



WORLD BANK GROUP

The MENA Compact for SOE Reform



AMF/WB Technical Workshop - 2nd October 2023

SOEs' outsized role in MENA economies



SOE employment 5% globally; up to **30% in MENA**



Economic Value Added: 8% of GDP in Latin America; 15% in Africa and OECD countries; **25% in MENA**



State-owned Banks: 18% of total banking assets worldwide, **~50% in MENA**



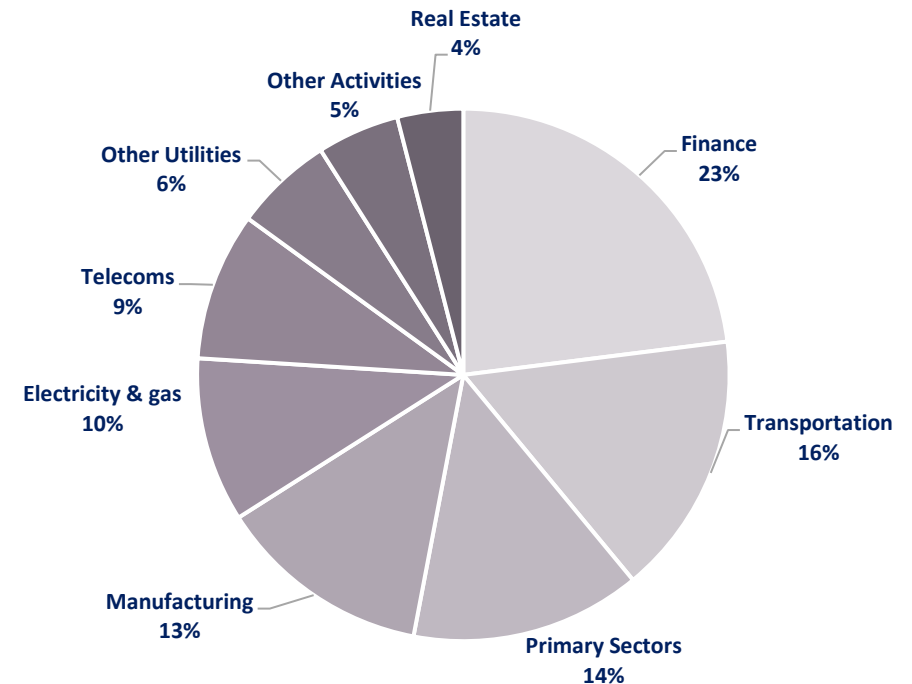
Oil Production: of world's top 10 oil producers, **5 are SOEs in MENA**



Involvement goes significantly **beyond traditional sectors** of SOE market participation

Sectoral distribution of strategic SOEs

(16 MENA economies, by no. of SOEs, 2013)



Key challenges related to SOEs in MENA

- **Market distortions** (competition, contestability) often caused by **regulatory capture** and regulatory gaps
- **Fiscal costs and risks**, contingent liabilities; debt issues; excessive leverage helped by sovereign guarantees
- **Private sector participation** in competitive sectors and services constrained by political economy issues and cronyism
- **Quality of service delivery and sector impact**: weak accountability and transparency, as well as inefficiencies and poor corporate governance
- **Job creation (and destruction)**: Significant equity and distributional impacts of SOE reforms as well as of status quo

The MENA Compact for SOE Reform: Background and rationale

Decades of reform commitments only partially translated into action

Privatization happening partly due to fiscal pressures, but the largest part of the portfolio will remain on State hands

Critically important to enhance performance and governance of the portfolio. Technical answers need to be combined with political solutions

Despite variations across the region, there is growing consensus on many principles and the direction of reform

A new regional approach could help national authorities identify, encourage and monitor SOE reforms *and* accelerate emerging reform efforts



Purpose

To create momentum, cohesion, and peer learning on SOE governance issues, which most MENA countries are committed to, but where further progress is warranted



Approach



OECD Guidelines on Corporate Governance of State-Owned Enterprises

2015 EDITION

By leveraging global good practices, the Compact aims at fostering consensus on best ways to manage SOE sectors with agreement on core common practices.

Four different themes of reform: (1) Corporate Governance; (2) Competition; (3) Climate change and sustainability, and (4) Fiscal management

Under each of these themes, the Compact establishes fundamental principles essential to maximize the performance of SOEs and their contribution to society. Each of the principles is supported by verifiable implementation benchmarks.

The Compact will involve a mechanism whereby progress on implementation benchmarks are assessed regularly in order to assist in measuring progress and to form the basis for learning across the region.



