership policy document or documents, disclosed to the public that includes, for example, overall rationale for government ownership, the state's role in the governance of SOEs, how the state will implement its ownership policy, and the respective roles and responsibilities of those government offices involved in its implementation?	1 weight
Yes, the ownership document is publicly available	1 point
Yes. However, the ownership document is not publicly available	0.25 point
No. There is no ownership document	0 point
Financial Oversight	29 percent
4 Are the following policies/targets established for at least a majority of SOEs:	0.2 weight/each
Annual financial performance targets	Yes - 1 point
Annual operational performance targets, such as production export or employment targets	Yes - 1 point
Annual financial performance evaluation	Yes - 1 point
Annual operational performance evaluation	Yes - 1 point
5 Is it common practice for annual financial statements of SOEs to be audited by independent external audit firms?	1 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
6 As a general rule, is it common practice to make audited financial statements publicly available?	1 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
7 Is it common practice for the oversight unit(s) to review and take action based on audited financial statements?	0.5 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
8 Is it common practice for annual financial statements of SOE to be prepared according to international standards other than national standards (e.g, IFRS, US GAAP)?	0.5 weight
No	0 point
Yes, for all SOEs	1 point
Only for a subset of SOEs	0.5 point
9 Is there an aggregate public annual report that evaluates financial and operational performance of the SOE sector as a whole?	1 weight
Yes, there is an aggregate annual report and is publicly available	1 point
Yes, there is an aggregate annual report, but it is not publicly available	0.25 point
No	0 point
Fiscal and Policy Interactions with Government	19 percent
10 Are the following policies/targets established for at least a majority of SOEs:	0.2 weight
Dividend policy	Yes - 1 point
11 The government and/or central bank provides financial support to SOEs by: (select all that apply)	1 weight
Transfer or subsidies or cash injections – (budgetary support)	0 point
Budgetary loans, on-lending or guarantees – (quasi-fiscal support)	0 point
Preferential procurement or competition restrictions – (structural support)	0 point
Central bank lending directly to SOEs	0 point
Central bank guarantees for borrowing	0 point
Lending by state-owned banks	0 point
The government has an arms-length financial relationship with SOEs (i.e., the government provides lending terms that would be the same received by private companies, free from undue influence or pressure)	1 point

Annex Table 8.6

Country Authorities Survey Summary				
Number of countries in the survey	Number of respondents		Response rate	
29	16		55	
Summary Results				
	Total	Ownership policy	Oversight Framework	Fiscal links
Max possible score	10.0	5.2	2.9	1.9
Max achieved score	6.7	4.5	2.8	1.9
Min achieved score	3.2	1.0	1.3	0.0
Avg achieved score	5.0	2.6	2.0	0.4
Median	4.8	2.3	2.0	0.3

Annex Table 8.7

IMF Desk Survey Summary				
Number of countries in the survey	Number of respondents		Response rate	
29	29		100	
Summary Results				
	Total	Ownership policy	Oversight Framework	Fiscal links
Max possible score	10.0	5.2	2.9	1.9
Max achieved score	5.9	3.9	2.8	0.8
Min achieved score	0.0	0.0	0.0	0.0
Avg achieved score	2.6	1.7	0.9	0.1
Median	2.3	1.6	0.8	0.0

Annex 9. De Jure Versus De Facto Corporate Governance Considerations

Implementation of policies in the ME&CA region often differ from what is established by law. For example, the existence of an ownership document (which many countries in the sample noted they have) does not necessarily imply that its contents align with best practices or that it is used for practical and operational purposes. In addition, countries may also differ in what they consider an ownership document. For instance, in some countries, state property management/public enterprise laws serve as such, but these usually contain only some elements of state ownership policy—that is, a high-level motivation for state ownership and principles of SOE governance (for example, Egypt, Kazakhstan). In an ideal case, this document would be used for shaping the governance and ownership functions and it should be used and referred to in SOEs strategies and practices. Whether this takes place or not, often marks an important difference between strong de jure versus de facto corporate governance.

The choice of board members is an important area where de facto corporate governance can differ from de jure rules.¹ It is also an area where research has shown that properly qualified directors can make a difference in SOE performance—for example, a study of local public utilities in Italy found that when boards were dominated by politically connected directors, SOE employment was higher and firm performance was worse (Menozzi, Urtiaga, and Vannoni 2012).

Prepared jointly with Gian Piero Cigna, Milica Delevic, Anastasia Rodina, and Yuliya Zemlytska (all EBRD).

¹The distinction between de jure and de facto measures can arise through two situations: one is indeed that the adopted framework is not complied with (a “true” de jure vs. de facto situation); and the other one is that by nature any such framework is only-principle based, as it cannot prescribe what the competencies are needed for each of the companies.

