COUNTRY PRIVATE SECTOR DIAGNOSTIC

SOE POLICY ASSESSMENT TOOL TO FOSTER PRIVATE SECTOR PARTICIPATION THROUGH COUNTRY PRIVATE SECTOR DIAGNOSTICS

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ACRONYMS

ASA	Advisory Services and Analytics
CCE	Country Economics and Engagement Department
CD	Country Director
CN	Concept note
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
CPT	Competition Policy Team
CRM	Concept note review meeting
EFI	Equitable Growth, Finance, and Institutions
FCI	Finance, Competitiveness, and Innovation Global Practice
GCI	Global Competitiveness Index (WEF)
GP	Global Practice
ICA	Investment climate assessment
IEG	Independent Evaluation Group
IFC	International Finance Corporation
iSOEF	Integrated State-owned Enterprises Framework
LIC	Low income countries
MFD	Maximizing Finance for Development
PSD	Private Sector Development
SCD	Systematic Country Diagnostic
SOE	State-owned enterprises
TTL	Task Team Leader
WB	World Bank
WBG	World Bank Group

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Acknowledgements

This **SOE policy *assessment* tool** has been prepared to assist CPSD TTLs to practically identify and conduct analysis of State-Owned Enterprise (SOE) issues in the development of CPSDs, with a focus on policy recommendations and reforms that can enable and foster private sector development. This tool is designed to provide a comprehensive assessment on the economy-wide and sector-wide enablers rather than firm-specific issues. This tool builds upon the integrated State-owned Enterprises Framework iSOEF (World Bank, 2019l) and provides further guidance with respect to the resources, evidence, and options of SOE reform in the context of CPSDs. The main authors of this tool are Dennis Sanchez Navarro (ETIMT), Tanja Goodwin (ELCDR) and Sunita Kikeri (EFNFS), under the technical guidance of Martha Martinez Licetti (Practice Manager, ETIMT), Mona Haddad (Director, CCEDR) and Caroline Freund (Director, ETIDR). The team would like to thank the valuable inputs, support and comments from Jean Saint-Geours (SSAA1), Jan Orlowski (ETIMT) and Georgiana Pop (ETIMT).

This document denoted as the **SOE policy *assessment tool*** is part of a 2-piece product prepared by the EFI Global Markets and Technology Unit to expose CPSD TTLs to the challenges and potential distortions than can be created in presence of SOEs in different markets as well as different policy alternatives to foster productive private-sector participation beyond full ownership transfer. **The 2-products correspond to this CPSD SOE policy assessment tool and a SOE CPSD knowledge note** [1] ,which jointly should be considered as complementary documents for a comprehensive approach to address the challenges related to SOEs when promoting higher private sector participation in an economy building upon the existing integrated State-Owned Enterprise Framework (iSOEF).

This assessment tool provides relevant concepts, resources and key variables to identify opportunities for policy reform (e.g. regulatory changes) to enable private sector participation and provide the pre-conditions to attract higher investments across sectors in the economy. However, these documents focus on a list of indicative areas of consideration to conduct an **economy-wide and sector-wide assessment, but do not provide tools for a firm-level assessment**. Therefore, these notes do not constitute and should not be employed as a tool to inform or determine the eligibility of investment decisions in specific SOEs. For that purpose, the IFC SOE Directive (IFC, 2020) and the IFC Board reference document (IFC, 2017) provide specific criteria and mandatory questions, and set out the factors for consideration for proposed IFC investments in SOEs to determine whether such investment fulfills IFC mandates (IFC, 2020, p.2). The IFC due diligence questionnaire is the tool that investment officers should employ to determine the eligibility of a specific investment transaction in a specific SOEs (at firm-level).[2]

Aligned with the iSOEF (World Bank, 2019) and following the IEG SOE evaluation the purpose of documents is to provide CPSD TTLs with an systematic, harmonized and yet flexible analytical framework, tools and practical examples to provide a comprehensive analysis and diagnostic for SOE reform (World Bank, 2020).[3] These notes will support CPSD TTLs to: i) determine the presence and economic relevance of SOEs, ii) explore their economic rationale, iii) explore the role of SOEs and potential effects of market's functioning, and iv) provide some routes for reform and mitigating factors as well as policy recommendations to enhance productive and

[1] The team highly recommend the CPSD teams to refer to the knowledge note, which develops in detail the concepts, policy options (pros and cons), and the analytical framework that is employed for the proposal of the specific tools, resources and key points for consideration.

[2] The IFC counts with a preliminary list of due diligence questions to document the degree in which investments meet the criteria referred to the section 9(c) of the Directive on Investments in SOEs. (IFC, 2019).

[3] The IEG SOE evaluation recommended the development and harmonization of diagnostic frameworks applied to SOE reform as well as include privatization and other alternatives of reform such as PPP for addressing SOE performance challenges. These notes respond to these IEG recommendations providing a comprehensive and systematic framework building upon sectoral diagnostic tools (e.g. INFRASAP) and the iSOEF (World Bank, 2019) and framing those tools to promote private sector options including privatization, PPPs and other SOE challenges (World Bank, 2020, p. 37)

efficient private sector investment and development. Furthermore, in case some governments are interested in expanding its presence in specific sectors, this assessment tool can provide CPSD TTLs with the set of criteria to minimize potential market distortions, analyze the potential benefits and risks as well as best practices to maintain a level playing field while fostering private sector participation.

These document provides a methodological and empirical approach with specific tools and resources that can be employed by the CPSD teams to determine the presence of SOEs, assess potential distortions building upon the competitive neutrality principles and propose mitigating measures that the governments could implement in a country-specific context based on the concepts and framework proposed in the CPSD *knowledge note.*

Furthermore, since the selection of the sectors to proceed with a more detailed approach or specific options of reform could vary depending on the level of development, socio-political context, and prioritized sectors as part of the CPSD elaboration process, the CPSD SOE knowledge and this SOE policy assessment tool provide a flexible and comprehensive set of tools that could be applicable in different sectors under a common conceptual framework. However, to respond to sector-specific issues and proceed with sectoral deep dives, the CPSD teams could explore complementary tools for such as the INFRASAP 2.0 to assess strategic infrastructure sectors such as energy and digital (WBG, 2020). In particular, the INFRASAP tools will complement the analysis proposed in these guidance notes by highlighting the main connectivity and performance challenges in the sector as well as investment gaps.[4] Similarly, for the digital sector, the there is a specific questionnaire that could contribute to explore specific issues in the sector developed by the Digital Development team.

Finally, CPSD teams could explore further resources for the implementation of specific alternatives of reform proposed in this document in the SOE Corporate Governance Toolkit (World Bank, 2014), the modules 1 to 5 of the iSOEF, including the analysis of SOFIS (module 5), the PPP Legal Resources Center and other resources developed by IFC and the Infrastructure Finance, PPPs and Guarantees Global Practice, and the Public-Private Infrastructure Advisory Facility (PPIAF), among others. [5] [6] [7]

[4] The InfraSAP2.0 is an extended core diagnostic of the World Bank developed by the Infrastructure Vice-Presidency to provide a comprehensive and consistent approach to evaluating the infrastructure situation in a country. INFRASAP2.0 tools can be explored in the following link: https://worldbankgroup.sharepoint.com/sites/ppp/isap/Pages/index.aspx

[5] The toolkit for improving corporate governance in SOEs can be found in: https://openknowledge.worldbank.org/bitstream/handle/10986/20390/9781464802225.pdf?sequence=1&isAllowed=y

[6] WBG-IFC public-private partnership portal and additional resources can be consulted at https://www.worldbank.org/en/topic/publicprivatepartnerships/overview#3

[7] The PPIAF resources and further tools to strengthen policies, regulations and institutions that enable sustainable infrastructure with private-sector participation can be found in: https://ppiaf.org/

I. Rationale: Why does SOEs matter

SOEs are relevant actors in domestic and global markets, and especially in transition economies where they account for 20-30% of GDP in 2011 (World Bank, 2019c)**.** SOEs worldwide account for 20% of total investment, 5% of the employment, and up to 40 percent of the output in some countries (World Bank, 2014). In 2013, SOEs in manufacturing accounted for 12% of the global trade (Kowalski, 2013). In 2014, one or every four firms in the Fortune Global 500 companies was an SOE (Pricewaterhouse-Coopers, 2015).[8] Recent estimates suggest that the net worth of SOEs worldwide reached USD 3.6 trillion in 2017 (Kim, 2017).

SOEs also absorb significant public resources, including subsidies, loans, and transfers from the State. SOEs may require a significant fraction of public resources flowing to firms. For instance, in Cameroon, SOEs absorbed nearly 13% of the GDP in subsidies and transfers in 2015 (World Bank, 2018). In Niger, the total debt and tax arrears related to SOEs accounted for 25% and 1% of GDP in 2017, respectively (World Bank, 2019d). Unprofitable or loss-making SOEs can also require capital injections, transfers, or government-backed loans, which are often recorded as national debt often increasing fiscal risks.[9] In emerging markets, SOE debt represents a significant share of all emerging market debt securities issued externally (IMF, 2019).

The intervention of SOEs in the markets is often related to a variety of policies that can potentially distort the functioning of the markets and have severe implications for the viability and profitability of private companies. The presence of SOEs *per se* does not necessarily translate into market distortions or prevent private sector development. However, SOEs can create potential market distortions and deter private investment when SOEs participate in sectors that could be efficiently provided by the private sector (e.g. contestable and fully commercial sectors) and when SOEs exploit the link with the government to gain an undue competitive advantage over its private peers.

SOEs are a common choice of government intervention to solve market failures (e.g. natural monopolies, public goods, externalities) even though indirect intervention (e.g. regulation) could be sufficient to achieve an efficient outcome. Although SOEs are not a solution *per se* to such market failures, SOEs are a common choice of government *direct* intervention. In principle, *indirect* government intervention in the form of economic regulation can stimulate efficient and pro-competitive results. For example, a private operator can be given a concession, subject to regulation to ensure it faces incentives to operate efficiently and cannot exercise its market power. Even in activities that lack commercial viability, private sector actors can be allowed to compete for the minimum transfer or subsidy needed to offer the service. However, depending on the regulatory and oversight capacities, as well as design failures in privatization in the past, many governments instead opt to intervene *directly* in the market through state ownership and commercial activity.[10]

This form of direct intervention through SOEs can potentially tilt the playing field in favor of specific market players vis-à-vis their private peers and create undue competitive advantages. For instance, significant distortions and barriers for private investors emerge from SOEs being able to make losses or sustain low rates of return for longer than private peers, and access inputs at lower costs. The feasibility and continuity of investment plans of private entrepreneurs depend on expected revenues and cost structure. This same market discipline often does not always apply to SOEs. These companies are not always required to achieve a commercial rate of return or make investments with positive Net Present Value (NPV) to stay in the market (World Bank, 2019d). SOEs can operate and stay in the market even after exhibiting high levels of indebtedness, low productivity, and profitability. Similarly, the

[8] In 2005, less than 9% of the SOE companies were included in the Fortune Global 500 list.

[9] Although SOEs might create barriers to investment through fiscal and macro risks (e.g. outstanding debt), this note will focus on the impact SOEs might generate at the microeconomic level to assess in which extent their presence in specific markets alter the incentives at the market place and the competitive environment that could deter private investment.

[10] Direct provision of goods and services by government companies is also justified as a potential solution to mitigate the coordination costs and risks associated with delivering activities under alternative institutional arrangements with private firms (Brown & Potoski, 2003)

cost of the productive resources (e.g. labor, capital, land) is often lower for SOEs through preferential access to subsidies, loans, land transfers, and tax credits. As a result, SOEs could achieve disproportionally larger participation in the market at the expense of private counterparts.

Distortions can also emerge from the intersection of the role of the government as a market player and as a regulator. When an SOE intervenes as regulator and market player, regulatory measures can be employed to shield SOEs from competition limiting private investment (e.g. tariffs, price regulation, FDI restrictions). When there is no clear separation of obligations of the SOEs as a service provider vis-à-vis as a regulator, this can translate into risks of having SOEs designing rules that unduly favor its commercial activity vis-à-vis its private peers. For instance, the government could favor SOEs through waivers for specific legal requirements, ceding the power to issue licenses, granting exclusivity contracts for supplying specific sectors (e.g. procurement processes), or giving special voting power in regulatory committees where prices are determined. These measures could allow SOEs to gain a significant market share and crowd-out private firms. Similarly, when an SOE has a regulatory role, it could create undue requirements for private operators (e.g. FDI bans, import licenses) eroding the competition from private companies to obtain higher revenues.

Although subsidies, tax credits, or state-aid do not necessarily translate into market distortions that deter private investment, the preferential access granted to SOEs can turn into barriers for the private sector. The government can have valid rationales to grant financial support to individual sectors or firms to advance policy goals such as R&D, service continuity, and regional development. When it is allocated under impartial and symmetric conditions, both private and public companies can benefit from the support and advance the respective policy goal. The distortions arise when access to those resources is granted in preferential or more favorable terms for a subset of companies. For instance, when government businesses are more likely than their private competitors to receive tax exemptions, access to inputs, access to infrastructure facilities, and face lower borrowing costs, it may increase the costs for private investors to compete in the market against the SOE. The more symmetrical the conditions for accessing state-aid programs between SOEs and the private sector, the lesser the potential distortions created in the market.

