# State-owned enterprise Reform Roundup


**Authors:** David Fellows and John Leonardo

PFMConnect's state-owned enterprise (SOE) Board on Pinterest for the first half of the current year demonstrates the financial burden that SOEs can impose on governments and the resulting dilemmas that arise. SOE services range from oil producers, insurers, railway operators and broadcasters. They can be large or small and some states have a vast number of them. Tensions arise between the desire to retain state ownership to exercise control over pricing of essential services for the benefit of the poorer members of society and concerns over the effects of poor management and lax governance that can create unacceptable service standards and high prices.

States are giving consideration to a variety of improvements including outright sale, partial sale through stock exchange listings, governance reform, increased professional representation on management boards and the rationalisation of sprawling conglomerates.

It is very clear that in many countries the financial drain of SOEs on the exchequer and the political burden of justifying their poor performance, lack of transparency and corruption are leading towards a raft of drastic measures. The question remains as to whether chosen solutions will be seen through to successful outcomes. Slow progress with partial privatisation by some states raises a few doubts.

Some of the **Pins** that reflect these concerns are, as follows:

**An IMF press release** on 26 June reported that the Executive Board of the International Monetary Fund had concluded the Article IV consultation with South Africa. In the accompanying statement the IMF made the point that ‘The public sector’s balance sheet is … exposed to sizable contingent liabilities from state-owned enterprises’.

**The Southern Times** reported on 26 June that South Africa, Namibia and Zimbabwe had all experienced problems with SOEs. As a result, South Africa and Namibia had both established ministries specialising in the management of SOEs. The Namibian Government was considering obtaining stock market listings for most commercial parastatals having spent in excess of R$1 billion in the past few years on financial bailouts. The report also quoted the Zimbabwe *Sunday Mail* as suggesting that the Zimbabwean Government had a list of around ten parastatals that were essential to the economy but needed urgent restructuring to and achieve profitability and improved service delivery. Governance reforms were also needed.

**The Telegraph, India** on 15 April reported that the Government was in the process of selling stakes in a series of SOEs through stock exchange listings. This included the Steel Authority of India Ltd, the Indian Oil Corporation and various railway and defence companies.

**Radio Pakistan** on 24 January quoted Finance Minister Ishaq Dar as expressing concern over SOE losses. He stated that the government intended to improve transparency and progress the privatisation of state enterprises.

**The Lusaka Times** on 23 April reported that the Zambian Government Minister of Finance, Felix Mutati, had expressed the Government's commitment to deal with the financial impact of SOEs on the state's finances and was introducing legal reforms to enforce fiscal discipline.

**Ukrinform** reported on 3 April that the Ukrainian Prime Minister, Volodymyr Groysman, had announced to his Cabinet the intention of selling some 3,500 SOEs that were 'absolutely ineffective' and 'of no strategic importance'. He considered that this would lead to economic improvements.

Finally, looking back almost a year **The Financial Express, Dhaka** voiced a relevant concern on 18 November 2016 when it reported that no appreciable progress had been made towards Bangladeshi SOEs gaining listings on the stock market. SOE officials cited disinterest of investors in the loss-making concerns. Some commentators suggested that the lack of progress was related to board members' objections to investment income accruing to Government rather than SOEs and their fears about the loss of personal entitlements.

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# An International eCollaboration Route to

# Public Service Reform

**Author: David Fellows**

Governance of public affairs is a complex topic. It includes the processes by which decisions are made, the means by which service performance is assessed, the standards of behaviour to which public servants are held, the transparency applied to public life and the extent to which ordinary citizens are engaged in policy-making. In this respect, developing countries provide a wealth of expertise and examples of outstanding practice, research projects, and reform programmes.

In this post I propose an approach to governance reform in developing countries that is owned and developed more extensively through multinational collaboration, and that uses digital media as a basis for that collaboration. This is not to suggest that development partners should be excluded from generating ideas or providing support but that developing countries should become more dominant orchestrators of their own development through more effective collaboration.

