



State-Owned Enterprises(SOE) Global Conference

Session 6: Managing SOE Fiscal Risks and Financial Discipline

SOE





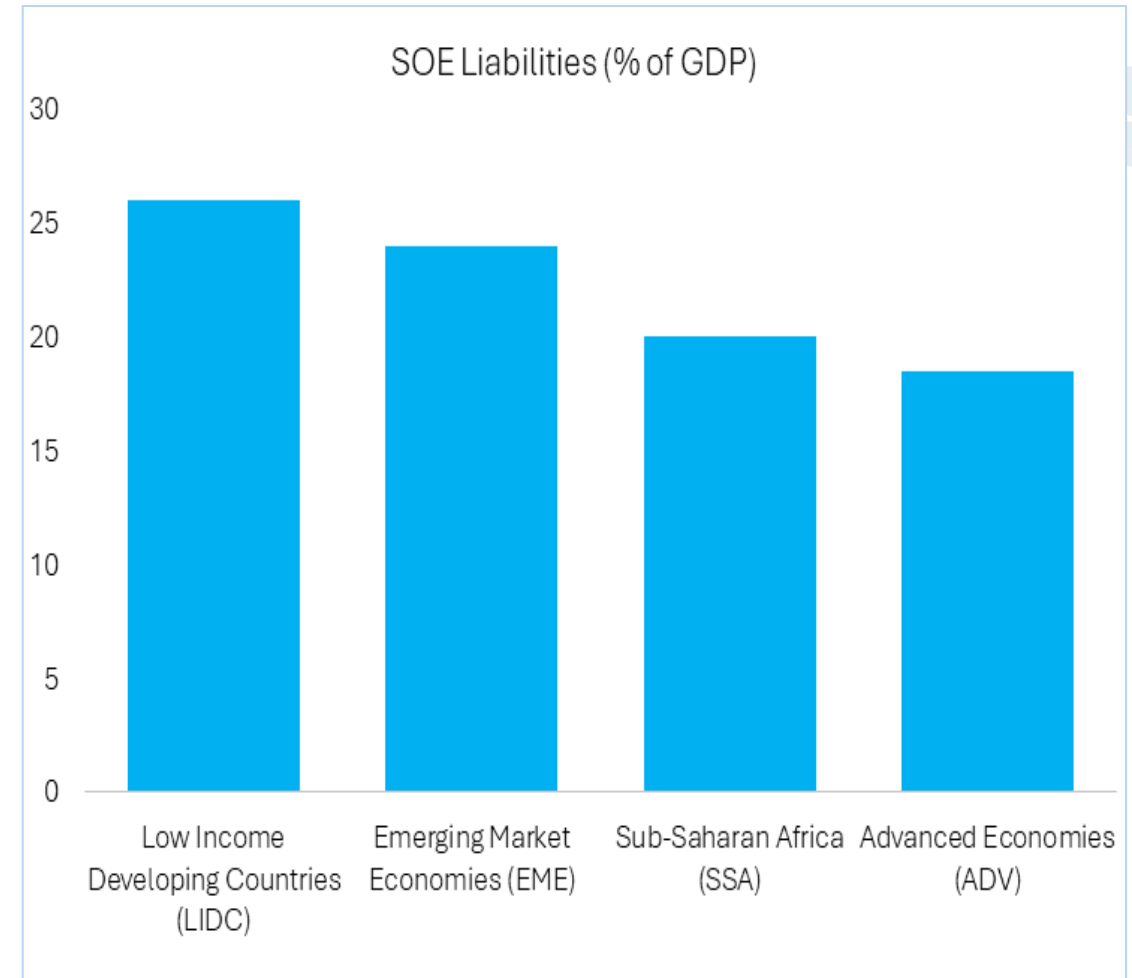
State Owned Enterprises and Fiscal Risks