- First, how one sets the competencies needed for an SOE given its needs and then evaluates board candidates' competencies vis-à-vis the competency needs for which they are being nominated is key. While each country (and each SOE) will have its own way of evaluating those needs (ideally in line with best practices principles), it is important that these procedures are ex ante defined, clear and transparent, with the board or, if established, its nomination committee having responsibility over ensuring the nomination framework is complied with. Otherwise, one can end up in situations where the board composition is set in, for example, a legal act that regulates which authority appoints members but does not give the board the responsibility to identify which competencies they should have and overall to oversee the nomination process.² In such cases, nominating entities (be it central or not) simply pick candidates, often from their employees (including senior public officials and political appointees) who then vote based on the written directions from their employer in disregard of the board's fiduciary duties (Vagliasindi 2008).³
- Second, while several countries in the survey note the need for independence among board members, in practice this is often not a clear-cut requirement. In some countries in the sample, the definition of independent board member is weak—largely based on negative/exclusion criteria—and often not aligned with best practices. Furthermore, the minimum requirement for the number/percentages of independent board members can vary. Most importantly, independence needs to be assessed in relation to a specific company rather than generally. In at least one-third of the ME&CA countries, there are also practices of having rosters of pre-selected “independent” board members for SOEs.
- Lastly, remuneration and directors and officers insurance of board members is another key topic, which often escapes debate. This is a complicated topic for SOEs, as it is especially difficult to link remuneration to

²For example, in Egypt, Kazakhstan, Lebanon, Tunisia, and West Bank and Gaza the legislation/regulation defines rules of nomination, but only for some categories of SOEs. Elected politicians are allowed to sit on the boards in Azerbaijan, Egypt, Lebanon, Tajikistan, and Uzbekistan. In many jurisdictions in the region, civil servants, and even ministers in some cases, may sit on the boards, and in some cases, on multiple SOE boards at the same time.

³An example is the case of the Société des Transports de Tunis (TRANSTU) in Tunisia. The procedure for TRANSTU board members' appointment is established by Décret n. 2003–2407, which notes that the board (conseil d'administration) is made of 12 members—the General Director, one representative each for the Prime Minister Office; Ministry of Interior and Local Development; Ministry of Superior Education, Scientific Research and Technology; Ministry of Technologies of Communication and Transport; Ministry of Finance; Ministry of Equipment, Housing and Territorial Development; Ministry of Development and International Cooperation; Municipality of Tunis; and two representatives of staff. Board nominees are proposed by each constituency to the Ministry of Technologies of Communication and Transport, which then appoints them. The General Director—appointed by the Ministry of Technologies of Communication and Transport—chairs the board.

long-term value/performance and can often become a fiscal and political sensitivity. Nonetheless, without appropriate remuneration and relevant insurance, it is often difficult to recruit the most competent and independent candidates. This is also relevant for the candidates picked from the employee pool who are forced to do the job at little or no remuneration and being exposed to statutory (up to criminal at times) liabilities.

The above requirements are often subsumed in the “fit and proper” criteria where directors should be chosen based on their ability to fulfill their duties (“fitness”) and their suitability and reputation (“propriety”). These criteria are sometimes provided at the sectoral level for SOEs, and therefore any nominating body should take care to reconcile with them. While some countries may lack such criteria, even for the ones that do, the de facto implementation may deviate from the mandate. Lastly, beyond the nomination of board members, the evaluation and removal of those members often tests the importance of fit and proper criteria against political concerns.

Financial disclosure is another important area where the jure and de facto procedures differ in the region. Most countries surveyed noted that SOEs are required to publish their financial statements in line with IFRS accounting standards, and most have independent audits which are published and reviewed. While de jure reported practices in this area appear quite strong for most countries, some considerations should be noted. First, while independent audits are required, these may or may not be by external auditors. In many cases, an audit performed by the country’s auditor general is often considered sufficient and no external auditor is engaged. Even in cases where audits are performed by strong external auditors, practices such as the auditing firm providing non-audit services to the same company are not always prohibited or disclosed. Lastly, while countries may have broad IFRS accounting standards mandate for SOEs, some specific companies may be granted exceptions to reporting on certain IFRS standards. Importantly, the board shall have the oversight responsibility over internal audit, ideally through an audit committee.

Performance and noncommercial activities may also show differences when governance standards are implemented.

- Performance setting and evaluations frameworks do not by themselves ensure good financial and operational performance. In fact, setting operational performance targets could be counterproductive if they become instruments of industrial or employment policy (Allen and Alves 2016). Moreover, the realism of financial and operational targets and the effectiveness of performance monitoring may sometimes be questionable. For instance, the process that governments follow to develop targets—whether

by market analysis, feasibility studies, sectoral analysis, and accounting for an overall SOE strategy and balancing with non-commercial activities—is nearly as important as the targets themselves. An incorrectly set target achieves little.

- High-quality reporting and informed monitoring of data are equally important—poor reporting and of lack of capacity to properly assess reported data and understand specific actions to be taken undermines even correctly set targets. When SOEs have an explicit non-commercial mandate (which some countries in the sample report having), best practice would mandate that a public service obligation (PSO) should be created that defines the general non-commercial (public) interest of the SOE, identifies the customers that benefit from this good or service and quantify the subsidy (or another form by which the state picks up the cost) that the SOE should receive from the state for providing the goods or services at the stated price. Such expenditures should be budgeted and paid in a timely manner by the state to the SOE to avoid fiscal risks (that is, the state budget will need to pay whatever comes out at the end of the year) and a lack of accountability (see Chapter 3).
- In general, processes of strategy, budget, and risk should be closely linked for SOEs and should be SOE-specific. The strategy identifies SOEs’ goals, the budget provides the financial means for meeting the objectives, and the risk appetite identifies possible obstacles potential resources for mitigation. Financial and nonfinancial key performance indicators should be derived from the overall strategy and be used as “performance indicators,” for management to implement and for the board to oversee.