Integrated State-Owned
Enterprises Framework
iSOEF

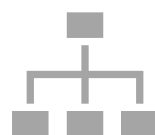
Overview

The Compact's four themes are underpinned by principles, commitments and implementation benchmarks



Themes

- Theme 1: Strong Corporate Governance
- Theme 2: Fair competition
- Theme 3: Climate change, sustainability and equality
- Theme 4: Sound fiscal management



Principles

- Principle 1: Clear rationales for state ownership
- Principle 2: The efficient organization of the state's role as an owner
- Principle 3: Transparency and disclosure
- Principle 4: Effective SOE boards
- Principle 5: Competitive neutrality for SOEs operating in the marketplace
- Principle 6: Responsible and climate-friendly business practices
- Principle 7: Sound fiscal management and frameworks of SOEs



Commitments

A total of 28 specific commitments related to seven principles

For example: "Endorse formal objectives and a rationale for state ownership"



Implementation benchmarks (Roadmap)

Assessment of implementation of each commitment based on verifiable data

For example: "The jurisdiction has published a formal set of objectives or a state ownership rationale for its SOE portfolio."



After compact endorsement... the reform roadmaps

- The participants in the Compact are encouraged to develop a Reform Roadmap that will guide the implementation of their commitments.
- The purpose of the roadmap is to identify feasible SOE reform actions based on compliance with the MENA SOE Compact.
- **Strong Government participation is key:** Participating countries assign a taskforce in charge of developing the roadmap (with World Bank technical support).
- **Standardized data collection and reporting format.** Focus on leveraging existing data and diagnostics.

SOE Reform Roadmaps

Outputs will include a 3-5 pages summary overview of findings, and a 10-15 pages gap analysis.

Roadmap process intended to bring together stakeholders to identify and discuss reform priorities.

Country-specific action plan for short, medium, and long-term priorities based on capacities and political economy constraints.

SUMMARY TABLE OF COMPACT IMPLEMENTATION

(Country X - Fictitious example)		Framework implementation			
Compact Commitment	Description	Fully implemented	Substantially implemented	Partly implemented	Not implemented
I.	Rationales for state ownership				
	Establish a clear definition of SOE and publish a list of all SOEs		■		
	Set clear criteria for creating SOEs based on the existence of a market failure		■		
	Apply the rationale to the state's portfolio			■	
	Develop and publish an ownership policy				■
II.	The state's role as a market operator				
	Establish centralized oversight		■		
	Set up reporting and monitoring systems			■	
	Separate the state's ownership, policy and regulatory roles				■
	Clarify and formalize the decision-making authorities related to SOEs	■			
	Establish commercial SOEs under company law (or equivalents)	■			
	Align governance codes for SOEs with private sector				
III.	Transparency and disclosure				
	Require SOEs' financial reports to apply IFRS		■		
	Require SOE's to apply independent ISA audit		■		
	Adequate disclosure on all matters, including ESG				
	Aggregate report			■	
IV.	Effective SOE boards				
	Align SOE board duties and roles with private sector best practice				■
	Board appointments based on formal, transparent, and merit-based nominations process				■
	Ensure boards have appropriate autonomy, accountability, independence, diversity		■		
	Evaluate SOE boards and implement annual governance improvement plans		■		
	Establish procedures to minimize conflicts of interest and related-party transactions			■	
	Ensure that boards have the required expertise by supporting training activities			■	
V.	Fair competition				
	Encourage fair competition between SOEs and the private sector	■			
	Ensure equal treatment of SOEs and private sector firms	■			
	Disclose the Public Service Obligations (PSOs) of SOEs and their costs	■			
	Ensure fair tariffs and compensate SOEs fairly for the costs of delivering PSOs		■		
	Ensure fair, transparent, and efficient procurement for SOEs				■
VI.	Climate Change and Sustainability				
	Ensure that SOEs report on sustainability factors in the conduct of the business.			■	
	Encourage SOEs observe and report on standards of responsible business conduct (RBC)			■	
	Require the establishment of effective anti-corruption and whistle-blower programs.				■
	Introduce mandatory climate disclosure and climate risk assessments.				■
VII.	Sound Fiscal Management				
	Introduce explicit treatment of subsidies in national budgets				■
	Identify and value assets using fair value estimates, at market value where possible				■
	Ensure tracking and reporting of fiscal risks including contingent liabilities				■
	Limit state guarantees to SOEs and encourage non-sovereign lending.				■
	Establish dividend policies				■

Next steps of the Compact initiative:
Complementing Reform Roadmaps with support to capacity building

MENA SOE COMPACT
Policy commitment

PEER-TO-PEER LEARNING
Inspiration

SOE REFORM ROADMAPS
Identification and prioritization

Technical Training
Corporate Governance Academy
Competition
Fiscal Management
Climate and ESG

REFORM IMPLEMENTATION
Technical and financial support



Some answers to frequently asked questions

- The Compact is a *voluntary* framework for collaboration and knowledge sharing
- “Joining” only requires an exchange of letters
- The Compact is still a “live” document subject to comments and input
- Not a legally binding agreement!
- Not linked to World Bank lending conditionalities
- A signal to markets and partners from participating governments that they *commit* to the principles of SOE reform
- Development partners *can* help implementation through reform roadmaps, technical and financial support
- An opportunity for countries to showcase innovative reforms and progress



In summary:

The Compact will be co-developed and championed by SOE reformers in the MENA region.

The Compact can be used as a framework to measure reform implementation.

The Compact initiative can host peer-to-peer learning, capacity building, and policy-dialogue between IFIs and MENA countries.

Still open for comments and input.

Thank you