# Working with an International

# Perspective

Each nation requires its own strategies and implementation plans for governance reform, reflecting its specific needs, capacities, cultures, geographies and priorities. Nevertheless, multinational collaboration can offer a valuable combination of experience, ideas and expertise from diverse perspectives. At the centre of such an approach would be those who are responsible for achieving administrative reform, both civil servants and politicians, and who are intimately familiar with the challenges of the operational situation.

Such an approach would require an open and honest sharing of key problems and possibilities, the reality of progress made and the means by which achievements are being realised. Research could be shared at an early stage, development programme progress could be followed as it is rolled out and promising initiatives could be emulated promptly. Practical solutions could be sought to common problems, including mutual dependences.

This shared approach could involve officials, academics, staff from development agencies and the private sector, journalists and other experts. Technology can facilitate virtual exchanges that would not otherwise be feasible due to time, cost, and travel restrictions. It could enable the engagement of those best placed to assist, rather than those who are most readily available. In short, digital technology is an excellent medium for bringing the most appropriate combination of people together in a low-cost, time-efficient manner.

There are very many collective organisations in most if not all regions of the world, including organisations with broad national representational remits, organisations consisting of specific types of institutions, and professional bodies. The purpose of this proposal is not to supplant these organisations, but to use them as a source of expertise, conduits for dissemination and platforms for discussion. Regional collaboration whether of formal groupings or ad hoc alliances can also provide a highly effective means by which these proposals can be approached in their entirety.

# New Ways of Working using Digital Technology

There are four basic strands to my proposed approach: (i) collaborative development arrangements; (ii) expert advice and mentoring; (iii) professional training for public servants; and (iv) public transparency and engagement.

***(i) Collaborative development.*** Central to this proposal is the notion of collaboration: sharing current practice; learning from research and reform programmes; and identifying more effective ways of working through collective consideration. Relevant subject matter could include: public procurement; budgeting and performance management; auditing and risk management; broad-based annual reporting; the appointment of public officials; the conduct of elections; declarations for public office; small business development; cross border trading; taxation policy and the administration of justice. Broader themes are also relevant, such as strategic planning; combatting corruption and equality of opportunity.

A key aspect of the collaborative approach is to engage a broad range of relevant people to contribute their ideas, experiences and judgements. The emphasis should be on how national priorities might be identified, reform programmes constructed, and viability tested. Their objective would be the creation of reasonably effective solutions that are affordable, feasible and sustainable.

The use of digital technology would allow flexible connectivity between people and ready access to information resources. Databases capturing a wide variety of policies, plans, reviews, process descriptions and standards would need to be constructed and made available for interrogation. Updatable schedules of financial and performance data would be required together with platforms to facilitate multiple authoring of documents. Working group meetings could be conducted over video conferencing systems offering document display and a record of proceedings.

***(ii) Expert advice and mentoring.*** Beyond large group collaborations, the proposal also offers the opportunity for knowledge and experiences to be shared on a more personal basis. The key technological contributions here would be email, chat rooms and video conferencing with some use of databases as discussed under (i) above.

***(iii) Professional training for public servants.*** Professional training is an essential aspect of public service development. However, traditional training methods can be highly expensive when physical attendance is required and can make significant demands on the student's time away from the office.

'Open university' approaches to further education have been in operation for decades in many countries and new technology has given them a boost [1]. There is no reason why the model cannot be extended to suit the particular professional development needs of public servants from developing countries.

Digital technology can enhance the learning experience with video packages, interactive learning modules, online assessments, conventional study material, chat rooms and email exchanges together with video conferencing for tutorial sessions. Existing study programmes (e.g., World Bank courses) could be incorporated. Academics from major institutions around the world, experts from development agencies and specialists from international centres of excellence could be approached to lend support, providing a rich learning experience. It is possible that some existing public service training institutions could provide the basis for this type of provision.