Internal and external controls and reporting lines are also often fuzzy and open windows for political interference and conflicting goals.

- The internal control function tends to be weak with SOEs often lacking awareness of how to structure internal controls along the lines of the “three lines of defense” model, where: management control is the first line of defense; risk control and independent compliance oversight functions are the second line of defense; and independent assurance is the third. In addition, SOEs often have internal audit functions that are tasked with limited aspects of risk and compliance work, for which there are no dedicated functions. Furthermore, lack of qualified staff, or lack of funds to attract such staff; fluctuations in top management support for internal control functions; and lack of internal resources for implementation of internal control frameworks (including IT resources) all weaken internal audit functions. Even when internal and external audits are performed, there is often a lack of reconciliation of findings and the proliferation of

state audit bodies means that they may at times be used to exert political pressure on management.

- In some countries (especially in MENA), SOEs are required to have two external audits by two different auditors. In such cases, the added value would be highest if one auditor were appointed by the controlling shareholder and one by the minority (for those companies that are not 100 percent owned by the state). In addition, requirements to rotate auditors every few years and the non-provision of non-auditing services by auditors, which are sometimes absent, are important to ensure independence.

Lastly, SOEs tend to be heavily regulated entities, which often hampers change in de facto practices. Nearly all governance practice is regulated by law, decree, order, instruction, or guideline. This makes any change to improve SOE practices difficult unless the regulatory framework is changed. In addition, because of the heavy regulations, management and the board of SOEs often default to activities that are expressly permitted by law, without de facto exercising business activities which may imply risk-taking, but also improve profitability.

This page intentionally left blank

Annex 10. Chapter 5 Data Sources and COVID-19 Survey

This annex provides more details about the data and the methodologies used in Chapter 5. The first part covers the quantitative analysis; the second part covers the surveys.

Quantitative Analysis

The data sample cover both SOEs and private publicly listed companies. SOEs that are not publicly listed (for example, small SOEs) are excluded. In 2020Q2, there were 36 SOEs and 1,1199 private firms in the sample. The number of firms varies somewhat from quarter to quarter. Most companies in the sample come from finance (48 percent), consumer nondurables (13 percent), and manufacturing (10 percent) sectors. The companies are from Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates. The SOEs are also from all countries included in the sample.

The data source is Compustat, which is a database that contains financial and price data. However, Compustat does not widely cover SOEs in the CCA region. To determine which company is an SOE, the analysis uses information from Orbis. In general, a company is considered SOE if the public (government) owns more than 50 percent of its shares.

SOEs are relatively large, more than double the size of private firms. The median SOE assets as of Q2 2020 were US\$3.4 billion, while that of the overall sample (private firms and SOEs) were US\$1.4 billion. The average SOE in the first quartile had assets of US\$0.4 billion compared to US\$0.1 billion in the overall sample. Similarly, the average SOE had median revenues of US\$0.4 billion as of Q2 2020 compared with US\$0.2 billion for all firms in the sample. SOEs in the first quartile had average reve-

Annex Table 10.1 SOE Coverage in Compustat Sample

(Number of SOEs)

A. Countries		B. Sectors	
Pakistan	2	Transport, Freight & Storage	5
Egypt	10	Food & Tobacco Manufacturing	5
Jordan	3	Chemicals, Petroleum, Rubber & Plastic	4
Kuwait	1	Leather, Stone, Clay & Glass products	4
Morocco	2	Communications	4
Tunisia	1	Property Services	2
Oman	4	Retail	1
Qatar	2	Utilities	2
Saudi Arabia	7	Metals & Metal Products	2
United Arab Emirates	4	Mining & Extraction	3
		Wholesale	2
		Industrial, Electric & Electronic Machinery	1
		Media & Broadcasting	1

Sources: Compustat; IMF staff calculations.

nues of US\$61 million, compared with US\$15 million for all firms in the first quartile.

Drawing conclusions about the experience of SOEs on the basis the SOE sample may lead to biased results. Since there are only 36 SOEs in the sample, making up about 2 percent of all firms in the sample, the results from the analysis may suffer from a small sample bias. The sample is also biased as listed SOEs tend to be dominant market players, with professional management, and good corporate governance standards, unlike most other SOEs operating in the region. Nonetheless, it provides some insights into how the best performing SOEs have been affected by the pandemic. The analysis focuses on the immediate impact of COVID-19 during Q2–Q4 2020, due to data availability.

Surveys

The analysis on the impact of COVID-19 in the ME&CA region relies on responses from two surveys: a survey of country authorities, which was one module of the broader Governance survey, and a survey of IMF desk economists in the Middle East and Central Asia Department. The two surveys were designed to be similar so that responses from both could be used in the analysis. In cases where responses from the two surveys overlap, responses from country authorities are used. In total, the analysis is based on responses from 28 countries: Afghanistan, Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyz Republic, Lebanon, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Tajikistan, Tunisia, Turkmenistan, United Arab Emirates, Uzbekistan, West Bank and Gaza, and Yemen.

