

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.

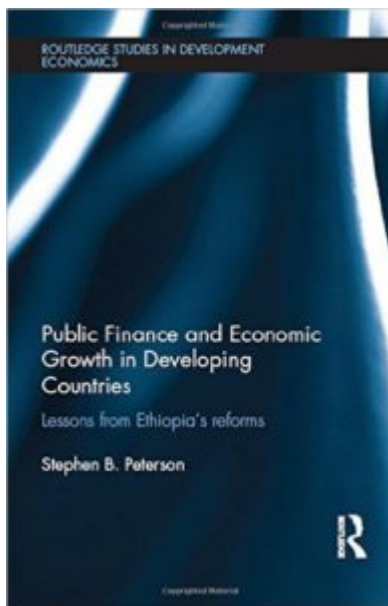
Ukrinform reported on 3 April that the Ukrainian Prime Minister, Volodymyr Groysman, had announced to his Cabinet the intention of selling some 3,500 SOEs that were 'absolutely ineffective' and 'of no strategic importance'. He considered that this would lead to economic improvements.

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.

State-owned enterprises Board

Explore the varied issues associated with the governance and management of state-owned enterprises and the links arising between this service delivery mechanism and public financial management on our Pinterest "State-owned enterprises Board"

Book Review –“ Public Finance and Economic Growth in Developing Countries”



Review by David Fellows of: ‘Public Finance and Economic Growth in Developing Countries: Lessons from Ethiopia’s reforms’ by Stephen B Peterson PhD, Professor of Public Finance, Melbourne School of Government, Published by Routledge

This is a remarkable book. It has the ring of coruscating honesty which is unique in my experience of case-based literature that all too often proceeds seamlessly from challenge to solution. No battles, no reverses and a job well done, leaving the informed reader with an abiding sense of improbability.

As a stark contrast to the norm I found this book highly insightful about public financial management in general, not simply in relation to developing countries. The author tells

of his attempts to develop systems that are appropriate to place and people and provide the Ethiopian state with a serious reforming experience as it recovers from a devastating civil war. We see the challenges he faces both from the state and from external agencies.

In particular, we see a huge range of requirements for financial systems, limited personnel and a low skill base supported by a development community that thinks in short timescales and finds it hard to accept the time needed to develop and embed major administrative reform.

We also see a development community presumption that favours advanced accountancy systems almost irrespective of their applicability. The potential danger being the creation of fundamentally unimproved public administrations either hooked on external consultancy or heading to chaos. We witness the tension between the author's wish for the simpler approach that carries a greater learning potential contrasted with the leap forward desired by the World Bank but successfully resisted at least for the time being.

Devolution has a prominent position in this narrative too. Many see it as a way of resolving a whole range of problems including ethnic diversity, service priorities, performance management, corruption, public engagement, taxation and the administrative demands of a highly centralised bureaucracy. While devolution is helpful in some ways it often opens up new problems. The Ethiopian imperatives and the author's stratagems are revealed and progress tracked.

Towards the end it appears that Ethiopia had developed a sustainable, not overly complex, accountancy solution that could be of widespread interest elsewhere only to discover that the authorities had changed their minds and opted to install a major accountancy package once the author had move on. Nevertheless, the scale of the contribution made by the

author and his team in establishing the basis of financial administration in this war torn country is remarkable.

In all it is an enthralling read for those with a general interest in the challenges of international development as well as experts the field of public financial administration wherever they ply their trade.