Financial support for traditional training facilities has tended to fall out of favour with development partners. Perhaps this should be reconsidered using an evidenced-based approach to the value derived. A recent study [2] undertaken by PFMConnect provides substantial support for the feasibility of such an approach.

***(iv) Public transparency and engagement.*** This can equip citizens to contribute ideas for the development of public service and hold officials to account for their judgement, integrity and effectiveness. Going further, it can also help to reduce costs and improve service benefits, root out corruption, and create confidence in public institutions.

This process of accountability and engagement can be effectively achieved through official websites, chat rooms, email and social media. There is considerable scope for all governments to improve two-way communication with their citizens. A professional training institution as discussed above should seek to play a leading role in advancing key developments in administrative reform, including public transparency.

## Key Technical Considerations

This proposal mainly concerns the infrastructure available to central government services in capital cities, as central government offices are the principal subject of these proposals. In this respect there is already a fairly high standard of general internet connectivity and the capacity to implement facilities of the kind required. The public engagement aspects must, however, rely on whatever public networks are available in a particular locality and these can be expected to improve over time.

In terms of government offices, there appear to be three principal technological issues. Firstly, individual offices need to have appropriate internal facilities. Secondly, there will need to be agreement to a range of key considerations concerning the digital architecture, service providers and core software products. Some issues must be decided internationally and some can be left to local discretion. For example, video conferencing requires basic software decisions to be made on behalf of all users with operating systems and browsers having the capacity to support the chosen software but beyond this there can be considerable desktop flexibility. Thirdly, it may be useful to establish document standards for certain purposes [3].

A balance would need to be struck between the sharing of information across a broad network of participants and the need for confidentiality and security over some material. Clearly such a proposal will not take root if it is based on stipulations that are highly complex and expensive. An evolutionary approach is clearly required.

## Conclusion

In a previous blog covered by the World Policy Journal the author and colleague John Leonardo set out the case for governance reform in developing countries in order to reduce corruption and thereby improve economic performance and public service delivery.

Shifting the balance of responsibility and organising power for governance reform towards developing nations could give this agenda new impetus. An imaginative use of digital technology could enrich the inclusivity and practicality of such an approach.

This is a very tentative proposal. I have not started to discuss whether it would constitute a unified system or a series of ad hoc arrangements; how such a proposal would gain traction; and how the system would be financed. Observations and reactions would be welcome.

*David Fellows is Co-principal of PFMConnect.*

*Thanks are extended to Chris Fellows of ITI Europe for his views on the application of digital technology.*

[1] See this example from a British university: http://www.wbs.ac.uk/courses/mba/distance-learning/teaching/

[2] Commonwealth Africa Anti-Corruption Programme Evaluation – see http://blog-pfmconnect.com/wp-content/uploads/2017/05/Anti-Corruption-Africa-Programme-Evaluation-Feb-2017.pdf

[3] For instance: Horizon 2020 EU programs must include a deliverable called "data management plan" that, in part, describes the kinds of formats that will be adopted within the consortium. See http://www.sussex.ac.uk/library/researchdatamanagement/create/biddingforfunding/horizon2020dataplan and http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/hi/oa_pilot/h2020-hi-oa-data-mgt_en.pdf)

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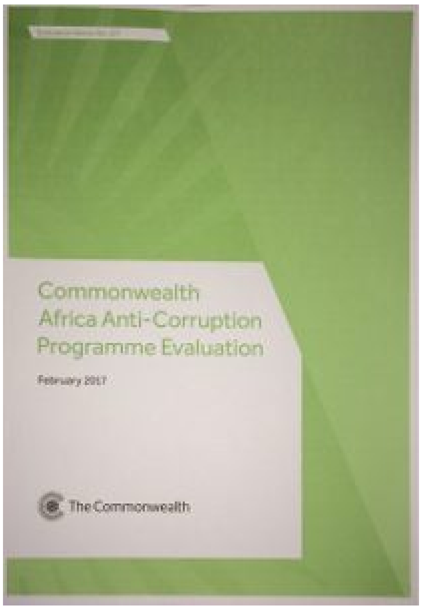
# Commonwealth Africa Anti-Corruption Programme Evaluation




# Background

Last year the Commonwealth Secretariat commissioned PFMConnect Ltd to undertake an independent evaluation of its Africa Anti-Corruption Programme.