The survey of country authorities comprised 13 questions split into three sections: the first section focused on the impact of COVID-19, the second section considered the support governments have provided to SOEs in response to the pandemic, and the final section explored whether SOEs have provided any additional support to governments. In total, 15 country authorities provided responses to at least part of the survey: Afghanistan, Algeria, Egypt, Georgia, Jordan, Kazakhstan, Kyrgyz Republic, Mauritania, Morocco, Oman, Pakistan, Saudi Arabia, Tunisia, Uzbekistan, and West Bank and Gaza.

There was significant variation in the response rate across questions. In general, questions requiring quantitative estimates had a very low response rate whereas qualitative questions had a much greater response rate.

The survey of IMF desk economists consisted of eight core questions. The wording of those questions was broadly identical to those sent to the authorities. One additional question on state-support to the airline industry was included. The survey allowed staff to obtain information on 13 countries which had not responded to the authorities' survey: Armenia, Azerbaijan, Bahrain, Djibouti, Iran, Iraq, Kuwait, Lebanon, Qatar, Tajikistan, Turkmenistan, United Arab Emirates, and Yemen. The desk survey benefitted from a higher response rate, with information obtained, at least in part, from 28 countries.

The list of questions is provided on the following pages.

Annex Table 10.

1. Have the mandates of SOEs been changed since the start of the COVID-19 pandemic? For example, did SOEs contribute to the production of delivery of medical emergency equipment and/or supplies in response to COVID-19?	
<i>Select one.</i>	
	Yes (Answer question 1.1)
	No

1.1 Please describe

2. Have SOE employees been furloughed or become unemployed since COVID-19 started?	
<i>Select one.</i>	
	Yes (Answer question 2.1)
	No

2.1 Please provide an estimate of the number of employees impacted
--

3. Have SOEs delayed any planned investments?	
<i>Select one.</i>	
	Yes (Answer question 3.1)
	No

3.1 Please provide an estimate of the total delayed investment amount

4. Have SOEs delayed payments to the government, creditors, and private suppliers as a result of COVID 19?	
<i>Select one.</i>	
	Yes (Answer question 4.1)
	No

4.1 Please provide an estimate of the delayed payments amounts (e.g., arrears)
--

5. Has the COVID-19 pandemic changed how SOEs are managed or regulated? For example, more oversight by government ministries, expectation of fewer government subsidies to cover revenue shortfalls, etc.?	
<i>Select one.</i>	
	Yes (Answer question 5.1)
	No

5.1 Please describe these changes

Support to SOEs in response to COVID-19

6. What type of financial support have SOEs received since the start of the COVID-19 pandemic?	
<i>Select all that apply.</i>	
	Tax incentives
	Tax/fee deferrals
	Cash transfers/grants
	Subsidized loans
	Capital (equity) injections/bailouts
	Government guarantees
	Other (Answer question 6.1)

6.1 Please describe

(continued)

Annex Table 10. (continued)

7. How long is financial support related to COVID-19 for SOEs provided for?	
<i>Select one.</i>	
	Specified time period
	Indefinite time period
	Not discussed

8. What is the rationale for providing additional SOE financial support:	
<i>Select all that apply.</i>	
	To protect jobs
	Protect strategic government assets
	Ensure public service delivery
	Support economic growth
	Other (Answer question 8.1)

8.1 Please describe

9. Did the government condition financial support to SOEs on:	
<i>Select all that apply.</i>	
	Providing public services at lower prices
	Deferring household payments for SOE provided services
	Restructuring of SOEs
	Other (Answer question 9.1)
	None

9.1 Please describe

10. What sectors have been the main beneficiaries of government support to SOEs?	
<i>Select all that apply.</i>	
	Transport sector (including airlines)
	Energy sector
	Natural resource-related (e.g., national oil company)
	Service sector related
	Other (Answer question 10.1)

10.1 Please list the sectors

11. Have SOEs benefitted from other non-financial support (e.g., exemptions from competition law in case of air transport)?	
<i>Select one.</i>	
	Yes (Answer question 11.1)
	No

11.1 Please explain

SOE Support to the Government in response to COVID-19

12. Were SOEs asked to contribute financially to the government budget?	
<i>Select one.</i>	
	Yes (Answer question 12.1)
	No

(continued)

Annex Table 10. (continued)

12.1 How were SOEs asked to contribute?	
<i>Select all that apply.</i>	
	Advance tax payments
	Reduced payment for services due to SOEs
	Reduced government transfers to SOEs
	Loans to government
	Other (Answer question 12.1.1)

12.1 Please describe

13. Has the government determined an exit strategy to withdraw COVID-19 related financial support in the future?	
<i>Select one.</i>	
	Yes (Answer question 13.1)
	No

13.1 Please describe

Additional question asked of IMF country teams

Please describe Have the authorities provided any support to state-owned airlines? If so, please specify the type of support and amounts.