These potential distortions associated with SOE policies can ultimately undermine the performance of specific market/sector, impact downstream industries, and global markets. As a result of these potential distortions connected to SOE activity, economies can experience higher prices, shortages of inputs and final products, reduced productivity, limited infrastructure investment, and low coverage of essential services, which ultimately can shape both the upstream and downstream markets. Particularly, the distortions in enabling sectors such as power generation, transportation (e.g. maritime freight), water, digital infrastructure, and (air)ports can refrain the development of other potential sectors and export locomotives (e.g. agribusiness, manufacturing, tourism, and digital services). For example, the dominance of SOEs in Indonesia in the telecommunication sector (Telkom and Telkomsel) has translated into lack of nationwide broadband backbone connectivity, underdeveloped last-mile fiber-optic and broadband networks, which represents an obstacle for the development of the digital economy (World Bank, 2019). Likewise, in Bangladesh, power public plants cannot generate electricity as specified in terms of power/ thermal efficiency and daily shortages are common. In Rwanda, the high costs, reliability, and low coverage of the service (only 35% have access to electricity) are also potentially correlated to the presence of SOEs in the power sector (World Bank, 2020). Some additional examples are described in Box 1. Finally, the distortions associated with SOEs could have spillover effects on global markets, when these companies act as exporters (i.e. arms' length) or through subsidiaries located in foreign markets.

The presence of market distortions associated with SOEs could hamper the competitiveness of a whole country. SOEs-related distortions in a specific segment can spread across related and unrelated value chains and represent significant productivity and competitiveness losses for the whole economy.[11] For example, in Ethiopia exporters and importers experience on average extra shipping costs between 30% and 50% potentially associated with the intervention of the SOE in multimodal transportation services. As a result, Ethiopian companies face higher costs for

[11] For instance, significant GDP gains can be obtained increasing the SOE efficiency in developing economies: An increase of SOE efficiencies by 5% could represent GDP gains that vary from 1% of the GDP in Pakistan, 1.4% in Bolivia, 2% in Mali and Turkey, up to 5% in Egypt. (World Bank, 2019c)

importing inputs and delivering into foreign markets lessening their competitiveness in both domestic and foreign markets. Similarly, in South Africa, the operation of an SOE simultaneously as port operator and regulator has created a significant conflict of interest and risk of anticompetitive practices (e.g. excessive pricing and exclusionary practices in port businesses), which has translated into port fees that are 88 percent higher than the global average (World Bank Group , 2019), (Nyman & Koschorke, 2019).

Likewise, inefficiencies of SOEs can stifle private investment and economic development. In Tajikistan, the SOE (Tajik telecom) enjoys an unregulated monopoly for internet traffic and the international calls gateway (World Bank, 2019h). The development of the internet market in the country is limited and there are unexploited opportunities for development since potential optic connections to China, which could reduce the costs of traffic and improve quality and speed of services, were blocked (World Bank, 2019c). In The Gambia, the distortions related to the SOE unfold into higher costs for accessing mobile data, exceeding 10 percent of the GNI per capita and the international standards for affordability, lowering digital adoption and slowing down the development of communication platforms (Alliance for Affordable Internet, 2016; Freedom House, 2016).

Box 1: Examples of SOEs and potential market distortions

Dairy (Nepal)

The Dairy Development Corporation (DDC) is a full state-owned SOE that operates in the segments that can be considered as fully commercial and attractive for the private sector (e.g. milk collection, processing milk, producing dairy products as yogurt, cheese, butter, etc.). The SOE is the largest company in the sector accounting for 63% of the total production of dairy products. The SOE benefits from regulatory protection including FDI bans for all milk businesses and as member of the National Dairy Development Board (NDDB) participates in pricing policy recommendations. Still, it makes significant losses. Private investors are affected by additional government interventions, such as import bans of key inputs (e.g. milk powder) to bridge local shortages. There is a daily shortage above 100,000 liters. Final consumers are affected by high prices, processed milk shortages, and quality and sanitation concerns.

Logistics (Ethiopia)

The Ethiopian Shipping and Logistics Enterprise (ESLSE) is a fully owned SOE and is currently the only authorized operator for the provision of multimodal transportation services. The SOE has a *de facto* monopoly and benefits from regulatory protection in several segments where it competes with the private sector. For instance, private companies that require foreign exchange for import transactions through commercial Ethiopian banks can only provide sea transportation services for those loading ports where the SOE has no operations registered. Even in that case, the importer still needs a waiver from the SOE to be able to transport the freight and all sea transport services require a *bill of lading* – a customs clearance document- that is provided by the SOE. The government directives promote that maritime transportation of shipments under public procurement only employ services of logistics from the SOE. The SOE's installed capacity and quality of services is limited and some ports and more efficient routes are not covered, which impact private companies with extra shipping costs (between 30%-50%) and constant delays. The performance of the logistic sector is low compared to other landlocked countries. As of 2018, Ethiopia ranked in the position 131 among 167 economies in the logistics performance index (World Bank, 2018b)

Seeds (Kenya)

The Kenya Seed Company (KSC), is a state-owned company that operates not only in the segment where it serves a valid public policy objective (crop research, which offer an economic rationale for its operation), but also accounts for large market shares in commercial segments that can be typically be served by the private sector (e.g. seed multiplication for certification, processing and packaging, importation, marketing and distribution). For instance, the SOE holds the largest share in the seed production segment in the most relevant crops (64% for maize, 50% for beans, 70% for cowpeas). Although private companies have increasingly registered into the market (more than 143 by 2018), most firms are operating as seed merchants rather than breeders or producers. Only 13 private companies produce their own seeds (breeders), meanwhile the SOE enjoys exclusive access to breeding programs through other government agencies. The seeds varieties provided by the SOE are among the most demanded by local farmers. Private seed companies face higher prices as the government holds down the prices for the SOE and implemented long and expensive license procedures to access the market (e.g. maize seeds). Moreover, the SOE sits in the regulatory committee that decides on permits and certifications required to private peers. Market outcomes (low varieties for some types of soil and climate) suggest that the SOE is not fulfilling its public policy objectives and in this critical input sector and affecting downstream productivity.

Mobile telecommunications (The Gambia)

Gambia Telecommunications Cellular Company Limited (GAMCEL) is a state-owned company that provides mobile phone services in The Gambia. It competes with other three private operators. Despite the attempts of privatizing it in 2007, the government revoked the transaction in 2008 arguing fundamental breach on the contract. As of 2019, the government owns 99% of the company. GAMCEL is the second largest operator measured by the number of total subscribers. GAMCEL is a subsidiary of another SOE, the Gambia Telecommunications Company (GAMTEL). Through the latter, the government controls the main telecommunication infrastructure assets holding the largest ownership shares (49%) of the fiber-optic cable that connects the country with the African undersea cable. GAMCEL can *de facto* access free of charge to the fiber network managed by GAMTEL, while private operators are required to obtain leasing licenses and to pay connection fees. As of 2017, the GAMCEL payable accounts to GAMTEL for connection and premium wholesale inputs amounted USD 7.8 million, which is perceived as an implicit subsidy that is not available for private competitors. Yet, GAMCEL is facing significant financial constraints and is performing below its private competitors in terms of investments, quality and efficiency. GAMCEL investment in 4G networks has been limited and is below its private competitors. In 2017, GAMCEL was ranked in the last place among all operators by the regulator agency according to the quality and efficiency indicators. Final consumers experience partial network coverage, high prices, and slow connection speeds for mobile-cellular services compared to the regional average.

Mobile telecommunications (Lesotho)

Econet Telecom Lesotho (ETL) is a majority-privately owned company. However, the Government of Lesotho (GoL) retained 30% of the ownership after the privatization efforts in early 2000s. ETL participates both in the fixed and mobile telecommunication segments. In the former, ETL has a *de facto* monopoly, since private and licensed operators do not consider attractive to offer fixed-lines vis-à-vis mobile services. In the mobile segment, there is *de facto* a duopoly between ETL and a private company VODACOM LESOTHO (VCL), whose market shares in 2016 were 23% and 76%, respectively. Although there are other two licensed private companies (ComNet and Leo), several distortions seem to prevent them from gaining a higher share in the market. First, VCL and ETL operate as the international gateways that connect the minor private operators to the undersea cables. Second, the electromagnetic spectrum is allocated between the leading companies, VCL (49%) and ETL (51%). Third, the monopoly in the fixed segment of ETL guarantees its exclusive access to the offshore international cable EASSY. Moreover, the GoL signed international loans for supporting ETL infrastructure projects, whose accumulated debt to the government exceeds USD 27 billion. Yet, ETL is not making profits and is failing to pay dividends. Weak competition and the presence of SOE related distortions is affecting final consumers with high prices, unreliable and low speed connections that are becoming key constraints for a greater digital adoption (33% of internet penetration rate compared to Botswana and Namibia above 60%).

Source: Markets and Technology Unit analysis.

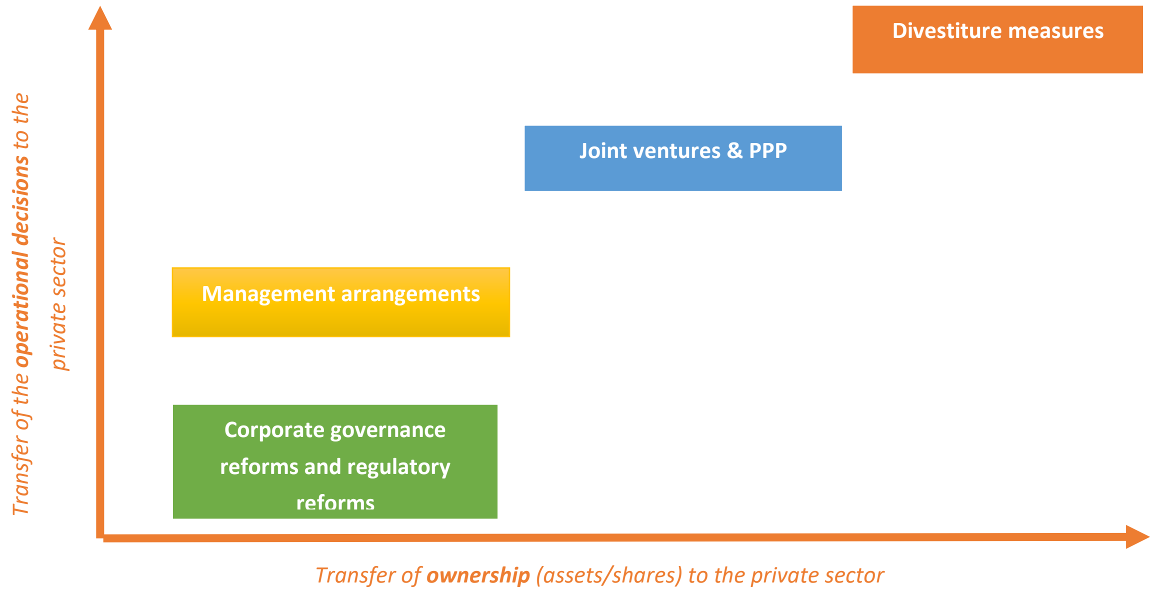
Market distortions created domestically can also extend and impact consumers and companies abroad and even lead to international trade disputes. The asymmetric support of the government to owned companies, for example in the form of subsidies or loans, can reduce costs artificially and create an undue comparative advantage for SOEs vis-à-vis private peers. These effects are not limited to domestic markets. There are two potential channels for extending uneven state-aid related distortions to cross-border markets: the trade channel when the SOE exports to third markets (arm's length) and the subsidiary channel when the SOE install operations in a third market (analogous to a branch for a private enterprise).Regarding the first channel, some evidence suggest that manufacturing locomotives such as motor vehicles, in which SOE participation is around 20%, account for 12% of the world trade, as well as service sectors with the highest SOE participation (e.g. civil engineering and technical testing and analysis) account for approximately 21% of the world service trade. Similarly, about 90% of the SOEs analyzed across 38 OECD and non-OECD economies declared to have at least one subsidiary in other markets highlighting the relevance of this operational extension on SOEs, although private companies are more prone to this type of operations (Kowalski, 2013).

Over the last three decades, different mechanisms to promote private sector participation, often in the form of divestiture, have been implemented to mitigate market distortions in presence of SOEs. Traditionally, privatization has been associated with change of ownership through divestiture, which shifts the partial or full ownership of the SOE from the government's hands to private investors. However, promoting PSP requires a broader approach beyond ownership. 12 CPSD teams should focus on SOE reforms that restructure the market incentives even if that does not necessarily imply a change of ownership. Just as state ownership does not solve market failures itself, neither does private ownership. Ultimately, ownership reforms can be a necessary but not a sufficient condition to reshape the market incentives and foster private investment (e.g. low changes in incentives when implementing service contracts, voucher privatization or manager buyouts). For instance, a fully private company that is politically connected could still benefit from preferential access to subsidies or government-backed loans, prevent competition and deter private investment even though is no longer an SOE.