Global SOE Conference

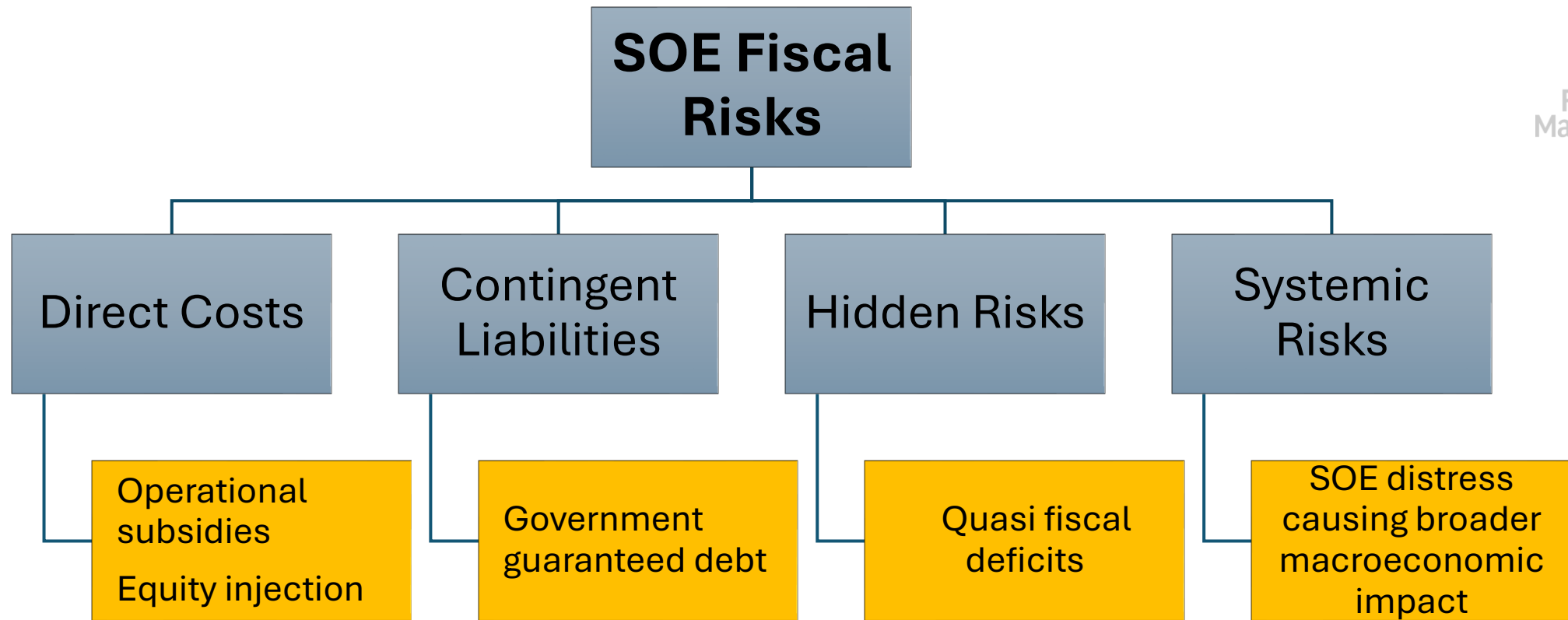
State-Owned Enterprises: A Snapshot

Relevance

- SOE assets for the largest 2000 SOEs account for 50 percent of global GDP (IMF, 2020)
- SOE liabilities can represent significant fiscal burden: 18.5 percent to 26 percent of GDP
- Dominate energy, transport, and telecoms
- Central in developing countries
- Often the largest employers and asset holders



Source: World Bank Staff and Harris et al. (2020)



- Fiscal risk—defined as the possibility of deviations in fiscal variables from what was expected at the time of the budget or other forecast (Cebotari et al. 2009).
- Not only about the “tail risk” but also about the risks associated with the daily operation.
- Fiscal risk from SOEs as a slow drip that accumulates rapidly and eventually turns into a big bang event.