References

- Abate, Carolina, Assia Elgouacem, Tomasz Kozluk, Jan Stráský, and Cristiana Vitale. 2020. “State Ownership Will Gain Importance as a Result of COVID-19.” VoxEU Center for Economic Policy Research, London.
- Ahram Online. 2020. “Egypt Air Lost over \$3 Billion due to Flight Suspension: Minister.” *Ahram Online*. June 15
- Allen, Richard, and Miguel Alves. 2016. “How to Improve the Financial Oversight of Public Corporations.” IMF How-To Note 16/05, International Monetary Fund, Washington, DC.
- Amico, Alissa. 2017. “Arab States as Shareholders: Origins and Consequences.” In *Combining Economic and Political Development: The Experience of MENA, International Development Policy Series 7*, edited by G. Luciani, 114–31. Geneva: Graduate Institute Publications.
- Arezki, Rabah, Meriem Ait Ali Slimane, Adrea Barone, Klaus Decker, Dag Detter, Rachel Yuting Fan, Ha Nguyen, Graciela Miralles Murcigo, and Lemma Senbet. 2020. “Reaching New Heights: Promoting Fair Competition in the Middle East and North Africa.” World Bank Group, Washington, DC, October.
- Asian Development Bank (ADB). 2020. *Reforms, Opportunities, and Challenges for State-owned Enterprises*. Manila.
- Atalayar. 2020. “Qatar Petroleum Cuts Hundreds of Jobs to Mitigate Economic Impact of COVID-19.” June 17.
- Atkinson, Anthony B., and Joseph. E. Stiglitz. 1980. *Lectures on Public Economics*. London: McGraw Hill.
- Australian Government. 2004. *Australian Government Competitive Neutrality Guidelines for Managers*. Canberra: Commonwealth of Australia.

- Australian Government. 2007. "Australian Government National Competition Policy Report 2005–07." Commonwealth of Australia, Canberra.
- Baum, Anja, Clay Hackney, Paulo Medas, and Mouhamadou Sy. 2019. "Governance and State-Owned Enterprises: How Costly is Corruption?" IMF Working Paper 19/253, International Monetary Fund, Washington, DC.
- Baum, Anja, Paulo Medas, Alberto Soler, and Mouhamadou Sy. 2020. "Managing Fiscal Risks from State-Owned Enterprises." IMF Working Paper 20/213, International Monetary Fund, Washington, DC.
- BBC News. 2021. "Exxon Plunges to First Loss in Decades as Pandemic Chokes Off Demand." *BBC*. February 2.
- Benkovskis, Konstantins, and Christine Richmond. Forthcoming. "Productivity and Misallocation in SOEs: The Cases of Latvia and Serbia."
- CEIC. 2021. "Kazakhstan Electricity Production." Accessed April 12, 2021.
- Central Statistical Organization, Ministry of Planning, Government of Iraq. 2019. "Industrial Large Establishments Statistics for 2019." Government of Iraq, Baghdad.
- Claessens, Stijn, and Burcin Yurtoglu. 2012. "Corporate Governance and Development—An Update." Global Corporate Governance Forum Focus 10, International Finance Corporation, Washington, DC.
- Cornwell, Alexander. 2021. "EgyptAir to Seek up to \$447 Million in State Support, Says CEO." *Reuters*. March 22, 2021.
- Daiser, Peter, Tamyko Ysa, and Daniel Schmitt. 2017. "Corporate Governance of State-owned Enterprises: A Systematic Analysis of Empirical Literature." *International Journal of Public Sector Management* 30 (5): 447–66.
- Dewenter, Kathryn, and Paul Malatesta. 2001. "State-Owned and Privately Owned Firms: An Empirical Analysis of Profitability, Leverage, and Labor Intensity." *American Economic Review* 91 (1): 320–44.
- Dudley, Dominic. 2020. "Emirates Airline Turns to Dubai Government for \$2 Billion in Support Amid Coronavirus Crisis." *Forbes*. August 31.
- Economist Intelligence Unit. 2020. "Kuwait Petroleum Corporation Prepares for Restructuring." September 22.
- El Yaakoubi, Aziz. 2020. "Struggling Sirline Saudia got \$7 Billion of State Help in 2019–2020: Documents." November 18.
- European Bank for Reconstruction and Development (EBRD). 2020. "Transition Report 2020–21: The State Strikes Back." London.