Understanding the range of mechanisms to promote PSP and recover market-based incentives - beyond ownership transfer - expands the policy alternatives for SOE reform. To restore market-incentives and foster contestable and efficient market, SOE reforms can promote the role of the private sector as a competitor of an SOE, as a manager of SOE, as a temporary owner-manager, or as a long-term owner-manager of an SOE. Privatization alternatives ranging from lower to higher ownership and managerial transformation are: (i) regulatory and institutional reforms that allow private competitors to enter and expose SOE to competition pressure, (ii) management and partnership arrangements (e.g. management contracts, concession), (iii) PPP and joint ventures, and (iv) full/partial divestiture. (See Figure 1).

[12] More than 10,000 worldwide privatization transactions occurred between 1990-2008, mostly in infrastructure and financial sectors. About 53% of the total privatization efforts occurred in the form of divestiture between 2000-2008, followed by management arrangements (11.3%), joint-ventures and PPPs (8.5%).

Figure 1. Spectrum of SOE reform instruments depending on the level of ownership and management transformation



Source: Markets and Technology Unit

II. Objective of the SOE policy assessment tool

Aligned with the EFI's integrated SOE Framework (iSOEF), the purpose of this note is to ensure a systematic approach to analyze SOEs in the context of the CPSDs and provide an analytical framework and harmonized set of tools to conduct an articulated diagnosis of the presence of SOEs and of their potential distortive consequences on markets in a country-sector specific context and propose alternatives of reform.[13] The guidance factors and tools proposed in this note build on the iSOEF (Module 1 -SOEs and the markets) and are designed to provide a comprehensive and systematic approach for identifying four main components related to SOEs in the context of private sector development: i) determine the presence and economic relevance of SOEs, ii) explore their rationale, iii) assess the performance and the role of SOEs to unveil potential effects of market's functioning, and iv) identify some routes for reform and mitigating factors as well as policy recommendations to enhance productive, contestable and efficient markets for PSD. These guidelines are not intended to substitute expertise; they rather enable TTLs to point out in the right direction to cover the topic at different depth required at each stage of the CPSD diagnostic cycle. As complementary resource, CPSD teams can use the CPSD SOE Knowledge note that develops more in detail the concepts employed in the different steps of this note, the iSOEF and some sectoral resources (e.g., PPIAF, INFRASAP2.0, among others).

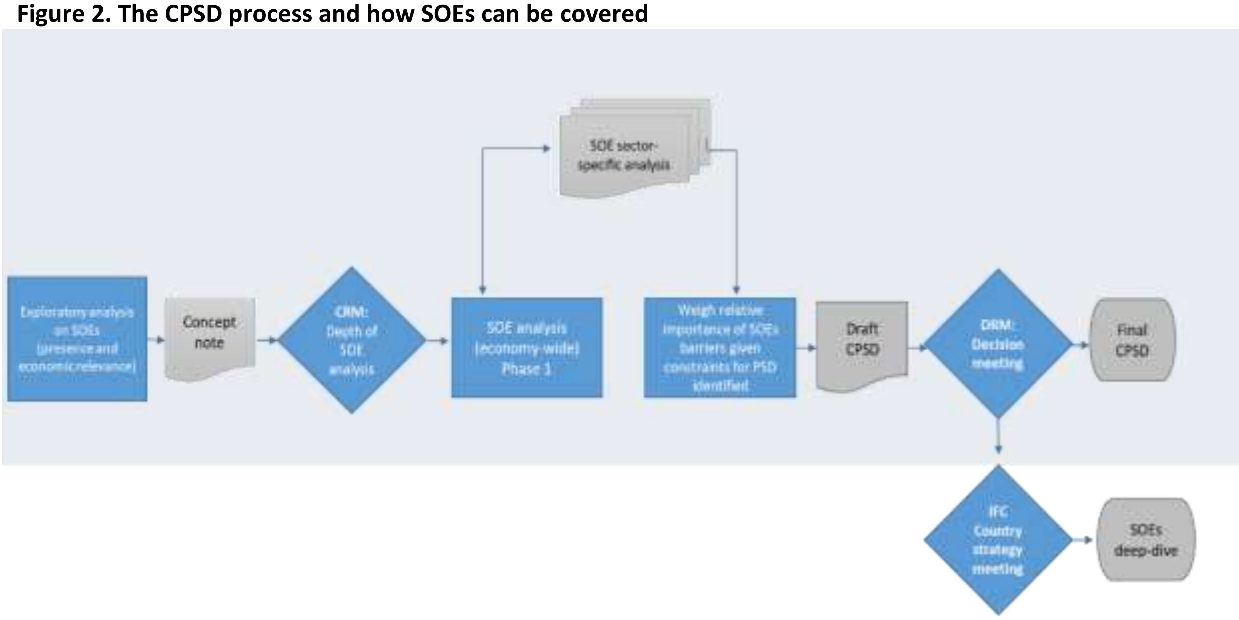
[13] This guidance note is aligned with the second recommendation of the IEG evaluation on SOE reforms (World Bank, 2020), which proposed a unified and systematic approach to address SOE performance challenges including routes for privatization and PPP.

III. Process overview for the CPSD

The process outlined in this note aims at ensuring a systematic and comprehensive view of SOEs in a country-specific context. Building on the general framework EFI integrated framework (iSOEF), this note encourages CPSD teams to gather relevant information using as reference the guidance factors, resources and relevant variables are those listed Table 1. The coverage of these variables as suggested will ensure a coverage of SOE-relevant issues in a manner that is systematic and consistent across CPSDs following a standardized definition of SOEs as well as a harmonized pool of cross-cutting indicators. The validation of these resources will provide comprehensive information but leave room for flexibility to decide along the process on the focus and depth of the analysis, depending on country circumstances.

The SOE policy assessment tool suggests a sequential approach as depicted in figure 1. Starting with an *exploratory SOE analysis* prior to the Concept Note Review Meeting (CRM), the team gathers data from the resources indicated in Table 1 and Table 2 to determine the presence and economic relevance of SOEs. CPSD teams also conduct stakeholder interviews with investors, industry, key stakeholders including the Ministry of Finance and SOE oversight entities, supported through an initial field mission. This preliminary analysis should allow teams to suggest in the CPSD Concept Note (CN) to what extent, depth and with what scope, and availability of information the subsequent assessment should cover SOEs – or at least seek guidance from the CRM on this question.

Figure 2. The CPSD process and how SOEs can be covered



Following the CRM's advice, teams will then conduct the *SOE analysis* as part of the analysis of "phase 1", as needed in a cross-cutting manner, which can also be complemented with a sector-specific analysis. Potential distortions related to the presence of SOE can be addressed both in a cross-cutting manner (economy-wide) and unveiling sector-specific barriers for PSD through detailed sector assessments. Sections IV and V in this guideline note set out how to conduct the preliminary analysis and SOEs assessment. Once conducted, teams will need to weigh the importance of SOE-specific constraints identified with respect to barriers and potential bottlenecks for private sector investment in other sectors and policy areas such that the CPSD present a balanced picture of the country priorities and alternatives of reform. In the draft of the CPSD, different alternatives for SOE reforms should be mapped depending on the type of distortions identified, and the type of sectors prioritized for reform. The CPSD decision meeting (DRM) concludes the process and ultimately decides on the key barriers and policy recommendations, including those related to SOEs, to reflect the significance and feasibility of the recommendations as well as the government's commitment to them. A further and more detailed analysis of SOEs is suggested in those cases where the IFC Country Strategy meeting decides on the need for an SOE *Deep dive.* This would happen outside the CPSD process and driven by the need and orientation of the IFC Country Strategy (See Annex).

IV. Analysis in preparation of the CPSD Concept Note

All CDSD teams are asked to conduct a preliminary analysis of SOEs leading up to the CRM. As a starting point, the CPSD teams need to conduct a preliminary and yet robust analysis to identify the challenges for private investors related to the presence of SOEs. This first approach is essential to identify priorities and offer a preliminary narrative to determine whether SOEs are proposed as an area of focus during the analytics of Phase 1. The goal of the *SOE exploratory* analysis is to identify the presence of SOEs and assess the economic significance of these companies in terms of the main economic variables (e.g. employment, investment, value-added, debt, etc.) based on the guidance for the 'SOE landscape' of the iSOEF. The underlying question of this first stage is: ***How many SOEs can be identified and what is their importance in the economy?***

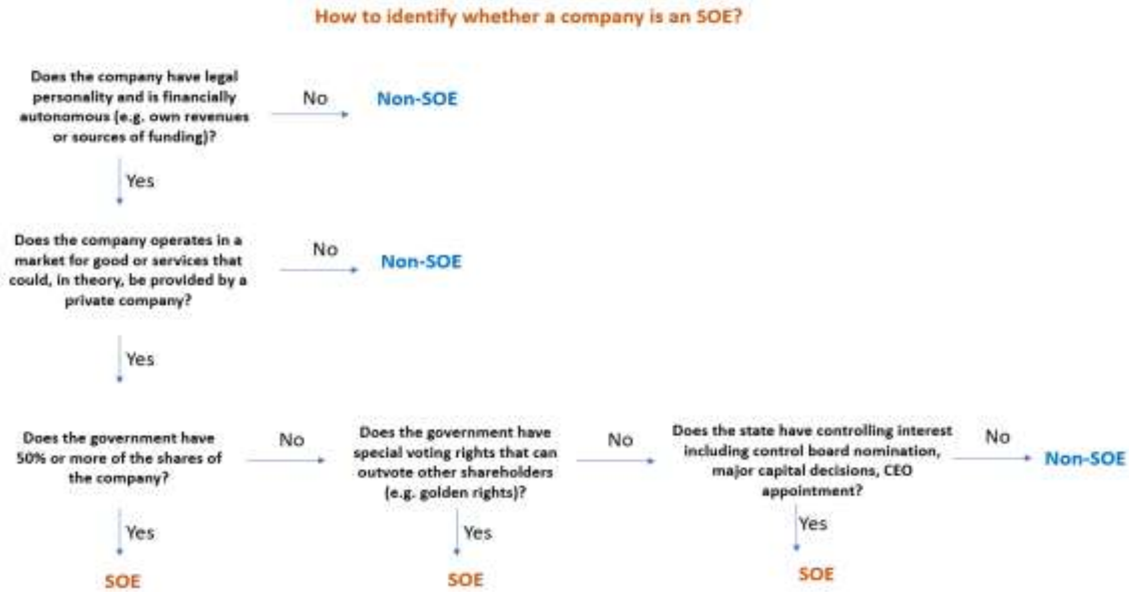
The identification of SOEs can be the first challenge faced by CPSD TTLs as the legal definition of these companies varies substantially from one jurisdiction to another. For unveiling potential barriers for private sector development, the definition of an SOE will correspond to an entity that satisfies the following conditions according to the iSOEF (World Bank, 2019)[14]:

i) It is **controlled** by the state (whether legally, through ownership of shares, or other means).
ii) It is **legally and financially autonomous** from the state such that it has legal personality, specific rules of operation under a legal regime and own revenues or sources of funding; and
iii) It operates **in a market** for goods or services that could, in theory, be provided by a private company. (World Bank, 2019)

For identifying SOEs, it is key to determine whether the government can influence directly or indirectly the managerial or operational decisions of a firm. For instance, a government could directly own most of the stake of a company (e.g. above 50%) and control financial decisions of the firm. However, direct ownership does not limit the ability to influence. Even when the government holds minority participation (e.g., less than 10%), it can still have *"golden shares"* that outvote other larger shareholders or can have the ability to appoint or remove SOE board members and use this indirect mechanism to align the management and operational decisions with government objectives. Guidance questions for determining whether a company is a state-owned company or not are described in Figure 3 following closely the definition from WBG ISOEF (World Bank, 2019).

[14] IFC defines an SOE as a legal entity that is majority owned or controlled by a national or local government whether directly or indirectly. (IFC, 2019).

Figure 3. **Decision tree guidance factors to determine whether a company is an SOE following the SOE CPSD Knowledge note**



Source: authors elaboration following iSOEF (World Bank, 2019)

For identifying thoroughly all SOEs in a specific country, the CPSD team would require reviewing the general regulatory framework to validate the definition of SOEs in a country-specific context, the rules of operation and control of SOEs, and type of companies depending on the government's control or participation. This regulatory review can be conducted using the guidance factors proposed in Table 1. This legal validation is key to harmonize the local definition with the three criteria proposed (See **Figure 3**).

Table 1. Identification of SOEs and operational form of government businesses - Basic coverage of SOEs for Concept notes

Guidance Factors	Example of resources to consult	Key variables to analyze
- **Review the local definition of a state-owned enterprises.** - **Review the rules for determining ownership and control of an SOE** - **Determine whether ministerial departments or non-incorporated public entities can operate in the market (e.g., parastatals).** - **Determine the legal form of the SOEs (e.g. corporatized, government agency, parastatal, etc.)**	- Constitution - Ministerial decrees - Ministry of Finance reports on finance control of public companies. - Sectoral decrees. - State companies Act. - National Accounting Code.	➢ Operational form of government-related businesses in the market. ➢ Legal separation and regulatory basis between commercial (e.g. provision of goods and services) and non-commercial activities (e.g. regulation) ➢ Type of state-owned companies defined in local regulation.