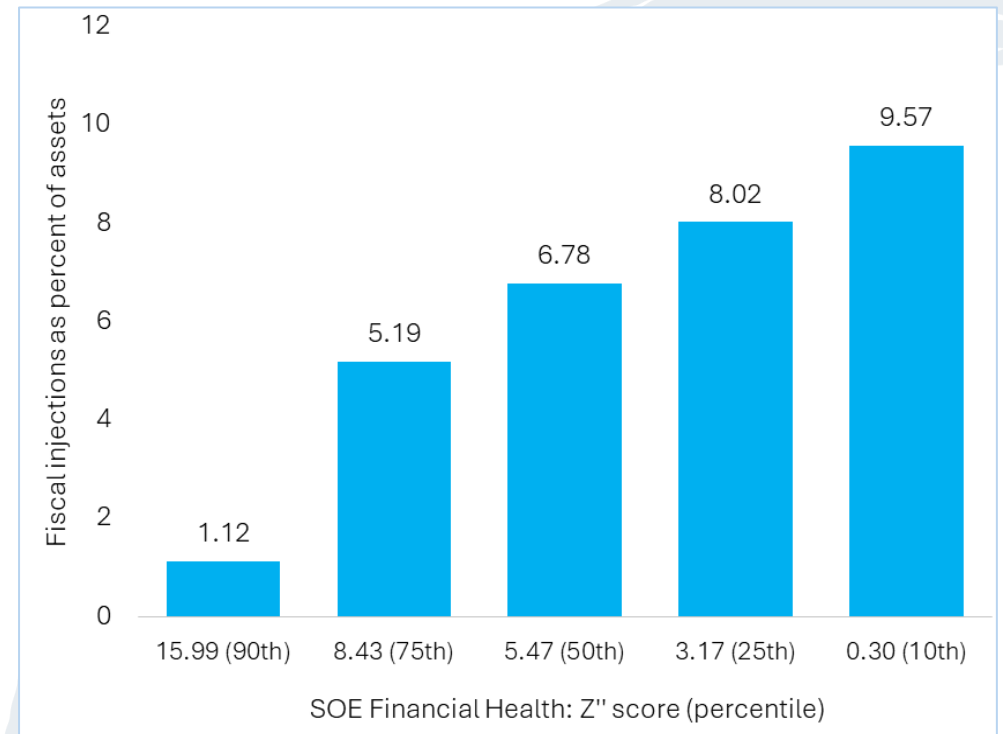
Fiscal Implications of Weak SOE Performance in EMDEs



SOE financial distress translates into large fiscal injections and carries a significant price tag

- Fiscal injections to infrastructure SOEs can reach nearly 10% of assets for the most financially distressed
- These costs rarely arrive as a one-off shock — they accumulate through repeated transfers, debt guarantees, and emergency bailouts over time
- For governments with limited fiscal space, unmonitored SOE distress can rapidly crowd out spending on health, education, and infrastructure
- Governments that track SOE financial health systematically, through Early Warning Systems, can distinguish between SOEs requiring urgent attention and those that are performing adequately — allowing better prioritization of reforms

Predicted fiscal injections to infrastructure SOEs based on estimated “Z” scores



Source: Musacchio, Aldo; Herrera Dappe, Matías; Ter-Minassian, Teresa; Foster, Vivien; Turkoglu, Burak. 2023. Off the Books: Understanding and Mitigating the Fiscal Risks of Infrastructure. Sustainable Infrastructure Series. © World Bank

The World Bank and Fiscal Units Role and Support

Overview

Governments often discover SOE financial distress too late — when bailouts are unavoidable and fiscal costs are already high.

The SOE Early Warning Tool addresses this by systematically tracking **key financial health indicators** across the SOE portfolio to **identify at-risk SOEs** early.

The tool computes the expected fiscal risk exposure — giving governments a forward-looking view of potential budget pressures before distress becomes a crisis.