- European Commission (EC). 2016. "State-owned Enterprises in the EU: Lessons Learnt and Ways Forward in a Post-Crisis Context." Institutional Paper 31, Brussels.
- Finance Division, Government of Pakistan. 2021. "State-Owned Enterprises Triage: Reforms and Way Forward." Government of Pakistan, Islamabad.
- Finnish Competition and Consumer Authority. 2014. Competition Act (No 948/2011).
- Government of the Republic of Iraq. 2016. "Performance and Fiscal Risks from Nonfinancial State-Owned Enterprises in the Republic of Iraq." Republic of Iraq, Baghdad.
- Grossi, Giuseppe, Ulf Papenfuß, and Marie-Soleil Tremblay. 2015. "Corporate Governance and Accountability of State-owned Enterprises: Relevance for Science and Society and Interdisciplinary Research Perspectives." *International Journal of Public Sector Management* 28 (4/5): 274–85.
- Guessous, Hamza. 2020. "COVID-19: ONEE Temporarily Suspends Billing for Struggling Customers." *Morocco World News*. April 6.
- Gyulumyan, Gohar. 2018. "Tajikistan Country Economic Memorandum: Nurturing Tajikistan's Growth Potential." Report 130045-TJ, World Bank Group, Washington, DC.
- Harris, Jason, Bruno Imbert, Paulo Medas, John Ralyea, and Ashni Singh. 2020. "Government Support to State-Owned Enterprises: Options for Sub-Saharan Africa." IMF Fiscal Affairs, Special Series on COVID-19, International Monetary Fund, Washington, DC.
- Hatim, Yahia. 2020. "Moroccan Government Allocates MAD 6 Billion to Support Royal Air Maroc." *Morocco World News*. July 13.
- Hertog, Steffen. 2010. "Defying the Resource Curse: Explaining Successful State-Owned Enterprises in Rentier States." *World Politics* 62 (2): 261–301.
- Im, Soo J., Robert Jalali, and Jamal Saghiri. 1993. "Privatization in the Republics of the Former Soviet Union: Framework and Initial Results." CFS Joint Staff Discussion Paper 12049, World Bank, Washington, DC.
- International Finance Corporation (IFC). 2018. "Creating Markets in Uzbekistan: From Stabilization to Competitiveness." Country Private Sector Diagnostic, Washington, DC.
- International Finance Corporation (IFC). 2020. "Creating Markets in Egypt: Realizing the Full Potential of a Productive Private Sector." Country Private Sector Diagnostic, Washington, DC.
- International Monetary Fund (IMF). 2014. *Government Finance Statistics Manual 2014*. Washington, DC.

- International Monetary Fund (IMF). 2016. “Republic of Tunisia: Fiscal Transparency Evaluation.” IMF Country Report 16/339, Washington, DC.
- International Monetary Fund (IMF). 2017a. “Fiscal Risks in Algeria.” Washington, DC.
- International Monetary Fund (IMF). 2017b. “Jordan: Technical Assistance Report - Public Investment Management Assessment (PIMA).” IMF Country Report 17/366, Washington, DC.
- International Monetary Fund (IMF). 2018. “Managing Public Wealth.” Washington, DC.
- International Monetary Fund (IMF). 2019a. “Djibouti: Selected Issues Paper.” IMF Country Report SM19/224. Unpublished. Washington, DC.
- International Monetary Fund (IMF). 2019b. “The Fiscal Transparency Code.” Washington, DC.
- International Monetary Fund (IMF). 2019c. “Republic of Armenia: Fiscal Transparency Evaluation.” IMF Country Report 19/134, Washington, DC.
- International Monetary Fund (IMF). 2019d. “Republic of Uzbekistan: Fiscal Transparency Evaluation.” IMF Country Report 19/117, Washington, DC.
- International Monetary Fund (IMF). 2020a. “Georgia: Seventh Review Under the Extended Fund Facility Arrangement and Request for Modification of Performance Criteria.” IMF Country Report 20/322, Washington, DC.
- International Monetary Fund (IMF). 2020b. “State-Owned Enterprises: The Other Government.” *Fiscal Monitor: Policies to Support People During the COVID-19 Pandemic*. Washington, DC, April.
- International Monetary Fund (IMF). 2021a. “Islamic Republic of Afghanistan: Technical Assistance Report—Strengthening Oversight over State-Owned Corporations, PPPs and Fiscal Risks.” IMF Country Report 21/57, Washington, DC.
- International Monetary Fund (IMF). 2021b. “Jordan: First Review Under the Extended Fund Facility Arrangement and Request for a Waiver of Non-observance and Modifications of Performance Criteria, and Rephasing of Access—Press Release; Staff Report; and Statement by the Executive Director for Jordan.” IMF Country Report 21/11, Washington, DC.
- International Monetary Fund (IMF). 2021c. “Morocco: 2020 Article IV.” Washington, D.C.” IMF Country Report 21/2, Washington, DC.
- International Monetary Fund (IMF). 2021d. “Tunisia: Staff Report for the 2021 Article IV Consultation.” IMF Country Report 21/44, Washington, DC.