Source: authors elaboration based on SOE competition checklist

Once validated the legal framework, the CPSD teams would require highly detailed information on the ownership structure, economic sectors of operation of the state-owned companies. To alleviate these country-specific efforts, there is a current effort across EFI to systematize this type of information, retrieve ownership structure of companies under a homogenized approach, and provide comparable indicators across emerging and developing economies. Besides, the Global EFI SOE dataset (forthcoming), the CPSD teams can explore the following list of resources in-house and external with information about the presence of SOEs by country. The resources listed are indicative rather than an exhaustive list of sources of information publicly available, which can offer a first overview and approach. However, it does not necessarily cover the real extent of SOEs or the relative importance of SOEs in each sector. For that purpose, this information can be complemented with additional sources of information available at the country or sector level and through deep dives of SOE analysis. Some of the resources when first approaching SOEs for a given country can be found in-house at the WBG:

- **Integrated SOE framework (iSOEF):** In countries where they have already been prepared, previous iSOEF assessments, in particular the 'SOE Landscape' section, can be a very valuable resources as a first overview of the SOE portfolio in a given country. Some iSOEF include market-related questions and can give ideas on the categories of SOEs that can be explored as part of the CPSD.
- **SOE Markets & Technology repository**: The Markets & Technology team of FCI created an SOE repository to retrieve the most recent studies and diagnostics on SOEs at country-sector level from the operational portal after analyzing more than 2,000 projects, ASA, loans, etc. This repository was complemented by a WBG analysis using relevant external studies from sources such as the OECD, IMF, and IADB. The SOE repository is a highly recommended resource to explore when first approaching this topic since the documents included might offer a first landscape exercise of the SOEs in a country-specific context and report some key performance indicators.
- **SOE analytics and competition:** The CPT has a repository of the documents and analytic exercises including at least 20 countries and regional analytical pieced conducted to assess market effects on SOEs including competitive neutrality analytics. These documents are available upon request to the CPT.
- **Product and Market Regulation (PMR) dataset:** This dataset covers more than 70 emerging and developed economies over the period 2007-2013. The indicators estimated in the PMR are very helpful to determine the presence of SOEs economy-wide and by sector, and for instance, unveil whether SOEs are predominantly present in enabling sectors (e.g. network sectors) or export locomotives (e.g. manufacturing). This dataset has been developed in a joint effort by the OECD and the WBG (led by the Global Competition Team). However, the coverage for low-income countries is limited in the PMR.
- **FACTIVA and EMIS:** Both FACTIVA and EMIS datasets offer access to WBG staff. However, some restrictions and quotas might apply when downloading the information.[15] FACTIVA is particularly helpful for retrieving specific company names and main economic variables for a specific country-sector including both SOEs and private companies and listed or unlisted firms.[16] EMIS provides firm-level financial indicators (e.g. assets, liabilities, profit margins, etc.) and includes information about number of employees, shareholders, and industry benchmark values.[17] However, the coverage for low-income countries might be limited in these datasets.
- **SOE Corporate Governance Regional Studies and Country Diagnostics:** Some SOE corporate governance regional assessments and country-specific diagnostics can provide an overview of SOEs in the country under consideration, including information on the SOE legal and regulatory framework, oversight arrangements, boards of directors, and transparency and disclosure practices.

[15] The portal offer access although limited to the WBG staff. FACTIVA has a threshold of download capacity for bulky consults, such that establishes a limit either by capacity (e.g. megabytes) or by number of observations (e.g. up to 5,000 companies at a time).
[16] Listed refers to companies that have a fraction or all shares quoted on a stock exchange.
[17] Access to these resources is available to WBG staff through the library portal (library/).

- **EFI SOE global database (forthcoming):** In a joint-effort across EFI, a firm-level database is being created for SOEs across the globe with a special focus on developing and emerging economies. This dataset is consolidating information from a worldwide database provided by ORBIS and country-level engagement operations on SOES. This information will provide both entity-level information and consolidated indicators about the presence of SOEs, their performance and corporate governance practices.
- **Additional WB notes and projects:** Additional resources and focal points (TTLs and team members) can be retrieved from the operational portal when filtering by SOE analysis.
- **Integrated EFI SOE website (forthcoming):** Designed as a 'one-stop-shop' and global knowledge repository, the new EFI SOE website compiles available guidance, reports, and resources for task teams. The website is currently under construction in its final stages and expected to be available for task teams in the coming months.

Additional resources can be consulted in order to retrieve more country-specific information, which usually offer an overview of the role of state-owned companies. Among these external sources publicly available, CPSD teams can explore:

- **Ministry of Finance Fiscal reports:** Fiscal and budget reports are a helpful source of information about the presence of SOEs and their participation in the use of public resources. For example, these reports will provide the names of the companies, budget allocation, tax allowances or subsidies granted and the sector of operation.
- **Centralized bodies for the SOE oversight:** In some countries, the oversight of the SOEs is centralized under one agency, holding company or ministry (e.g. Israel, Peru, Italy, Norway) or decentralized with a coordinating agency (e.g. Costa Rica and Lithuania). These centralized bodies can provide systematized reports of the presence of state-owned companies, their main economic activity, and key financial indicators.
- **Reports from multilateral organizations:** The OECD and the IMF have prepared country-specific reports exploring different issues related to SOEs such as the application of competitive neutrality principles and best practices of corporate governance. These organizations offer interesting compendia of national practices related to SOEs and country-specific analyses that can provide detailed information about the presence and role of SOEs. For example, the OECD published in 2017 a report that compares the size and sectoral distribution of SOEs in OECD and partner countries including an excel dataset of the number of SOEs by country (OECD, 2017).[18] Similarly, the OECD conducted a survey and detailed analysis for assessing the role of SOEs in Central, Eastern, and Southeastern Europe (IMF , 2019).

[18] The report and excel dataset can be retrieved from: https://www.oecd.org/daf/ca/size-sectoral-distribution-soes-oecd-partner-countries.htm

Table 2. Indicative areas of consideration for a *preliminary analysis* of SOEs - Basic coverage of SOEs for Concept notes

Factors to consider[19]	Example of resources to consult	Key variables to explore
- **Number of total SOEs operating in the economy.** - **Number of SOEs that are majority-owned by the government (50+% direct participation)** - **Number of SOEs with at least 25% of government participation.** - **Economic relevance of SOEs in terms of formal employment, GDP, expenditures, and investment.**	- M&T Repository of WBG notes and analysis per country.[20] - EFI SOE database. - SOE analytics and competitive neutrality (CPT). - EMIS Intelligence: financial indicators for listed and unlisted SOE companies across 145 emerging markets.[21] - Integrated SOE diagnostics by country (e.g. Sri Lanka, Chad, Niger).[22] - Financial and non-financial companies' financial statements. - Ministry of Finance annual reports and budget analysis. - Centralized agencies and oversight bodies of SOEs. - Enterprise surveys indicators of percentage of firms with government/state ownership.	- Number of State-owned companies. - SOEs participation (%) in total employment. - SOEs participation (%) in GDP. - SOEs participation (%) in total debt. - SOEs participation (%) in total tax expenditures or total subsidies. - Evolution of SOE participation over the last 3-years in terms on GDP, employment, etc.
- **Sectors with presence of SOEs and comparison with benchmark countries.**	- Product Market Regulation (PMR). The section *Distortions induced by the State Involvement*, subcomponent *Public Ownership*. [23] - Product Market Regulation (PMR). The section and datasets for the *Sectoral Market Regulation Indicators.* - FACTIVA. Indicative summary of SOE companies by sector can be obtained for a specific country denoting firms that are declared as SOEs.[24] - EMIS intelligence: industrial benchmark to compare potential performance of SOEs vis-à-vis private companies.[25]	- Number of economic sectors with presence of SOEs. - Number of sectors with presence of SOE vis-à-vis comparator countries.

Source: authors elaboration

Based on this exploratory analysis in preparation of the CN, teams should propose the subsequent analytics. As a result of this first stage, CPSD teams will have an overview of the number of SOEs and their economic relevance in terms of the allocation of resources (e.g. employment, investment, GDP, etc.) This first approach can also shed some light towards the economic sectors where there is a predominant presence of SOEs (e.g. participation of SOEs in commercial sectors vis-à-vis SOEs in natural monopolies) to be analyzed in a subsequent stage to validate the economic rationale.[26] This findings can also shed some light towards the selection of specific topics to be covered in the sector assessments. For example, SOEs operating in manufacturing (e.g. textiles, apparel, beverages) or services usually provided by the private sector (e.g. accommodation, restaurants, freight transportation, real state) can rise some flags for further analysis as these companies could potentially create barriers to entry or crowd-out private investors. Further assessment is required to determine the potential source of distortions as well as opportunities of reform during the "phase 1". The framework of analysis and different stages are described in the following section.

[19] The areas of consideration and depth of the analysis can be adapted based on the information available, the socio-economic and political context and the priority areas highlighted by CPSD TTLs.

[20] The SOE repository developed by the Markets and Technology Unit retrieves a list of relevant resources can be explored by country from more than 2,000 ASA and lending operation documents across the WBG. This resource can be explored to have a general overview of the SOE data and analysis conducted by country/sector. In some cases, it also includes financial indicators of the performance of the companies or comparable indicators across countries. (Add link)

[21] Tailored consults can be conducted through the website, with some limitations in terms of the quota of downloads though. https://www.emis.com/

[22] Country-specific analysis conducted based on the integrated SOE approach.

[23] The PMR indicators prepared by the OECD and the WBG measure in which degree policies promote or inhibit competition where competition could be viable. The score ranges from 0-6, where a larger score is indicative of higher potential distortions. The economy-wide and sector indicators can be retrieved from: http://www.oecd.org/economy/reform/indicators-of-product-market-regulation/

[24] WBG staff can have access to Factiva using the WB user email to log in into the platform. The website to explore the information is: https://professional.dowjones.com/factiva/

[25] Shareholders and participations are listed as part of the variables described by EMIS. Although no specific variable declares the company as SOE or not, key words such as Public, Ministry, Government, Treasury can be used to filter for potential state-owned enterprises as a first approach.

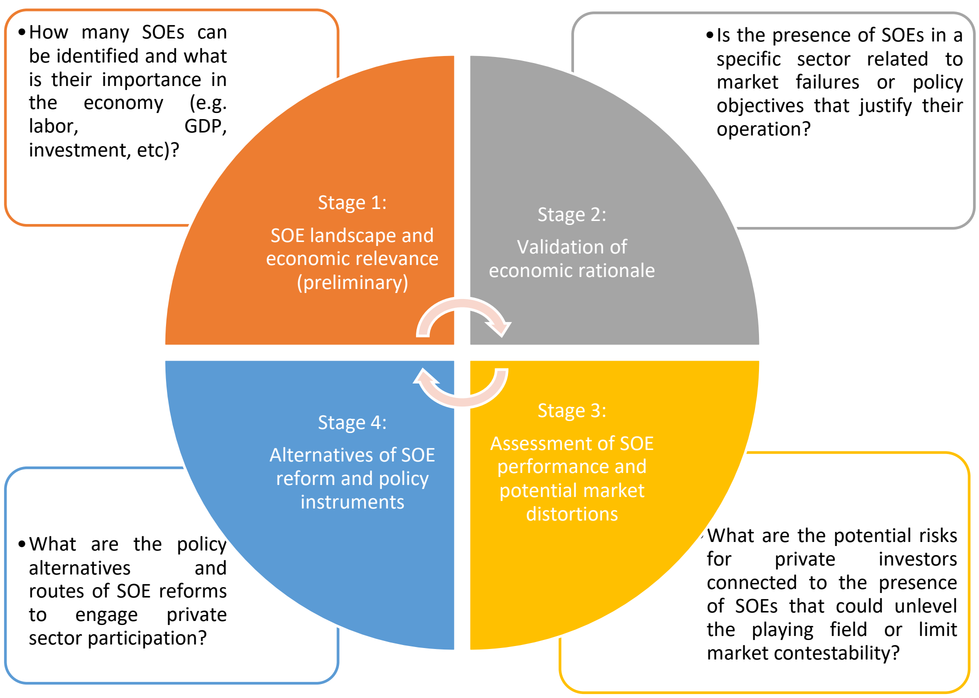
[26] Clear economic rationale for SOE presence refers to situations where the state intervenes directly because: (i) there is **no-commercial viability** for the economic activity and private companies might not be able to cover the costs (e.g. rural roads, postal services in remote areas), (ii) the sector can be defined as a **natural monopoly** (e.g. electricity transmission, gas, fixed-line telephony), (iii) the economic activity is characterized by **negative externalities** (e.g. fossil fuel) that can lead to overproduction or resource depletion; (iv) the economic activity is characterized by **positive externalities** (e.g. road infrastructure, health); (v) the good provided is a **public good** (excessive costs for excluding some actors and the use of the good does not depletes the supply to other actors).