Early Warning Fiscal Risk Tool (EWFRT)



Public Finance Reviews with SOE deep dive



Albania: SOE Fiscal Risk Analysis based on EWFRT to monitor SOE performance and emerging fiscal Risks. Findings were used for MIGA guarantees. **PICS SOE Fiscal Analysis.**



Timor Leste: Ongoing support request from MoF to build an SOE Early



Cabo Verde, Djibouti, Mali, Senegal, and Vietnam: Public Finance Reviews with SOE focus

SOE Fiscal Risk : Diagnostics

Kaushiki Singh

Governance Specialist

**Fiduciary Systems, Solutions &
Impact**



WORLD BANK GROUP



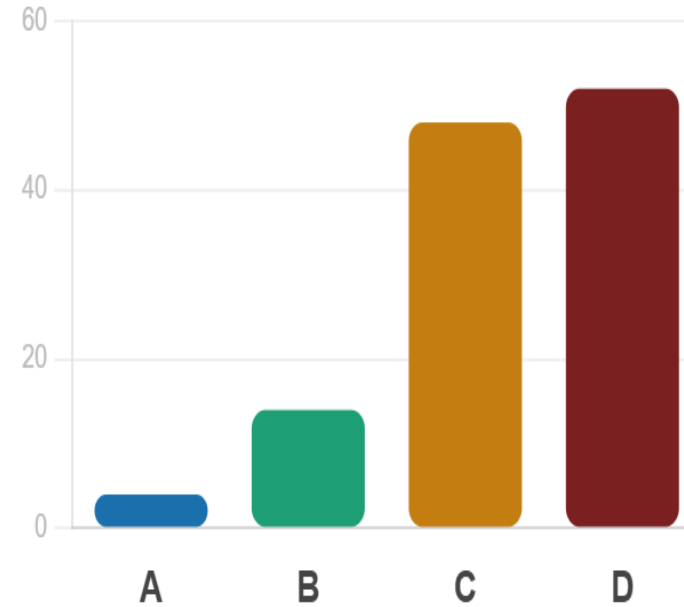
SOE Fiscal Reporting: A PEFA Lens

1. **PI-10.1:** Lack of audited financial statements for pub. corp.
2. **PI-10.3:** Inability to track or report contingent liabilities centrally.
3. **D dominates both indicators.** In most countries, SOEs do not disclose their financial position.
4. **The fiscal risk is real:** When a public corporation defaults on guaranteed debt, the liability lands on the budget — often without prior disclosure to creditors.
5. **What can change:** publishing audited SOE accounts annually, maintaining a contingent liability register, and tabling a consolidated report to the legislature.

PI-10.1

n = 118 countries

Monitoring of Public Corporations

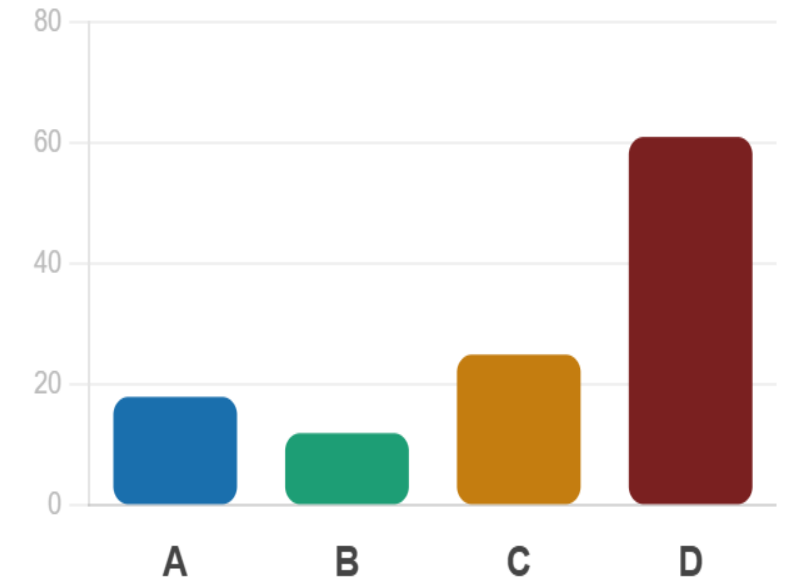


■ A: 4 (3%) ■ B: 14 (12%) ■ C: 48 (41%)
■ D: 52 (44%)