# Stakeholders consulted

Views were obtained through discussions with officials from Commonwealth Africa countries, the Commonwealth Africa Anti-Corruption Centre in Botswana (http://www.thecaacc.org/) and at the Secretariat in London (http://thecommonwealth.org/). Online interviews were held with others that there was not time to visit. In addition, past participants of the Africa Anti-Corruption Centre capacity-building programmes were asked to complete an online survey giving their impressions of the training they had received, including its subsequent effectiveness back in the workplace.

## Future programme development

Those interviewed produced an array of interesting ideas for the future development of the Commonwealth's Africa Anti-Corruption Programme and attested to the value of the training offered. The evaluation report can be obtained here.

Amongst other things, the evaluation report suggests that anti-corruption agencies in Commonwealth Africa could be even more effective in their work if they formed a broader alliance with other national governance units possibly including auditors, procurement authorities, competition agencies and financial system administrators. Greater use of digital technology is advocated in support of regional collaboration and training. Proposals are also made for extending such support elsewhere within the Commonwealth with priority being given to smaller states.

The Commonwealth Secretariat is now considering the report with its various stakeholders before decisions are taken about the best way to develop the Commonwealth's anti-corruption agenda.

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# Public financial management weaknesses can lead to corruption

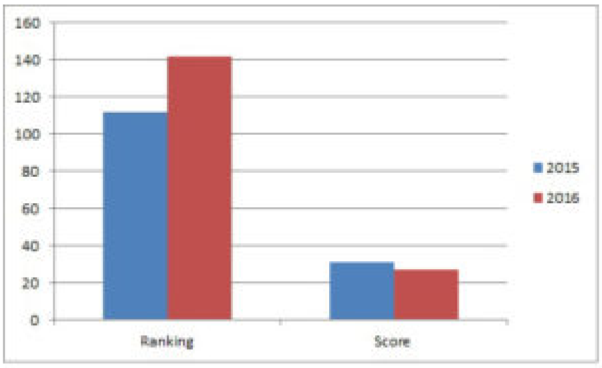
## *Mauritania's experience*

# Global corruption trends

Two recent reports on Global corruption trends highlight a number of states facing serious challenges and our analysis indicates some interesting links between corruption and standards of public financial management.

Transparency International's recently released 2016 Corruption Perceptions Index for 2016 indicates that Mauritania's ranking deteriorated noticeably in 2016 compared to the previous year. The full data set for all 176 countries is available here and the Mauritanian data is shown at Figure 1.

**Figure 1: Transparency International Corruption Perceptions Index Mauritania results 2015-2016**




The World Economic Forum's 2016 Global Competitiveness Survey, released on 15 September 2016, included the results of their annual Executive Opinion Survey which aims to measure critical concepts affecting the business environment such as the incidence of corruption. This survey shows that Mauritania was ranked 124th out of the 138 countries for corruption. The World Economic Forum's 2016 Global Competitiveness Survey report is available here.

We have developed a spreadsheet showing (i) the country rankings for the World Economic Forum's Executive Opinion Survey (not publicly available) and reported corruption impediment scores and (ii) a comparison of the Transparency International and World Economic Forum survey results that are available for 125 countries. Contact us if you would like to receive a copy of our spreadsheet.

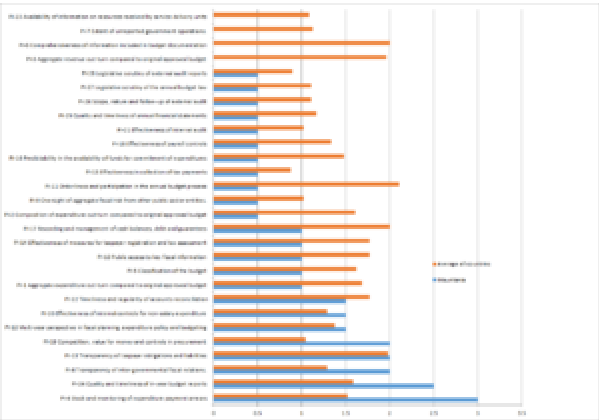
We have  found that there is a significant overall negative correlation between the scores in the two surveys (a Pearson coefficient of -.78).