As a general recommendation, the teams are suggested to involve at least one expert on competition analysis, one data analyst and one specialist on regulatory assessment and to have the expertise required in the analysis proposed in the following sections. To conduct a comprehensive analysis of the presence of SOEs, their role in the economy and potential risks of market distortions that hamper competition and PSD, the CPSD teams could benefit from involving at least: an economist with experience in competition analysis and competitive neutrality assessments, a data analyst that can retrieve and systematize key information, an a lawyer or regulation specialist that can review and flag key bottlenecks in the regulatory framework. Some resources and experts that can be consulted for the elaboration of the CPSD as well as for quality assurance are indicated in the toolkit in the section VII of this note.

Assessment Framework

If SOEs are confirmed as a focus area by the CRM, more in-depth work will be required and will likely encompass an analysis to identify the taxonomy of SOEs, unveil potential market distortions, red flags for private investment, and opportunities of reform. The SOE assessment should cover 4 key components through a sequential approach as depicted in Figure 4.

Figure 4. Sequential approach to address SOEs issues and identify opportunities of reform



Source: Markets and Technology Unit

Stage 1 – SOE landscape and economic relevance

The first stage corresponds to an *exploratory analysis* to determine the presence of SOEs, their role in the economy, and benchmark analysis to comparator countries. As starting point for the CPSD teams and as a preliminary stage of the CPSD concept note, CPSD teams should determine the landscape of SOEs, their participation in the allocation of productive resources (e.g. labor, investment, capital), their presence in key economic sectors and compare the results with benchmark countries. Specific resources, and key factors to explore are described in the former section (in preparation to the concept note, see Table 1 and Table 2) which are oriented to solve the first underlying question: ***How many SOEs can be identified and what is their importance in the economy (e.g. labor, GDP, investment, etc.)?***

Stage 2 – Validate whether there is an economic rationale for the SOEs identified

The next step is oriented to determine the taxonomy of sectors in which SOEs operate and validate the economic rationale for direct intervention of the government in the form of ownership and commercial activity. This section is oriented to assess in which extent the presence of SOEs responds to potential market failures or fulfills other policy objectives stated by the government (See Box 2). The precise definition of the economic sector of participation as well as the potential economic rationale for the operation of SOEs is crucial for detecting potential market distortions (Stage 3) and also proposing specific instruments of reform (stage 4) since the solutions are highly connected to the market characteristics where SOEs operate. The underlying question of the second stage is the following: ***Is the presence of SOEs in a specific sector related to market failures or policy objectives that justify their operation?***

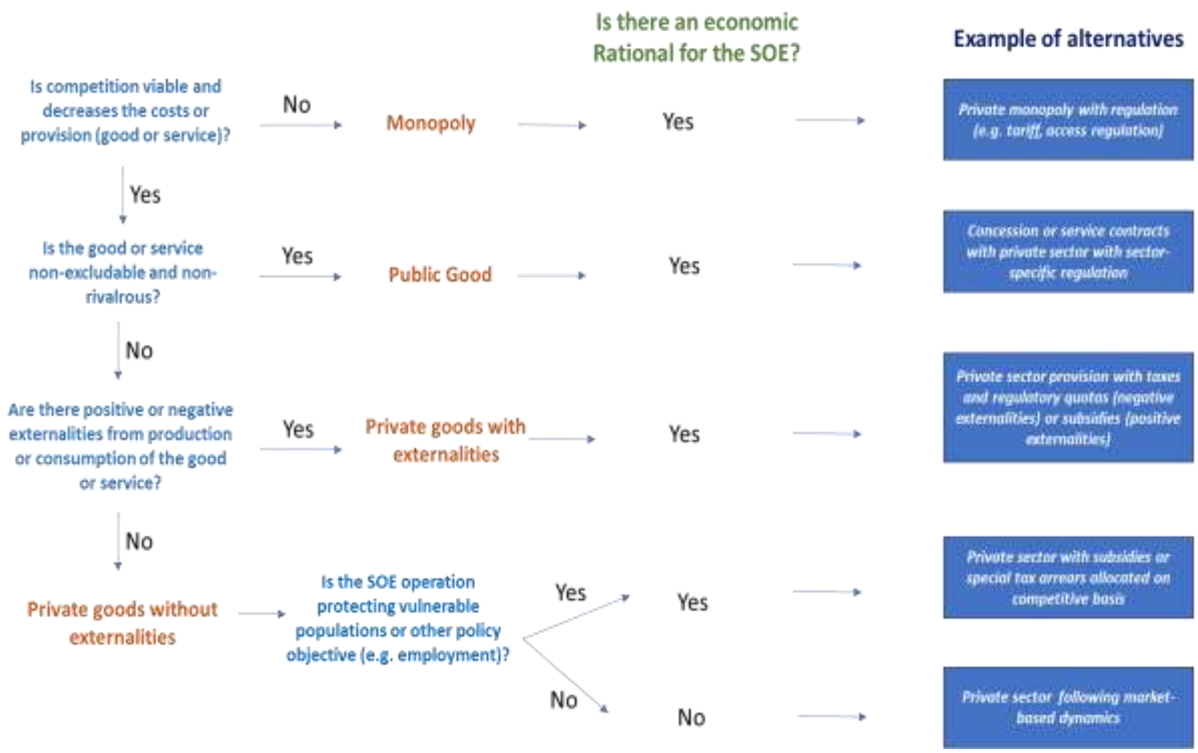
For this purpose, CPSD teams should follow a two-step approach. First, the team need to highlight the type of sectors where SOEs are present, and then validate whether those sectors and specific segments of activity exhibit some intrinsic characteristics or market failures (e.g. natural monopoly, externalities, provision public goods) that can justify economically the government's intervention through an SOE. Some guidance factors to validate the economic presence and presence of SOE by sectors are listed in Table 3. For the subsequent step to validate the economic rationale for SOEs, CPSDs can use as reference the decision tree proposed in **Figure 5** and key concepts in Box 2.

Table 3. Indicative list of areas of consideration to determine the sectors where SOEs are predominantly present by country

Guidance factors	Example of resources to consult	Key variables to analyze
- **Identify the type of sectors in which SOEs are particularly predominant (e.g., % of SOEs in commercial sectors, % SOEs in natural monopolies).**	- PMR data comparing SOE presence across PMR covered countries and sectors (although with limitations in coverage for low-income countries). - PMR questionnaire for a specific country. - M&T analysis of PMR data comparing SOE presence across countries and sectors covered in the data. - FACTIVA, list of companies by economic activity and type. - EMIS, list of companies by economic activity and shareholders information. - EFI Global database to identify type of sector with predominant presence of SOEs.	- Number of SOEs in sectors that can be defined as natural monopolies. - Number of SOEs in contestable sectors. - Number of SOEs in fully commercial sectors. - Relative presence of SOEs in each type of sector vis-à-vis comparator countries.

Source: authors elaboration

Figure 5. Decision tree for determining the economic rational of SOEs



Source: Markets and Technology Unit elaboration based on (World Bank, 2019)

Box 2: Economic rationales for SOEs

In the presence of market failures, some characteristics of the goods and service might explain the presence of SOEs. Some key questions to assess the economic rationale of SOE are the following:

✓ **Commercial viability**: Is this activity commercially viable*?*

In this case, private companies might not be able to cover the costs of service provision with user-fees since the demand is not enough for a minimum efficient scale. Some examples include rural roads, postal or telecommunication services in remote areas.

✓ **Natural monopolies**: *Does the market exhibit sub-additivity of costs?*

In this case, the costs are minimized by concentrating the production in a single firm. As discussed above, this single market player could in theory be a private or public enterprise. Some enabling sectors include segments with natural monopolies such as electricity (transmission), gas, postal services, fixed-line telephony.

✓ **Negative externalities:** *Is the sector characterized by negative externalities?*

In this case, the total cost of the provision of a good or service exceeds the private costs and imposes unintended costs on other members of the society. Hence, when provided by the private sector, it could end up in overproduction, resource depletion, or overexploitation. Taxes and quantity regulation on goods or services in presence of these externalities can mitigate this market failure. Fisheries, coal mining, fossil fuels are examples of sectors with these characteristics.

✓ **Positive externalities:** *Is the sector characterized by positive externalities?*

In this case, the social returns of providing a good or service exceed the private returns as the production benefits other members of society. Under this scenario, the private sector either does not have the required profitability to enter to the market or could underproduce when operating. One solution in this case is to subsidize goods with positive externalities (*Pigovian tax*). Some sectors as rail and road infrastructure, education, and health exemplify these industries.

✓ **Public goods**: *Is the good or service provided a public good?*

In case the good is non-excludable (i.e. excessive high costs required for excluding some actors for accessing or using a good/service) and non-rivalrous (i.e. the use of the good or service does not limit the use or depletes the supply for other actors), the private sector may not provide the goods or services because it cannot charge an individual fee or it is unprofitable to do so. Government provision directly through SOE or public administration, indirectly contracting private-sector companies (when possible), or jointly (e.g. PPP) are potential solutions to these market failures. Quality and contract enforcement capacity are critical to determine the potential venue of intervention. Defense, street lighting, research on seed varieties are examples of goods and services with these characteristics.

Source: Authors elaboration based on (Putniņš, Economics of State-Owned Enterprises, 2015) and iSOEF (World Bank, 2019)

In this exercise, it is essential to determine all potential segments where an SOE operates. For example, an SOE operating in an economic sector (e.g. telecom) could provide services in different subsegments that exhibit different market characteristics. A telecom company that operates in the fixed-line network segment could be defined as a natural monopoly, whereas a company providing mobile services would operate in a more contestable market. The correct definition of the type of sectors and involvement of SOEs in each segment is key to determining the potential distortions and barriers that can impact private sector development. It is not the same to have an SOE in a natural monopoly, which inherently would exhibit entry barriers even when provided by a private monopolist compared to an SOE in a contestable sector (e.g. air passenger) or fully commercial (e.g. beverage and food production) where private investors could provide goods or services efficiently. Similarly, the participation of an SOE in different segments of a value chain (vertical integration) can also exacerbate some potential barriers for PSD.

To identify the type of sectors and specific segments of the operation of SOEs, the CPSD teams can follow the taxonomy proposed. Natural monopoly refers to sectors characterized by sub-additivity costs, which implies that the most efficient provision of the good or service is reached with a single operator or provider. Contestable sectors refer to those that exhibit entry barriers and fixed costs that make competition viable but still might limit the number of competitors to few players in the market. Finally, fully commercial sectors are those with low entry barriers, similar access to information and production technologies that favor competition and provision by multiple players. Once the CPSD teams have identified the sectors with SOE presence, the sector-type can be determined using the taxonomy in Table 4 as well as their economic rationale (following the decision tree in **Figure 5**5). Some red flags and priority-sectors for reform can emerge from this stage, particularly in those where there is higher presence in contestable or commercial sectors vis-à-vis benchmark countries and where there is no clear rationale for intervention of the government in the form of an SOE. A complementary file in Excel with a further disaggregation at 4-digit level developed by the Markets and Technology Unit is provided for a detailed taxonomy.

The taxonomy proposed is built upon the different levels of contestability of the market and segments but could vary in practice based on the political and socio-economic context in each country. The taxonomy is based on the economic activity and market characteristics where the SOE operates and offers and indicative tool to classify the sectors. This taxonomy provides a simplified approach to determine the typology of sectors in which SOEs operate based on the intrinsic market characteristics, but the actual market structure might vary depending on the economic and socio-political context and also could evolve with the technological disruptions. For instance, a sector such as mobile telecom services tend to follow oligopolistic structures as result of the presence of sunk costs and economies of scale, but still in some countries it could be provided by a single operator (i.e. de facto a monopoly).[27] Similarly, technological disruptions and innovation will allow to create and transform subsegments into more contestable markets.[28] The first category refers to natural

[27] Among others, several studies carried out by the Competition Policy Team have differentiated between natural monopoly sectors and those where competition is viable.

[28] A more detailed taxonomy and correspondence table for each economic activity (NACE classification 4-digits) is added as part of the CPSD guidance documents (See Excel annex for the full taxonomy).

monopolies. In this case, the intrinsic market and technological characteristics imply that the costs for the provision of a good or service are minimized by concentrating the production in a single firm (i.e. subadditivity of costs). These economic activities imply significant barriers for private investors since the entry of additional market players will increase the costs and promote a sub-optimal result. Examples of these economic activities refer to fixed-line networks and basic letter services, distribution of energy, operation of railroad infrastructure, airport infrastructure, air traffic control, and most of the functions performed by local utilities (e.g. water collection, sewage, etc.).

The second type of sectors refers to those that have markets with some degree of contestability. This category includes network industries with large fixed costs and technological barriers to entry. These industries may be served efficiently by more than one firm depending on market conditions such as demand structure and market size (e.g. electricity distribution). It also includes industries that can be served efficiently by more than one firm, even if network and scale effects generate high levels of market concentration (e.g. air transport services). These oligopolistic structures will incorporate intrinsically some barriers for private sector development, which could be exacerbated by the presence of an SOE. Examples of these sectors are telecommunication services, energy distribution, passenger transport (air, water, maritime), natural resource exploitation activities and financial services.