- International Monetary Fund (IMF). Forthcoming. “State-Owned Enterprises Health Check Tool.” Washington, DC.
- Jurzyk, Emilia, and Cian Ruane. 2021. “Resource Misallocation Among Listed Firms in China: The Evolving Role of State-Owned Enterprises.” IMF Working Paper 21/75, Washington, DC.
- Kaminski-Morrow, David. 2020. “Qatar Airways Lands QR7.3 bn State Injection after Heavy Pre-crisis Loss.” *Air Cargo News*. September 28.
- KazMunaiGas. 2020. “Annual Report 2019.” KazMunaiGas, Republic of Kazakhstan.
- Kingdom of Morocco Audit Court. 2016. “The Sector of Establishments and Public Enterprises in Morocco: Strategic Anchoring and Governance.” Rabat.
- Koldertsova, Alissa. 2010. “The Second Corporate Governance Wave in the Middle East and North Africa.” *OECD Journal: Financial Market Trends* (2): 219–26.
- Kowalewski, Oskar, Ivan Stetsyuk, and Oleksandr Talavera. 2008. “Does Corporate Governance Determine Dividend Payouts in Poland?” *Post-Communist Economies* 20 (2): 203–18.
- Kowalski, Przemyslaw, Max Buge, Monika Sztajerowska, and Matias Egeland. 2013. “State-Owned Enterprises: Trade Effects and Policy Implications.” OECD Trade Policy Paper 147, OECD Publishing, Paris.
- Laffont, Jean-Jacques, and Jean Tirole. 1991. “The Politics of Government Decision-Making: A Theory of Regulatory Capture.” *The Quarterly Journal of Economics* 106 (4): 1089–127.
- Lawson, Colin. 1994. “The Theory of State-Owned Enterprises in Market Economies.” *Journal of Economic Surveys* 8 (3): 283–309.
- Lebanon Institute of Finance (LdF). 2021. “Briefing Note on SOEs in Lebanon.” Beirut.
- Menlasheva, Naili, and Yuri Sobolev. 2019. “Fiscal Risks from SOEs and Reforms in Tajikistan.” Selected Issues Paper, International Monetary Fund, Washington, DC.
- Menzio, Anna, Maria Gutiérrez Urriaga, and Davide Vannoni. 2012. “Board Composition, Political Connections, and Performance in State-owned Enterprises.” *Industrial and Corporate Change* 21 (3): 671–98.
- Meredith, Sam. 2021. “Oil Major Total’s Full Year Profit Falls 66% as COVID Pandemic Hits Fuel Demand.” *CNBC*. February 9.
- Ministry of Finance of Georgia. 2019. “Fiscal Risk Analysis, 2019–2023.” Tbilisi.

- Ministry of Finance Implementation and Economic Reforms Unit. 2017. "SOE Federal Footprint 2016–17." Government of Pakistan, Islamabad.
- Murphy, Dan, and Natasha Turak. 2020. "Saudi Aramco Profit Drops 50% for First Half of the Year as Pandemic Batters Oil Price." *CNBC*. August 9.
- Nadal, Nick. 2010. "SOE Governance Reforms in the MENA Region." Speech at the Global Network of SOEs Meeting, March 2, Paris.
- National Electric Power Company, Jordan. 2019. "Annual Report 2019." Amman.
- Nouicer, Athir. 2020. "The Tunisian Power System and the COVID-19 Pandemic." European University Institute, Florence School of Regulation. May 12.
- Open Budget Survey. 2019. "Open Budget Survey."
- Organisation for Economic Co-operation and Development (OECD). 2012a. "Competitive Neutrality: Maintaining a Level Playing Field Between Public and Private Business." OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2012b. "Competitive Neutrality: National Practices." OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2012c. "Towards New Arrangements for State Ownership in the Middle East and North Africa." OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2013. "State-Owned Enterprises in the Middle East and North Africa: Engines of Development and Competitiveness?" OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2015a. "Guidelines on Corporate Governance of State-Owned Enterprises." OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2015b. "State-Owned Enterprises Governance: A Stocktaking of Government Rationales for Enterprise Ownership." OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2017. "The Size and Sectoral Distribution of State-Owned Enterprises." OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2018a. "Enhancing Competitiveness in Central Asia." OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2018b. "Professionalising Boards of Directors of State-Owned Enterprises: Stocktaking of National Practices." OECD Publishing, Paris.

- Organisation for Economic Co-operation and Development (OECD). 2018c. “State Ownership in the Middle East and North Africa: Comparison with International Practices and Policy Options for Reform.” OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2019. “Survey of Corporate Governance Frameworks in the Middle East and North Africa.” OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2020a. “Annual Report on Competition Policy Developments in Finland.” OECD Publishing, Paris.
- Organisation for Economic Co-operation and Development (OECD). 2020b. “The COVID-19 Crisis and State Ownership in the Economy: Issues and Policy Considerations.” OECD Publishing, Paris, June 25.
- Organisation for Economic Co-operation and Development (OECD), European Bank for Reconstruction and Development (EBRD), the European Commission, and the European Training Foundation (ETF). 2020. “Level Playing Field in the Eastern Partner Countries.” In *SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the Small Business Act for Europe*. Paris: OECD Publishing.
- Peng, Mike W., Garry D. Bruton, Ciprian V. Stan, and Yuanyuan Huang. 2016. “Theories of the (State-Owned) Firm.” *Asia Pacific Journal of Management* 33 (2): 293–317.
- Prabowo, Ronny, Reggy Hooghiemstra, and Paula Van Veen-Dirks. 2018. “State Ownership, Socio-political Factors, and Labor Cost Stickiness.” *European Accounting Review* 27 (4): 771–96.
- Productivity Commission. 2005. “Review of National Competition Policy Reforms.” Report 33, Commonwealth of Australia, Canberra.
- Putnins, Talis. 2015. “Economics of State-Owned Enterprises.” *International Journal of Public Administration* 38 (11): 815–32.
- Qatar Petroleum. 2020. “2019 Annual Review.” Qatar.
- Qiang, Christine Zhenwei, and Georgiana Pop. 2020a. “State-owned Enterprises and COVID-19.” July 28.
- Qiang, Christine Zhenwei, and Georgiana Pop. 2020b. “State-owned Enterprises and COVID-19: Policy Principles.” July 30.
- Republic of Azerbaijan. 2020. “Decree on the Establishment of the Investment Holding Company (in Azeri).”
- République Tunisienne. 2018. “Livre Blanc: Rapport de synthèse sur la réforme des entreprises publiques en Tunisie.” Tunis.

