

Evaluation of projects with state owned firms

EBRD Evaluation department
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The EBRD Evaluation Department (EvD) conducted an evaluation of the EBRD's projects with state-owned enterprises in the power and energy and transport sectors from 2000 to 2013, to answer questions regarding project rationale, progress towards privatisation and commercialisation objectives, sectoral impact and potential marketplace distortion.

Study population features

State-owned enterprises are a noteworthy percentage of the EBRD's power and energy and transport portfolios. EvD chose 16 completed such projects for analysis, nine in the energy sector and seven in transport involving 13 clients in nine countries. Since suspension of operations in Russia, projects in Russia were excluded from the study population. Case studies were conducted in Kazakhstan and Poland.

Highlights

EvD found that projects with state-owned enterprises were additional and evaluated as successful. Loans were frequently prepaid, and two out of 16 were privatised fully, with four privatised in part.

Where multiple EBRD transactions took place, the state-owned firm was able to advance to more commercial lending from initial sovereign loans.

Most projects were able to attract external finance often commercial. All have been able to attract commercial investment at some point.

The EBRD was able to contribute to some legal and regulatory reforms but not consistently.

Sectorial indicators show an overall decrease in state control and regulation, and increased private ownership between 2000 and 2008, but limited progress since then. Significant progress remains to be achieved toward independent regulation of electricity and separation of railway infrastructure from operations.



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Findings

The EBRD's projects contributed to discrete transitional or reform steps in state-owned enterprises though broader transitional effects cannot be observed.

Factors such as government interest, status as a natural monopoly, political and economic conditions and market readiness are greater determinants in the path of an state owned enterprise than the finance, assistance and policy dialogue provided by the Bank. However evaluated projects were generally successful at achieving some level of transition impact.

The EBRD has a special role working with state-owned enterprises in its regions

Other IFIs operating in the EBRD's regions work with state owned enterprises but have not actively maintained the same commitment to modernising and commercialising larger enterprises as the EBRD has. The EBRD plays a unique role as an anchor investor and by providing trust and confidence through policy dialogue, long-term relationships and expertise.

Engaging in the public sector, particularly with state-owned enterprises can help the private sector

A near universal response from interviewees was that investing in public enterprises often helps develop the private sector. Transactions with state-owned enterprises build awareness of the EBRD and indicate good relationships with the government, particularly important in sectors such as power and energy and transport.

Repeat transactions can be an effective tool to work with state-owned enterprises

Multiple or repeat transactions can be an effective tool for advancing state-owned enterprises assuming a strong understanding of opportunities and challenges is derived from previous transactions.

Repeat transactions enable the EBRD to establish a long-term relationship, elongate leverage as a lender or investor, and continue work on transitions subsequent to the conclusion of a financial transaction.

Case studies in Kazakhstan & Poland

The case studies revealed a growing interest in renewables in countries at the early stages of development. However, both countries had limited interest in full or part privatisation of electricity generation and distribution.

The EBRD's efforts to improve corporate governance of state-owned entities in these countries have generated results.

Recommendations

1/ Use multiple or successive transactions with SOEs where specific reforms are possible, even if privatisation is not a near-term option

Since multiple engagements with an SOE can bring greater opportunity for reform but additional leverage, it is worthwhile to continue to pursue additional projects where appropriate. There is an implicit understanding that the EBRD will likely have more impact on the SOE than the sovereign government since the EBRD's main point of contact in its SOE projects is the enterprise not the government, and a commercially oriented SOE, especially if independently managed, is able to adapt and change. Reforming the government is a longer and more difficult process. A recommendation from EBRD staff was the development of long-term relationships with the SOEs but shorter timelines for individual project operational objectives as SOE management, governments and conditions can change frequently; specifically to break down larger efforts into smaller, discrete tasks. Perhaps a multiyear plan or strategy, whether a formal Bank document or a working paper, which analyses the client's path financially and operationally and sets out a strategy for achieving TI objectives while maximising revenue opportunities might enable the Bank to identify resources and gain consensus on the potential transition impact.

2/ Utilise conditions prior to disbursement whenever possible

Conditions prior to disbursement are especially important with SOEs because of the likelihood of prepayment and/or company management could be changed by the government, subject to government interference, stricken by ineffective bureaucrats or beholden to political conflict. While leverage over an SOE, especially a large one is limited, leverage is highest prior to disbursement. Conditions prior to disbursement also strengthen repeat transactions by making subsequent financing conditional upon achievement of objectives identified in previous transactions where relevant.

3/ Highlight transactions with SOEs in the corporate transaction databases

The Bank will not be able to comprehend the full effect of transactions with SOEs without understanding the full scope and volume of the transactions. Marking transactions as SOE projects would expedite analysis.

For more information read the full report at www.ebrd.com/evaluation.

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