The third category refers to SOEs operating in fully contestable and commercial markets. In these industries, firms can operate profitably and barriers to entry are moderate or low. These sectors correspond mainly to the provision of goods and services that are private (i.e. rival and excludable), which can be provided in profitable conditions by private companies, and do not create significant externalities in their provision.29 In this case, competition and market dynamics could discipline the agents to avoid them to obtain and abuse market power. Hence, there is no clear economic rationale to justify the specific participation of SOEs in these type of activities (iSOEF, 2019). Examples of these activities are manufacturing, construction, retail and wholesale trade, accommodation and food services, administrative and support services, real estate activities, arts, entertainment.

SOEs operating in a specific sector can perform activities in different segments or markets that exhibit different characteristics and therefore different risks for creating market distortions. The correct specification of the economic activities performed by an SOE and contestability of the segment of operation is critical for assessing potential distortions in the market. It is key to determine the specific segments in which the SOE operates beyond the broad economic sector as the market distortions and ability of SOE to influence the market outcomes vary accordingly. Moreover, the more integrated are these segments by a single entity, the larger the risks of distortions. For example, within network sectors, there are segments such backbone infrastructure that are prone to monopolistic structures, but also retail internet and mobile services that allow entry of private investors. If an SOE controls both, then the risk for creating barriers for private investors will increase.

[29] Consumers or groups of people could be restricted to access (i.e. excludable condition) and the consumption of the good/service reduces its availability for others (i.e. rival condition).

Table 4. Taxonomy of SOEs based on the economic activity and contestability of the markets.

Sector		Segment	*Type 1 Natural monopolies*	*Type 2 Contestable sectors*	*Type 3 Full Commercial*
Network Sectors	Telecom	Backbone and towers infrastructure	X		
		Fixed-line network	X		
		Fixed-line services		X	
		Mobile services		X	
		Internet services		X	
		Post - Basic letter services	X		
		Post - Parcel Services		X	
		Post - Courier Services			X
	Energy	Generation		X	
		Transmission	X		
		Distribution* (supply)		X	
	Railways	Operation of railroad infrastructure	X		
		Passenger transport		X	
		Freight transport		X	
	Air and aviation	Airport operations, infrastructure	X		
		Air-traffic control	X		
		Passenger transport		X	
		Freight transport			X
	Water/Maritime	Operation of water transport infrastructure		X	
		Passenger transport		X	
		Freight transport		X	
	Road	Operation of road infrastructure		X	
		Passenger transport*			X
		Freight transport			X
Local Utilities	Gas	Distribution		X	
	Water	Collection, distribution	X		
	(District) Heating	Heating	X		
	Sewerage	Collection, treatment, disposal	X		
	Solid waste	Collection		X	
		Treatment and disposal	X		
	Others	Cemeteries, local services		X	
	Urban transport	Urban transportation services	X		
Natural resource exploitation	Oil, Gas and Mining	Upstream (exploration)		X	
		Midstream (liquif.)		X	
		Downstream		X	
Financial	Banking	Financial and insurance activities		X	
Other Public services	Other public services	Health		X	
		Education		X	

Commercial	Agri-business	Agricultural, forestry, fishing			X
	Manufacturing	Manufacturing (e.g. food, beverages, textiles, apparel, etc).			X
	Services	Construction			X
		Wholesale and retail trade			X
		Accommodation and Food Service Activities			X
		Professional, scientific and technical activities			X
		Administrative and support services			X
		Real Estate Activities			X
		Arts, entertainment			X
		Warehouses and logistics			X

Sector		Segment	*Type 1 Natural monopolies*	*Type 2 Contestable sectors*	*Type 3 Full Commercial*
Network Sectors	Telecom	Backbone and towers infrastructure	X		
		Fixed-line network	X		
		Fixed-line services		X	
		Mobile services		X	
		Internet services		X	
		Post - Basic letter services	X		
		Post - Parcel Services		X	
		Post - Courier Services			X
	Energy	Generation		X	
		Transmission	X		
		Distribution* (supply)		X	
	Railways	Operation of railroad infrastructure	X		
		Passenger transport		X	
		Freight transport		X	
	Air and aviation	Airport operations, infrastructure	X		
		Air-traffic control	X		
		Passenger transport		X	
		Freight transport			X
	Water/Maritime	Operation of water transport infrastructure		X	
		Passenger transport		X	
		Freight transport		X	
	Road	Operation of road infrastructure		X	

		Passenger transport*			X
		Freight transport			X
Local Utilities	Gas	Distribution		X	
	Water	Collection, distribution	X		
	(District) Heating	Heating	X		
	Sewerage	Collection, treatment, disposal	X		
	Solid waste	Collection		X	
		Treatment and disposal	X		
	Others	Cemeteries, local services		X	
	Urban transport	Urban transportation services	X		
Natural resource exploitation	Oil, Gas and Mining	Upstream (exploration)		X	
		Midstream (liquif.)		X	
		Downstream		X	
Financial	Banking	Financial and insurance activities		X	
Other Public services	Other public services	Health		X	
		Education		X	
Commercial	Agri-business	Agricultural, forestry, fishing			X
	Manufacturing	Manufacturing (e.g. food, beverages, textiles, apparel, etc).			X
	Services	Construction			X
		Wholesale and retail trade			X
		Accommodation and Food Service Activities			X
		Professional, scientific and technical activities			X
		Administrative and support services			X
		Real Estate Activities			X
		Arts, entertainment			X
		Warehouses and logistics			X

Note: *Road transport refers to inter-urban transport. This taxonomy is aligned with other taxonomy exercises applied by the Competition Team (Miralles Murciego, Roberto Martin, Ore Monago, & Zipitria, 2018) and analytics in the context of the CPSD (e.g. Morocco) (World Bank, 2019d)

Source: authors elaboration based on PMR sectors (OECD, 2018)

Table 5. Examples of presence of SOEs identified in former CPSDs

	Agribusiness	Manufacturing	Services
NEPAL	Seeds Fertilizer Dairy		Financial services
GHANA			Energy Financial services
KAZAKHSTAN	Wheat		
ANGOLA		Oil and refinery	Financial sector Construction Water Electricity Airline
ETHIOPIA	Fertilizer		Logistics Telecom Energy
KENYA	Agro-processing		Financial services Telecom Accommodation services
MOROCCO	Fertilizers	Metals	Accommodation services
BURKINA FASO			Water Electricity Postal services
COTE D'IVOIRE			Passenger Transport (airline) Television

Source: authors elaboration based on some CPSDs (World Bank, 2019j) (World Bank, 2019d)

Stage 3 – Assessment of SOE performance and potential sources of market distortions (economy-wide and sector-specific measures)

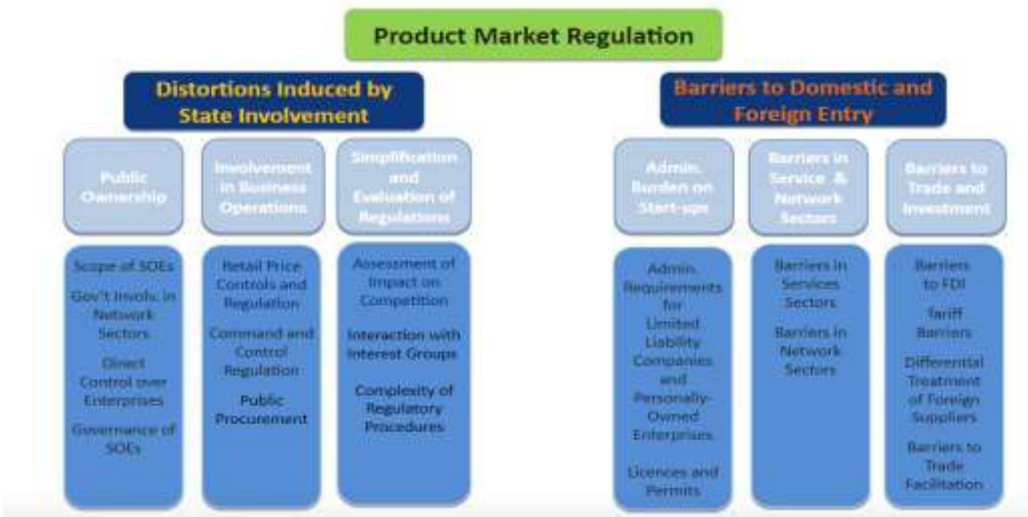
Economy-wide analysis

Based on the landscape of SOEs by type of sector, economic relevance, and after validating the rationale for SOE operations, the CPSD team can start the assessment on potential barriers faced by private investors. This subsection offers some resources that CPSD teams can implement for unveiling potential market distortions related to SOEs that limit contestability and efficiency of the markets and restrain private sector investment. This section is recommended as a sequential approach that can be implemented according to the availability of the information identified in stage 1 and 2. The underlying question to explore in this stage (3) of the analysis is the following: ***What***

are the potential risks for private investors connected to the presence of SOEs that could unlevel the playing field or limit market contestability?

As a first instrument in this task, the CPSD team can employ the restrictiveness index provided by the Product Market Regulation (PMR) collected jointly by the WBG and OECD. The PMR database provides synthetized indicators that are internationally comparable to measure the regulatory barriers faced by private investors. These indicators provide a measure related to the entry barriers and competition dynamics in a specific country (economy-wide indicators) and within a specific sector (sectoral indicators). Besides, these indicators allow to assess to what extent those barriers are related to distortions induced by government participation. As illustrated in Figure 6, subcomponents of the PMR evidence how barriers for the private sector could derive from public ownership including the direct control over enterprises and involvement in key enabling sectors (e.g. network sectors). These indicators also offer benchmark comparison exercises.[30] It is noteworthy that PMR indicators provide limited coverage for low-income countries.

Figure 6. Product market regulation indicators for assessing potential impact of SOE presence in the economy



Source: Indicators of Product Market Regulation (OECD, 2018)

Moreover, the Transformation Index BTI can provide further information on risks for private investors related to the lack of competition that can be undermined due to the presence of SOEs in the economy. The Transformation Index BTI measures the quality of democracy, market economy and political management across 129 developing and transition countries (Bertelsmann Stiftung, 2018). Among the sub-indicators for computing the consolidated transformation index, the BTI measures the organization of the market and competition, which provide a proxy of the risks faced by private investors related to the presence of monopolies, price controls, anti-monopoly policy, presence of government-related operations and market-based competition. These indicators can inform the potential risks faced by private investors related to government participation in the marketplace (See Map 1). For instance, in Morocco, the indicator of market-based competition and findings reveal that market competition is hampered by control of large state-entities where no investment (foreign or domestic) is possible given that the government has a monopoly including sectors such as phosphates, waste management, wholesale fruit and vegetable distribution, postal services, water and electricity supplies (Bertelsmann Stiftung, 2018).

[30] For example, the CPSD for South Africa in 2019 employed this methodology and identified that 47% of the restrictiveness index for private development was related to state control performing relatively worse than its peers.

Map 1. Market-based competition index (BTI Transformation index 2018)

Note: Index ranges from 1 to 10. Higher values indicate relative lower competition barriers faced by private investors
Source: Authors elaboration based on (Bertelsmann Stiftung, 2018)

In addition to these internationally comparable indicators, CPSD teams need to conduct an assessment on the performance of SOE to determine the potential impact on key market outcomes (e.g. prices, quality, service delivery) and interconnected sectors. CPSD teams should conduct an analysis of the performance of SOEs and potential consequences in terms of productivity, quality, costs of product and services, financial performance, and social and environmental impact. Some guidance factors and resources for the performance analysis are proposed in Table 6. This set of factors is focused on assessing the productivity, profitability, output efficiency of SOEs, and also some potential impact on consumer access, service delivery, and downstream industries (Table 6). It is noteworthy that this assessment will provide indicative although not conclusive signals of the presence of potential market distortions. For instance, loss-making SOEs can raise some flags for further analysis, but similarly, highly profitable SOEs could hinder some barriers for competition that lead to high-profit margins. For that reason, the analysis should be complemented with a further exploration of potential market distortions. In addition to the desk research resources indicated, CPSD teams can also benefit from interviews with the private sector to ensure that there is interest for investment and to unveil potential blockages for bring in private participation.

Finally, to unveil potential barriers for PSD, CPSD teams can evaluate two potential streams of market distortions: (i) distortions that reinforce dominance of SOE, (ii) rules that increase the costs of private competitors. At this stage, the CPSD team can explore potential sources of distortions and unveil imminent risks for private sector investors assessing in which extent the market incentives and rules could reinforce SOEs' dominance or limit the entry of private competitors (Table 6). CPSD teams need to unveil potential rules that are conducive to increase the costs faced by private operators when competing with SOEs through the assessment of the competitive neutrality principles SOEs (Table 8), and finally evaluate the constrains for private investors to access essential resources (e.g. labor, capital) (Table 9). It is important to highlight that in certain cases, the lack of sectoral rules and enforcement can also impact the feasibility of private sector investment, especially in network industries.