PI-10.3

n = 116 countries

Monitoring and reporting of the central government's explicit contingent liabilities



■ A: 18 (16%) ■ B: 12 (10%) ■ C: 25 (22%)
■ D: 61 (53%)

A 5-Step Framework: Build the Data Foundation

Good Practices

1



SOE Portfolio Map & Registry

Coverage,
identifiers
& mandates

2



Financial Statements & Audits

Timely ($\leq 6-9$
months)
+
annual aggregate
report

3



Govt-SOE Transaction Ledger

Taxes, dividends,
subsidies,
guarantees

4



Fiscal Risk Reporting Baseline

Contingent
liabilities,
annual risk
statement

5



Public Sector Balance Sheet

Consolidated
reporting
& public scrutiny



Risk Identification: Key Methods

From broad screening to precise quantification

1

Portfolio Screening

Starting Point

- Health check on SOEs
- Profitability, leverage & liquidity
- Maps guarantees & equity exposure

2

Early Warning & Credit Risk

Who Might Default?

- Altman Z (Credit Scoring)
- Estimates potential govt losses
- Option-pricing for guarantees

3

Stress & Scenario Analysis

What If Things Go Wrong?

- Tests FX, commodity & rate shocks
- Baseline vs. stressed scenarios
- DSA bound test for GDP shocks

4

Quasi-Fiscal Activities

Hidden Budget Costs

- Tracks hidden fiscal costs
- Below-cost tariffs & arrears
- Quantified as % of GDP

 *One-liner: Screen weak SOEs → estimate losses → stress-test → capture hidden costs*

From Diagnostics to Budget Integration

1



Data Spine

- Net transfers
- Guarantees & on-lending
- Inventory of QFAs

2



Screen & Prioritize

- IMF SOE Health Check
- Red flags: cost recovery < 1 , ROE < 0 , debt/EBITDA > 3
- Flag high-risk SOEs

3



Quantify & Stress

- Altman Z \rightarrow PD/LGD/EAD
- Macro stress tests
- Risk-adjusted MTFE/DSA
- Other Advanced Methods

4



Policy & Integration

- Calibrate guarantee fees
- Borrowing/hedging rules
- Publish fiscal risk statement
- Budget buffers & contingencies



SOE Debt Rules & Fiscal Risk: A Global Overview

Why SOE Debt Rules Matter

SOEs operate outside government budgets but carry implicit sovereign guarantees, creating hidden fiscal liabilities. SOE debt can add 15 pp to total public sector debt, and when SOEs default, bailout costs average 3-5% of GDP per episode — straining public finances and distorting sovereign risk assessments.

Existing Country Approaches

Approach	How It Works	Some Examples
Prior Approval	Government must authorize SOE borrowing before it occurs	Brazil, Chile, Peru, Portugal
Performance-Linked Autonomy	Borrowing freedom tied to SOE financial performance ratings	India
Statutory Debt Ceilings	Public debt law defines hard limits on SOE debt instruments and risk exposure	South Korea



Good Practices & Policy Recommendations

- Impose **no-bailout clauses** in legislation to curb moral hazard
- Mandate **credit risk ratings** before extending government-backed SOE lending
- Publish comprehensive **fiscal risk statements** covering all SOE liabilities
- Build **fiscal contingency reserves** to absorb guarantee calls or restructuring costs
- Conduct regular **stress tests** to assess SOE performance under adverse scenarios

Real-Time SOE Fiscal Risk Dashboards : centralized digital dashboards that aggregate SOE financial data quarterly, flag covenant breaches and liquidity stress indicators, and trigger automatic MOF review.

Segment 2: Knowledge Harvesting Through Audience Survey

(5 minutes)

SOE Global Conference 2026



COMPLETE THE SURVEY

1. Scan the QR code or use the link provided to access the survey on your phone, tablet, or computer.
2. Complete the survey **individually and in silence**. Do not discuss your answers with your table yet.
3. The survey has **3 general questions** and **6 substantive questions**. It should take **5 minutes** to complete.
4. Answer based on your **direct experience** in your country, not on what the rules say should happen.
5. When the moderator calls time, put your device away and watch the aggregated results on the screen.