## Mauritania's poor PFM and poor corruption performance

Mauritania's corruption rankings in both surveys are relatively poor with scores falling in the bottom 20% of the two surveys. Many developing countries, including Mauritania, face significant challenges in addressing corruption. We have previously identified a wide range of actions that governments (as well as the private sector) could take to assist in reducing corruption levels that include improving a range of public financial management practices in our blog International Development and the Challenge of Public Sector Corruption.

Last year we examined the Public Expenditure and Financial Accountability (PEFA) results of the twenty-four countries, including Mauritania,that published PEFA assessments during 2013-2015. Nine of the twenty-four countries studied, including Mauritania, had PEFA results indicating relatively weak public financial management; Mauritania was ranked 19th out of the twenty-four countries studied using a scoring system that the IMF has previously employed. Mauritania recorded relatively poor scores in a number of key PFM activities that are important in reducing corruption including payroll controls, internal audit, financial reporting and external audit; details are shown at Figure 2; this chart can be viewed in more detail here.

**Figure 2: Mauritania PEFA indicators' relative performance**



Seventeen of the above-mentioned twenty-four countries feature in Transparency International's 2016 Corruption Perceptions Index.  Sixteen countries (Ghana is the exception) recorded below –average scores in TI's 2015 and 2016 surveys; details of the 2015 and 2016 scores and the percentage change between these periods are presented in Table 1.

**Table 1: TI 2015-2016 scores for 2013-2015 PEFA assessment countries**

| | **PEFA score** | **TI 2016 score** | **TI 2015 score** | **% change in 2015-2016 scores** |
|---|---|---|---|---|
| Armenia | 60 | 33 | 35 | -5.71% |
| Azerbaijan | 61.5 | 30 | 29 | 3.45% |
| Belarus | 49 | 40 | 32 | 25.00% |
| Bosnia & Herzegovina | 50 | 39 | 38 | 2.63% |

| | | | | |
|---|---|---|---|---|
| Burkina Faso | 58.5 | 42 | 38 | 10.53% |
| Congo Republic | 21 | 20 | 23 | -13.04% |
| Gambia | 32 | 26 | 28 | -7.14% |
| Ghana | 27.5 | 43 | 47 | -8.51% |
| Guinea-Bassau | 14.5 | 16 | 17 | -5.88% |
| Kyrgyz Republic | 49.5 | 28 | 28 | 0.00% |
| Macedonia | 44.5 | 37 | 42 | -11.90% |
| Madagascar | 25.5 | 26 | 28 | -7.14% |
| Mauritania | 26.5 | 27 | 31 | -12.90% |
| Mongolia | 42 | 38 | 39 | -2.56% |
| Nepal | 50.5 | 29 | 27 | 7.41% |
| Papua New Guinea | 21.5 | 28 | 25 | 12.00% |
| Timor-Leste | 36 | 35 | 28 | 25.00% |

With ten of the seventeen countries in Table 1 recording either no change or a deterioration in their scores in 2016 (including Mauritania), the negative Pearson correlation between overall 2013-2015 PEFA scores and TI corruption scores for these countries strengthened from -0.41 in 2015 to -0.56 in 2016 pointing to the possible impact that poor PFM may have in facilitating corruption in the public (and private) sectors.

The World Bank noted in November 2016 that "Mauritania's PFM system remains weak". If countries, such as Mauritania, employ robust anti-corruption strategies, including actions to address key PFM weaknesses currently influencing corruption levels, they may in time be able to make some progress in curbing corruption.

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