Table 6. Indicative list of areas of consideration for the assessment of performance of SOEs

Guidance Factors	Example of resources to consult	Key variables to explore	Potential red flags for private sector participation
- **Number of SOEs with disclosed and audited financial statements over the last years** - **Performance of SOEs in terms of financial indicators (e.g. profitability), output efficiency, and/or productivity.** - **Issues highlighted by the private sector related to low performance in service delivery in sectors with presence of SOEs (e.g., high prices, low coverage, shortages, delays, etc.)**	- Reports from Ministry of Finance - Financial statements of SOEs. - Sectoral reports of oversight entities - Academic research and benchmark analysis. - Sectoral studies - Reports from regulatory bodies.	- Number of SOEs with sustained negative rates of return over the last years. - Sectors where SOE performance (e.g. profitability, output efficiency) is below comparative (domestic or international) private peers. - Sectors where SOE delivery of service is below regulatory standards.	- Sectors with SOEs incurring in significant and sustained annual losses in sectors with private sector participation. - Sectors with SOEs with profit gains substantially above comparator private peers (potential flag of limited competition). - Sectors with SOEs with high financial leverage vis-à-vis private peers.

Source: authors elaboration adapted from iSOEF (World Bank, 2019)

Table 7. Indicative list of areas of consideration for the assessment of rules that reinforce SOE dominance or limit entry into the market (economy-wide sources of distortions)

Guidance Factors	Example of resources to consult	Key variables to analyze	Potential red flags for private sector participation
- **The Constitution or high-level law establishes that certain sectors or economic activities are reserved exclusively for SOEs.** - **Legal constrains that limit the sale of assets of SOEs or restrict the participation (e.g., caps) of private investors (foreign or domestic)**	- Constitution - Sectoral regulations and decrees - Ministerial orders - Trade agreements - Competition Law - Acts of creation of SOEs	- Number of sectors where there are exclusivity rights granted to SOEs. - Sectors where there are statutory restrictions for the sale of shares of SOEs to private investors. - Sectors where there are statutory restrictions for the creation of alliances with private sector (e.g. PPP) for providing certain services. - Sectors caps or bans for private sector participation (domestic and/or foreign).	- Sectors with exclusionary rights provided to SOEs, especially those that can be denoted as fully commercial sectors (e.g. manufacturing, construction, retail). - Legal constraints prohibit shareholding of private competitors in sectors with presence of SOEs, particularly those in fully commercial or contestable sectors. - Sectors in commercial and contestable segments with caps or bans for private sector participation (e.g. FDI caps, FDI bans).

Source: authors elaboration adapted from MCPAT SOE check list and iSOEF (World Bank, 2019)

Table 8. Indicative list of areas of consideration for the assessment of rules that could increase the costs to compete for private investors (competitive neutrality principles)

Competitive neutrality principle	Guidance Factors	Example of resources to consult	Key variables	Potential red flags for private sector participation
Regulatory neutrality	- Validate whether SOEs are exempt of some regulations vis-à-vis private operators. For instance, verify whether SOEs are exempt on the application or enforcement of regulatory framework related to antitrust law, public procurement, bankruptcy law, tax law, among others.	- Constitution - Sectoral regulations and decrees - Ministerial orders - Trade agreements - Competition Law - Public procurement Law - Tax Act - Corporate companies Act - Ministry of Finance financial reports - Regulatory agency reports. Sectoral agency studies.	- Legal framework and economic activities where SOEs are excluded from antitrust law. - Legal framework and economic activities where SOEs are excluded from following procurement procedures. - Legal framework and economic activities where SOEs are not required to apply the same tax regime as private peers. - Legal framework and economic activities where SOEs are not required to follow the same bankruptcy requirements as private peers.	- Sectors where SOEs are excluded from antitrust law rules or enforcement. - Sectors where SOEs are not required to follow public procurement procedures. - Sectors where SOEs are not required to follow bankruptcy procedures even when performing with sustained losses. - Sectors with special regimes (e.g. prices) for SOEs.
Debt Neutrality	- Validate whether the state is legally liable for the SOE debts and losses.	- Ministry of Finance reports - Act of creation of the SOEs - Ministerial decrees - Tax Act - Financial statements of SOEs	- Legal framework and mechanisms that allows or controls SOEs to receive deferral of debts. - Legal framework and mechanisms that allow SOEs to receive government bailouts in case of losses.	- Legal dispositions to allow bailouts and government-backed loans to SOEs that are not available for private competitors or apply with asymmetric set of conditions (e.g. amount limit, duration, performance conditions).
Tax neutrality	- Validate whether SOEs are subject to full tax liability under the same tax system as the private sector or receive tax exemptions from State, regional or local authorities.	- Ministry of Finance reports - Tax Act - Act of creation of the SOEs - Oversight authorities of SOEs - Financial statements of SOEs.	- Economic activities that are exempt of profit tax when performed by SOEs vis-à-vis private peers.	- Sectors where SOEs are exempt from taxes or received a discount tax-rate vis-à-vis private competitors. - Sectors with special tax regimes for SOEs.
Public Procurement	- Validate whether SOEs are allowed to participate in bids on equal footing with private enterprises.	- Procurement Act - Ministerial decrees - Competition authority reports - Act of creation of the SOEs - Regulatory agency reports. - Sectoral agency studies.	- National legal framework for public procurement procedures and separation of conditions for SOEs vis-à-vis private providers. - Sectors where private companies are not allowed to participate in the allocation of government contracts.	- Sectors where there are caps or thresholds for local or public participation in the selection of the contractors. - Sectors where SOEs that are not required to compete with private companies for providing other government entity.
Access to state-aid	- SOE receiving direct or indirect transfers, subsidies, loans from the state that are not available for private competitors.[31]	- Ministry of Finance reports - Ministerial decrees - Act of creation of the SOEs - Competition authority reports - Regulatory agency reports. - Sectoral agency studies.	- Sectors where SOEs can get preferential access state-aid vis-à-vis private peers.	- Caps or bans for private companies to access to state-aid programs.

Source: authors elaboration adapted from CPT competitive neutrality SOE check list and iSOEF (World Bank, 2019)

[31] In the context of COVID, the Markets and Technology Unit developed the state-aid tracker and SOE-related measures policy tracker that can support CPSD teams in the identification of some subsidies, grants and assistance provided to SOEs around the globe. The links are listed in the tools and resources table at the end of this document.

Table 9. Indicative list of areas of consideration for the assessment of other rules that could discriminate or distort the playing field in presence of SOEs

Access to productive resources	Guidance Factors	Example of resources to consult	Key variables	Red flags
Other constraints	- Import restrictions for intermediate inputs or potential substitute goods (e.g. bans, caps, high tariffs) applicable in sectors with large participation of SOEs. - Potential SOEs investigated and/or sanctioned for anti-competitive practices	- Ministry of Finance reports - Financial statements of SOE - Act of creation of the SOE - Ministerial decrees - Reports from sectoral regulatory agencies. - Competition Law - Competition authority resolutions - Reports from oversight and audits of SOEs	- Sectors where priority access to inputs is granted to SOEs (e.g. reduced-prices, subsidized fees, rebates) - Competition authority sanctions over SOEs.	Asymmetric import restrictions to SOEs vis-à-vis private firms (e.g. different tariff regime, quota exemption) in commercial and contestable sectors. Sectors where SOEs access free of charges to wholesale inputs. Competition authority sanctions over SOEs for anti-competitive practices (e.g., predatory prices, cartels, etc.)

Source: authors elaboration adapted from CPT competitive neutrality SOE check list and iSOEF (World Bank, 2019)

As a result of the analysis of this stage 3, the CPSD team will have a list of indicative red flags and economy-wide sources of potential distortions and barriers for private investors. These will also highlight the potential channels of market distortions that could favor the dominance of SOEs in certain sectors. For instance, results from this stage will unveil regulatory constrains for private investors, assess whether some instruments are deployed to favor SOEs or shield them from competition (e.g. subsidies, FDI or import barriers, etc.). These findings could point out into the direction of possible policy recommendations to address the potential source of market distortions identified (e.g. reform on competition policy to include SOEs as part of the companies subject to surveillance in case of potential anticompetitive practices).

Sector-specific analysis

Depending on the CRM decision regarding the depth of the SOE analysis, some CPSD teams might need to explore sector-specific constraints for the PSD in presence of SOEs. The following resources are proposed to provide some tools for performing this task when needed on a subset of prioritized sectors. This analysis will allow to understand the market dynamics at sector level and to shed some light into the specific barriers for attracting higher private investment. The underlying question to explore in this stage of the analysis is the following: ***How is the market dynamic of the sector and in which extent the presence of SOEs can unlevel the playing field for private investors?***

As proposal for the selection of prioritized sectors, the CPSD could follow 3 criteria as part of the analysis conducted in the stages 1,2 and 3:

(i) Sectors with a relatively higher number of SOEs compared to benchmark countries, and where SOEs are among the largest companies of the sector, or account for a significant share of revenues of the sector, employment or overall economic activity (e.g. employment, capital, GDP, etc.) (Stage 1)
(ii) Sectors where there is no clear rationale for operation of SOEs particularly in contestable or fully commercial sectors (Stage 2)
(iii) Sectors where potential red flags and risks were highlighted over the economy-wide assessment (Stage 3)

Once validated these criteria with additional development priorities based on the country-specific context, the CPSD teams can proceed to explore <u>SOE- or sector-specific</u> competitive neutrality principles to reveal potential barriers faced by the private sector when competing vis-à-vis SOEs. A set of guidance factors to assess, resources and key variables to retrieve for this exercise are described in Table 10 and Table 11.

Table 10. **Indicative list of areas of consideration for the assessment of sector-specific rules that could increase the costs to compete for private investors**

Competitive neutrality principle	Guidance Factors	Example of resources to consult	Key variables	Red flags
Separation of commercial and non-commercial *(relevant for SOEs participating in at least one natural monopoly or contestable sector)*	- **Legal definition of commercial and non-commercial activities applicable for SOEs (if existent)**[32]	- Constitution - Sectoral regulations and decrees - Ministerial orders - Trade agreements - Competition Law - National Accounting practices	- National legal framework to separate commercial and non-commercial activities (if available). - Sectors where SOEs operate also as regulator.	No legal separation of commercial and non-commercial functions when performed by SOEs. SOE performs jointly as market player and sector-regulator. SOE sits in the board of regulatory instances where key market variables (e.g. prices, tariffs) and access (e.g. licenses) are determined.
Achieving a commercial rate of return *(particularly relevant to SOEs in otherwise non-regulated sectors)*	- **Analysis of the overall trends of financial performance profit/loss in the SOEs in a specific sector**	- Reports from Ministry of Finance - Financial statements of SOEs. - Sectoral reports of oversight entities	- SOEs with negative net profits (after tax) over the last years operating in commercial sectors.	SOEs in the sector performing with losses over the last 3 years.

Source: authors elaboration adapted from CPT competitive neutrality SOE check list and iSOEF (World Bank, 2019)

[32] **Commercial activities**: where the SOE undertakes an orientation towards profit-making that turns out into providing a good or service to a consumer in relevant market quantities and prices determined by the company. **Non-commercial activities:** those carried out to fulfil a public mission and which consider public (e.g. redistributive, protection vulnerable population or regions, etc.) according to definitions proposed by (Martinez, De Aguiar Falco, & Millares, 2016).

Table 11. Indicative list of areas of consideration for the assessment for sector-specific rules that could discriminate or distort the playing field in presence of SOEs

Access to productive resources	Guidance Factors	Example of resources to consult	Key variables	Red flags
Capital	- **Preferential rules for SOEs to access to government assistance when compared to private competitors**[33]	- Financial statements of SOEs. - Sectoral studies - Ministry of Finance reports - Act of creation of the SOEs - Reports from oversight and audits of SOEs	- Sectors with preferential lending rates for SOEs. - Sectors with priority access to SOE loans through state-owned banks.	- SOEs receive capital allowances that are not available to private peers in the sector. - Government-backed loans for development of installed capacity are targeted on SOEs.
Infrastructure and essential facilities	- **Preferential access to infrastructure or essential facilities compared to private peers (e.g. undersea cables, roaming, ports, etc.)**[34]	- Ministry of Finance reports - Financial statements of SOE - Act of creation of the SOE - Ministerial decrees - Sectoral regulatory agency reports - Competition Law - Competition authority resolutions - Reports from oversight and audits of SOEs	- Legal and economic conditions for private investors to access infrastructure managed by SOEs. - Prices, fees, and access conditions (e.g. duration) established by the regulatory agency for private competitors vis-à-vis conditions for SOEs.	- Private sector requires direct approval or provision by the SOE to access to infrastructure (e.g. railway, airport, roaming services, undersea cables) - SOE offers discounted rates to parent companies, subsidiaries or other government-businesses.