Audience Survey Results

Segment 3: Knowledge Harvesting Through Peer Discussions

(20 minutes)

Segment 4: Plenary Debrief

Table 1: Ideas for Minimizing Data Gaps

QUESTION: SOE financial data is often late, incomplete, or unreliable. For oversight bodies: What is the single most effective workaround or enforcement tool you have used to obtain timely and complete financial data from SOEs? For SOE representatives: What is the single biggest internal or external obstacle your organization faces in producing accurate, timely financial reports, and what has helped you overcome it?

THE MOST EFFECTIVE TRANSFERABLE PRACTICE(S) WE HEARD:

- (Describe at least one specific, actionable tool, mechanism, or workaround shared at this table. Note which country or institution it came from)

ONE CONDITION THE TABLE AGREES IS ESSENTIAL FOR ANY OF THESE PRACTICES TO WORK:

- (What must be in place institutionally, legally, or politically for these approaches to succeed?)

THE MOST SURPRISING THING THE TABLE HEARD:

- (What challenged your assumptions or changed how you thought about the issues discussed?)

Table 2: Ideas for Eliminating Hidden Risks

QUESTION: Quasi-fiscal activities and implicit guarantees are rarely on the balance sheet until a crisis hits. What method or tool has your government found most effective for identifying or monitoring quasi-fiscal liabilities before they escalate into a fiscal crisis? What condition was essential for this approach to be adopted? When your organization is tasked with quasi-fiscal activities (such as subsidized pricing, cross-subsidies, or social mandates), what has been the most useful step to make those costs transparent and documented? Has this changed how your government compensates or formally recognizes those obligations?

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Table 3: Ideas for Reducing Enforcement Gaps

Question: Rules on SOE borrowing limits, dividend payouts, and financial discipline exist in many countries, but the gap between rule and reality is often wide. What is one specific mechanism or incentive that has actually changed SOE financial behavior in your experience? What governance arrangements, incentive structures, or internal controls have most effectively supported financial discipline within your organization, and what made them effective?

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Table 4: Ideas for Prioritizing Risk Management

QUESTION: SOE fiscal risks are only manageable if they are visible to decision-makers and integrated into budget and policy processes. What specific report, governance mechanism, or legal requirement has successfully brought SOE fiscal risks onto the Minister of Finance's or Cabinet's agenda? What specific internal process, report, or governance mechanism does your organization use to escalate financial risks to government? Has that process ever resulted in a concrete response (such as a capital injection, a mandate adjustment, or a policy change)?

THE MOST EFFECTIVE TRANSFERABLE PRACTICE(S) WE HEARD:

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Table 5: Ideas for Catalyzing Change

QUESTION: Significant improvement in SOE financial discipline rarely happens gradually; it usually requires a trigger. From your experience, what event or trigger most effectively created momentum for reform in how your country manages SOE fiscal risks? What specific governance or policy change did this enable that other countries could adopt without waiting for a similar crisis? What was the key turning point that strengthened financial discipline in your organization (such as a major event, leadership change, governance reform, or external pressure)? What specific change did it enable that has endured beyond the initial trigger?

THE MOST EFFECTIVE TRANSFERABLE PRACTICE(S) WE HEARD:

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Table 6: Ideas for Bridging Reporting Standards Gap

QUESTION: Moving SOEs to credible, internationally comparable financial reporting is a shared challenge, but some countries and organizations have found approaches that work. What is the most effective step your government has taken to improve the quality and comparability of SOE financial reporting, whether through mandating IFRS, building SOE accounting capacity, or introducing independent audit requirements? What condition was essential for that reform to gain traction? What was the single most impactful change your organization made to strengthen financial reporting, and how did it affect how your oversight body understands and responds to your financial position?

