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IMF- CCAMTAC, European Bank for Reconstruction and Development (EBRD), and World Bank (WB) Regional Webinar

“State-Owned Enterprises”

Wednesday, February 2, 2022

Introduction:

Norbert Funke, Director, CCAMTAC (*moderator*)

Huseyin Ozhan, Director, Head of Kazakhstan, Central Asia, EBRD

Sebastian Molineus, Country Director, South Caucasus, WB

Presenters:

Christine Jane Richmond, Senior Economist, IMF

Natalia Manuilova, Senior Financial Management Specialist, WB

Andrei Busuioc, Senior Financial Management Specialist, WB

Gian Piero Cigna, Chief Counsel-Financial Law Unit, Legal Transition Program, EBRD

Authorities' Perspective:

Ruslan Alikhanov, CEO, Azerbaijan Investment Holding

Mirza Gelashvili, Deputy Minister of Finance, Georgia

Sandjar Kurbonaliev, Head of Department, State Assets Management Agency, Uzbekistan

In their introductory remarks, the directors of the three institutions emphasized that the large footprint of state-owned enterprises in the region calls for a review of the sector. The cooperation of EBRD, IMF-CCAMTAC, and the World Bank in organizing this event could be seen as a signal that all three institutions believe that SOE reform and an increasing role of the private sector could contribute strongly to unlocking the region's growth potential.

In the first presentation Christine Richmond (IMF) based on a recent [IMF paper](#), reviewed the size, role, performance and challenges associated with SOEs in Central Asia. In many countries, SOEs are prevalent in a wide range of sectors, including those normally run by the private sector. At the same time, these entities generate sizable fiscal costs, which are not fully compensated or disclosed. As a result, governments are exposed to explicit and implicit fiscal risks from SOEs, which can materialize at high costs to public finances. SOEs tend to have weak operating performance and their de jure corporate governance often does not follow international best practices. While many of these companies do not operate in a competitive environment most of the time, during the COVID-19 pandemic crisis governments have



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provided additional financial support to SOEs. These observations led to important conclusions and policy recommendations.

Natalia Manuilova (World Bank) continued the topic by sharing WB's Integrated Approach to SOE reforms, which is critical for WB Development Agenda. The approach considers various aspects of SOE presence in the economy, which among other aspects include distributional impact in the society, impact on the market environment, and provides targeted sector interventions, as well as individual SOE entity-level support. She briefly described the most common SOE-related features and domestic environment that create an economic vicious circle. It was also mentioned that in many countries companies' financial performance may not be the main metric of SOE assessment, as they provide jobs and important goods and services.

Andrei Busuioc (World Bank) provided more details about the Integrated SOE Framework (iSOEF), which acts as a strong operational analytical underpinning for reforms. He gave an overview of the levels of assessment that enable building a tailored flexible sequenced approach to SOE reform and implementation. iSOEF assessment was completed in the Kyrgyz Republic, while it is progress in Tajikistan and Uzbekistan, and planned for Azerbaijan. Overall, iSOEF practice confirms the weaknesses in corporate governance and accountability, identified in the IMF research. In the closing section, WB speakers presented examples of their SOE reform support in Uzbekistan, Georgia and Azerbaijan.

Another perspective of the SOE sector reform was presented by Gian Piero Cigna (EBRD), who shared how EBRD shapes its support and engagements in the region. EBRD provides its support to SOE reform at three levels: country-level and sector-level engagements, and company-level transformations. It was mentioned that reforms at a company level are often dependent on the success of reforms at the sector and country level and require a strong buy-in of the country's leadership. Emerging new themes that will influence the work and governance SOEs include climate change, inequalities, and digital transformation.

Representatives of authorities from Azerbaijan, Georgia, and Uzbekistan shared their views on countries' SOEs-related challenges, paths to the transformation of state ownership, and experience in cooperation with international organizations.

During the general discussion the questions to the presenters covered (i) valuation methodology in privatization; (ii) impact of pandemic ending on dynamics of SOE reforms; (iii) examples of successful SOEs.

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