- Reuters. 2020. "Qatar Petroleum: Coronavirus Turmoil will not Stop LNG Expansion Abroad." *EnergyWorld.com*. April 7.
- Reuters Staff. 2020a. "Egypt to Loan EgyptAir \$127 mln to Help It Through Coronavirus Crisis." *Reuters*. May 17.
- Reuters Staff. 2020b. "Qatar Airways to Lay Off Some Pilots, Cut Wages." *Reuters*. June 15.
- Reuters Staff. 2020c. "Saudi Aramco Cuts Hundreds of Jobs Amid Oil Market Downturn, Sources Say." June 18.
- Richmond, Christine, Dora Benedek, Ezequiel Cabezon, Bobana Cegar, Peter Dohlman, Michelle Hassine, Beata Jajko, Piotr Kopyrski, Maksym Markevych, Jacques Miniane, and others. 2019. "Reassessing the Role of State-Owned Enterprises in Central, Eastern, and Southeastern Europe." IMF Department Paper 19/11, International Monetary Fund, Washington, DC.
- Robinett, David. 2020. "Reform State-owned Enterprises to Avoid a COVID-19 Debt and Investment Crisis." June 3.
- Rodríguez, Ana. 2020. "Qatar Petroleum to Cut Spending by 30% to Mitigate the Impact of COVID-19." May 22.
- Royal Jordanian. 2020. "Unaudited Interim Condensed Consolidated Financial Statements." September 30.
- Royaume du Maroc. 2019. "Projet de Loi de Finances pour l'Année Budgétaire 2019."
- Saghir, Jamal. 1993. "Privatization in Tunisia." CFS Discussion Paper Series 11645, World Bank, Washington, DC.
- Saudi Aramco. 2019. "Saudi Aramco Annual Report 2019." Saudi Arabia.
- Saudi Aramco. 2020. "Saudi Aramco Annual Report 2020." Saudi Arabia.
- Saudi Aramco. n.d. "Investors: Dividends." Accessed April 12, 2021.
- Shirley, Mary M., and Patrick Walsh. 2001. "Public vs. Private Ownership: The Current State of the Debate." World Bank Group Policy Research Working Paper 8288, World Bank, Washington, DC.
- Social Development Foundation, Samruk Kazyna Trust. 2019. "2019 Annual Report." Samruk Kazyna, Republic of Kazakhstan.
- Tamirisa, Natalia, and Christoph Duenwald. 2018. "Public Wage Bills in the Middle East and Central Asia." IMF Department Paper 18/01, International Monetary Fund, Washington, DC.

- Ter-Minassian, Teresa. 2017. "Identifying and Mitigating Fiscal Risks from State-Owned Enterprises (SOEs)." IDB Discussion Paper 546, Inter-American Development Bank, Washington, DC.
- United Nations Conference on Trade and Development (UNCTAD). 2014. "Competitive Neutrality and its Application in Selected Developing Countries." UNCTAD Research Partnership Platform Publication Series, United Nations, Geneva.
- United Nations Conference on Trade and Development (UNCTAD). 2019. *World Investment Report 2019: Special Economic Zones*. Geneva: United Nations.
- Vagliasindi, Maria. 2008. "The Effectiveness of Boards of Directors of State-Owned Enterprises in Developing Countries." World Bank Policy Research Working Paper 4579, World Bank Group, Washington, DC.
- Vernon, Raymond. 1984. "Linking Managers with Ministers: Dilemmas of the State-owned Enterprise." *Journal of Policy Analysis and Management* 4 (1): 39–55.
- Wang, Kin, and Greg Shailer. 2018. "Does Ownership Identity Matter? A Meta-analysis of Research on Firm Financial Performance in Relation to Government versus Private Ownership." *Abacus* 54 (1): 1–35.
- World Bank. 2014. "Corporate Governance of State-Owned Enterprises: A Toolkit." World Bank Group, Washington, DC.
- World Bank. 2015. "Governance Reforms of State-Owned Enterprises (SOEs). Lessons from Four Case Studies (Egypt, Iraq, Morocco and Tunisia)." World Bank Group, Washington, DC.
- World Bank. 2018. "Economic Transformation in Djibouti: Systematic Country Diagnostic." World Bank Group, Washington, DC.
- World Bank. 2020a. "Uzbekistan Public Expenditure Review." World Bank Group, Washington, DC.
- World Bank. 2020b. "Kyrgyz Republic Public Expenditure Review: Creating Fiscal Space for Inclusive Growth." World Bank Group, Washington, DC.