THE MOST EFFECTIVE TRANSFERABLE PRACTICE(S) WE HEARD:

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Segment 5: International Experience and Country Cases



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Session 6: Managing SOE Fiscal Risks and Financial Discipline

State-owned Enterprises (SOE) Global Conference (April 27-30, 2026)



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Introduction

- Switzerland manages a diverse landscape of approximately **22 federally linked state-owned enterprises**. They are categorized based on their market exposure and public mandate: commercial giants like **Swisscom** in telecommunications and **Swiss Post**, critical infrastructure providers such as the **Swiss Federal Railways (SBB)** and our defense contractor, **RUAG**, to specialized institutions like **FINMA** and the **Swiss National Bank**.
- Our approach is governed by a **decentralized "owner-operator" model**. While these enterprises operate with significant legal and operational autonomy, they remain tethered to the state through **four-year strategic goals** set by the Federal Council.
- This dual structure allows them to remain competitive and agile while meeting public service obligations and integrating into new frameworks like the **2026 Federal Act on Sustainable Corporate Governance (NUFG)**.



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The Key Angle: An Institutional Ecosystem

- Managing SOE fiscal risks is not merely a technical issue; it is an **institutional ecosystem challenge**.
- Fiscal risks rarely stem from a single shock. Instead, they accumulate through **weak governance, opaque reporting, and misaligned incentives**.
- Managing these risks requires a coherent interaction between a wide range of actors: The Ministry of Finance and Debt Management Offices, SOE Ownership Units and Supreme Audit Institutions, Parliamentary budget committees, Fiscal Councils, and even civil society.
- When this ecosystem functions well, risks are identified early and managed. **When it doesn't, risks become invisible—and invisible risks become fiscal crises**. Sound governance and transparency are our first line of defense for fiscal sustainability and public trust.



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Current Challenges and Issues

In our work across partner countries, we see five recurring issues that threaten this stability:

1. **Data Fragmentation:** SOE financial data is often inconsistent and not digitalized.
2. **Unfair Advantages:** Many SOEs benefit from preferential tax treatment or government guarantees that are rarely justified by performance.
3. **Hidden Liabilities:** In sectors like energy and water, liabilities often don't appear upfront.
4. **Shock Transmission:** Pre-crisis discipline is critical to avoid these sudden shocks.
5. **Climate Risks:** Carbon-intensive SOEs face massive "transition risks," such as stranded assets and regulatory changes. We must begin incorporating **climate stress testing** into our fiscal frameworks.



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Reform Pathways

To address these challenges, we advocate for several core pillars of reform:

- **Accountability and Transparency First:** Regular, standardized reporting and the adoption of international standards like **IFRS** to ensure credibility.
- **Professional Governance:** This means independent, skilled boards and strong internal controls.
- **Creditworthiness:** Shifting risk away from the public balance sheet is essential. By improving billing systems and financial planning, SOEs can increase their ability to borrow **without sovereign guarantees**.
- **Hard Budget Constraints:** We must avoid ad hoc bailouts. State support should be linked to strict conditionality and governance milestones.



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SECO in Action

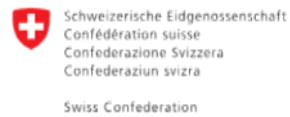
Switzerland's State Secretariat for Economic Affairs (SECO) is actively supporting these reforms through several key projects:

- **In Indonesia:** We are supporting the **OECD technical accession** process, specifically focusing on transparency and professionalizing board oversight of SOEs. We also support SOEs improve local governments' creditworthiness by strengthening infrastructure project selection to minimize risks.
- **In Serbia:** We are helping the Ministry of Economy implement centralized ownership to close gaps in monitoring fiscal and climate-related risks.
- **In Ghana:** We are addressing the "broken social contract" by training SOE board members and developing a **performance portal** for real-time data collection.
- **In the Kyrgyz Republic:** Where SOE assets amount to **50% of GDP**, we are assisting in the design of a comprehensive ownership policy and strengthening internal audits.



Synthesis and Close

The FMUP Partnership



Thank you!