Source: authors elaboration adapted from CPT competitive neutrality SOE check list and iSOEF (World Bank, 2019)

[33] Examples of preferential access to capital might include access to SOEs to reduced-interest rates, government-backed loans, capital injections, acceleration depreciation allowance, priority access to loans through state-owned banks.

[34] Examples of preferential access to infrastructure and essential facilities might include access through a subsidiary of an SOE, free or below-market pricing access, as manager of the infrastructure facility, as regulator of the essential facilities.

V. Issuing recommendations

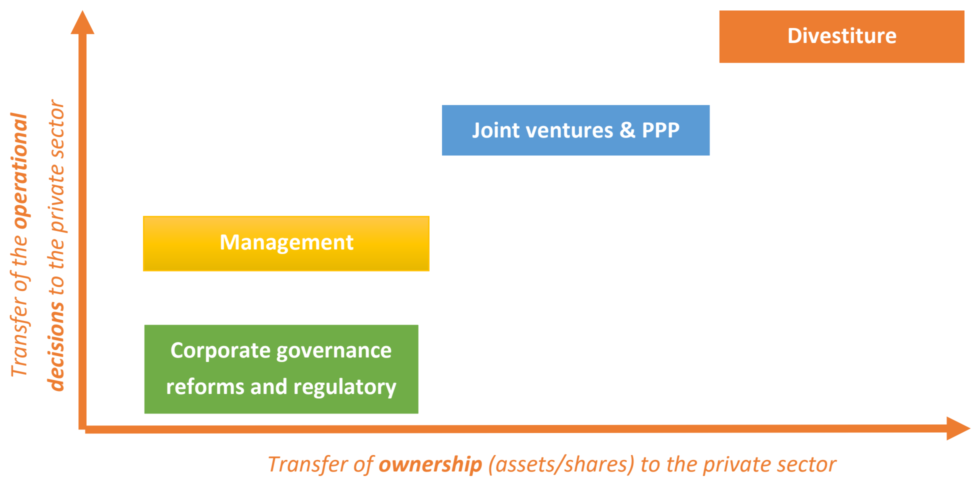
Eventually, teams are asked to issue recommendations in the draft CPSD with a view to how WBG can help countries implement them. When drafting and prioritizing the CPSDs recommendations, teams need to weigh the relative importance of SOE constraints against those identified in other policy areas and factor-in the feasibility of implementing them given the government's commitment. Although the specific route of SOE reform will be highly connected to the political consensus and the socio-economic country context, this section presents some alternatives of reform CPSD teams can explore.

Ownership is associated with the efficiency and performance of a sector, but it does not solve all potential sources of distortions and it is not an exclusive channel to improve efficiency and market dynamics in presence of SOEs. Evidence suggests that compared to private ownership, government ownership relates to an inferior performance (Wang & Shailer, 2018; Bajo, Zuber, & Primorac, 2018; IMF, 2019) and is more prone to experience financial distress than their private peers (Melecky & Sharma, 2019). However, changing the ownership structure alone is not a sufficient condition to eliminate market distortions, and therefore require further changes in the market incentives and interactions. For instance, despite the wave of SOE divestiture in China, the government continued favoring the formerly state-owned companies by low-interest loans and subsidies compared to private peers (Harrison, Meyer, Wang, Zhao, & Zhao, 2019). In other cases, such as Senegal (water) and some countries in the LAC region (railways), despite no ownership changes (i.e. government retained the property of the assets and infrastructure), the private sector performed a significant role simulating a market dynamic by acting as manager and investment partner to improve the functioning of the SOEs through concession contracts.

Understanding privatization as a concept to engage private sector participation and restructure market-based incentives that go beyond ownership expands the policy alternatives for SOE reform and increase the probability of success. The probability of success of SOE reforms will be highly related to the changes of the incentives provided to the SOE to compete and operate under market-based decisions as well as on the incorporation of a market-based dynamic that favors the entry and fair competition from the private sector even without any ownership transformation. In order to restore market-incentives and foster contestable and efficient markets, SOE reforms can promote the role of the private sector as a competitor of an SOE, as a manager of SOE, as a temporary owner-manager, or as a long-term owner-manager of an SOE. Privatization alternatives, as depicted in Figure 7, ranging from lower to higher ownership and managerial transformation are: (i) regulatory and institutional reforms that allow private competitors to enter and expose SOE to competition pressure, (ii) management and partnership arrangements (e.g. management contracts, concession), (iii) PPP and joint ventures, and (iv) full/partial divestiture.35 Aligned with the recommendations of the IEG evaluation (World Bank, 2020), this framework for SOE reforms proposes a cascade approach to offer clients options that can mobilize private financing and capacity through a full range of private sector solutions including but not limited to ownership reform.

Figure 7. SOE reform strategies and spectrum of alternative for PSD

[35] The Knowledge note of SOEs analysis in the context of CPSD describes in detail the different alternatives of reforms, pros-cons, and examples of implementation. (World Bank, 2020)



Source: Markets and Technology Unit

CPSD teams should focus on SOE reforms that restructure the market incentives even if that does not necessarily imply a change of ownership. Just as state ownership does not solve market failures itself, neither does private ownership. Ultimately, ownership reforms can be a necessary but not a sufficient condition to reshape the market incentives and foster private investment (e.g. low changes in incentives when implementing service contracts, voucher privatization, or manager buyouts in Table 12). For instance, a fully private company that is politically connected could still benefit from preferential access to subsidies or government-backed loans, prevent competition, and deter private investment even though is no longer an SOE. A set of alternatives and roles for the private sector, degree of ownership transformation, and the probability of restructuring market-based incentives are proposed in Table 12.

Table 12. Role of the private sector and vehicles of reform to foster private sector participation (ownership transformation vis-à-vis change in market incentives)

Role of the private sector	Instrument of reform	Vehicles for higher private sector participation	Suitable for…			Ownership transformation	Probability to change structure of incentives in marketplace	Complementary measures suggested
			Natural monopoly	Contestable sectors	Fully Commercial sectors			
As competitor of the SOE	Regulatory and institutional reforms towards market-discipline	Implementation of competitive neutrality principles		X	X	Low	High	Improve enforcement capability (e.g. competition authority, oversight entities) to follow-up market-based incentives are in place.
		Greenfield reforms		X	X	Low	High	
		Corporate Governance Reforms	X	X	X	Low	High	
As manager of the SOE	Management arrangement	Service contracts	X			Low	Low	Regulatory framework that mitigate rent-seeking behaviors or private managers (e.g. price controls), regulatory changes to reduce influence of SOE over key market variables (e.g. SOE determination of prices), and close performance monitoring. Implementation of good corporate governance practices.
		Management contracts	X	X		Low	Medium	
As partner or temporary owner and manager of the SOE	Joint-ventures & Public-Private Partnerships	Joint ventures	X			Medium	Medium	Bidding procedures to ensure transparent and competitive selection of private partners. Regulatory framework of PPPs should be aligned with competitive neutrality principles. Implementation of good corporate governance practices.
		Concessions, build- and similar	X	X		Medium	Medium	
As long-term owner and manager of the SOE	Divestiture	Auctions	X	X	X	High	Medium	Unbundling commercial and non-commercial activities to foster private sector participation in different segments. Reforms in the regulatory framework to avoid abuse of dominant position of private monopolies. Competitive neutrality principles implemented to avoid undue comparative advantages of resulting privately-owned company. Implementation of good corporate governance practices.
		Direct sale	X	X	X	High	Medium	
		Stock offering	X	X	X	High	Medium	
		Liquidation	X	X	X	High	Medium	
		Management/employees buy-outs	X	X	X	High	Low	
		Free or low-cost distribution of shares	X	X	X	High	Low	
		Capitalization	X	X	X	High	Medium	

Source: Markets and Technology Unit

Understanding the economic rationale and market characteristics where an SOE operates from stage 2 is key for determining the adequate instrument of reform. For proposing the route of reform and as suggested in stages 1 and 2, CPSD teams should determine the presence and economic relevance of SOEs in the economy and differentiate them by sector type. Once determined the sector and segments (e.g. vertical integration), the CPSD teams will be able to determine whether the SOEs operates in natural monopolies (e.g. utilities or energy transmission), contestable sectors (e.g. airlines) or fully commercial sectors (e.g. manufacturing) where private participation would be viable. A clear definition of the sector and segments of operation of SOEs will allow CPSD teams to assess to which extent there is an economic rationale that justifies an SOE, prioritize reforms, and identify suitable instruments in each case as well as complementary measures such as those described in Table 12.

Where to start?

SOE reforms should prioritize efforts on removing barriers to PSD in commercial and contestable sectors, especially when SOEs account for a significant share of employment and value-added. The larger the participation of SOEs in contestable and commercial sectors, the higher the likelihood of creating distortions and crowding out private investment as there is no economic rationale for governments to retain asset ownership in those cases. As suggested in Table 12, alternatives of reform without ownership transformation in this sector include regulatory reforms to expose SOEs to market competition, the introduction of competitive neutrality principles, and adoption of corporate governance principles to increase transparency and accountability. This option is often employed when there is an interest in improving SOE performance, in the absence of political consensus to pursue a transformation of ownership. When opting for ownership transformation, the most suitable solutions for these sectors are divestiture measures (e.g. auctions, direct sale, stock offering, liquidation, capitalization). However, these measures need to be complemented by vertical separation, antitrust law enforcement, and regulatory changes to eliminate barriers to entry or rules that reinforce dominance of SOEs and distorts the playing field. The specific regulatory changes required will be connected to the findings in the assessment of the market distortions and competitive neutrality principles (Stage 3).[36]

SOE reforms should follow in contestable sectors, particularly in those with moderate barriers to entry that tend to turn into oligopolistic structures. From lesser to higher intervention in ownership, these sectors can pursue SOE reforms through regulatory changes to expose the SOE to competition allowing the private sector to enter (e.g. greenfield reforms), management arrangements (e.g. concessions), and divestiture measures. Besides the complementary measures mentioned for commercial sectors, when opting for management contracts, it is key to develop a regulatory framework that mitigates rent-seeking behavior (e.g. price regulation), strengthens the capacity for contract design, and implements close performance monitoring tools.

In the presence of natural monopolies, public goods, or where there are geopolitical or national security objectives to be protected, the exposure of SOEs to the private competition is neither viable nor desirable. In these cases, political and safety interests might need to be protected through a state ownership for guaranteeing the provision of essential services (e.g. defense, ports in FCV countries). Thus, SOE reforms can occur in the form of management contracts where the government retains the control over the assets but benefits from private sector operation, PPP, or concessions that join resources to overcome financial or technical constraints. Natural monopolies can also be transferred to private investors through divestiture measures when not political objectives are related but need to be complemented with close regulation and antitrust enforcement to avoid abuse of market power.

Key lessons and success factors

The adaptability of the instruments of reform to the client and to the country context as well as simplicity and a sequential approach is crucial for an effective SOE reform. The IEG evaluation suggests that flexibility and adaptability to client capacity can yield long-term results and is found as a common success factor for SOE reforms (World Bank, 2020). When selecting routes for SOE reforms, CPSD teams should provide a balanced program that offers a comprehensive approach for reform but that does not lead to highly complex projects. Simplicity and a

[36] A systematic application of the competitive neutrality principles, accompanied by the assessment of country governance conditions and control of corruption is highly recommended as part of the key success factors for SOE reform by the IEG evaluation (World Bank, 2020).

sequential approach can be determinant for a successful implementation as it can build progressively the installed capacity for further phases of reform and longstanding relationships with government agencies (World Bank, 2020).

A key lesson from global experience is that the transparency and integrity of the privatization process should not be compromised for speed. Evidence across a wide range of countries shows that privatization yields benefits in terms of economic productivity and consumer welfare where there are no economy-wide distortions that hinder competition, the policy environment is market-friendly, a sound legal and regulatory system is in place, and the process itself is managed in a transparent and open manner through competitive bidding and other means to avoid concentration of assets in the hands of a small elite. All these elements should be considered and validated as part of a systematic and structural reform even though it might take a longer period.

Another key lesson for successful SOE reforms is that these programs have been accompanied by pro-competition product market regulation reform and by the development of sound regulatory frameworks. International experience shows that opening sectors to domestic and foreign private investment and trade is a necessary complement to SOE restructuring and privatization in achieving dynamic growth and efficient market outcomes. This is mirrored by firm-specific experience as well. For example, exposing monopoly SOEs in commercial (or potentially commercially viable sectors) to private competition on a level playing field can reveal poor performance and at the same time introduce market discipline to improve performance. For example, Mexico decided to expose its oil company, PEMEX, to private-sector competition after governance reforms alone did not yield expected results. In the case of infrastructure SOEs, successful privatization requires a regulatory framework that unbundles potentially competitive activities, establishes the tariff regime, clarifies service goals, develops cost minimization targets, and creates or strengthens an agency to supervise the process. Free entry should be ensured whenever competition is possible. Particularly in lower-income countries, contracts, leases, and other ways of privatizing management are a transition to full divestiture measures.

As part of the SOE reforms, it is important to strengthen competition policy and tackle cartels and abuse of dominance. Countries such as Brazil, Chile, Colombia, Mexico, Peru, and South Africa have set up effective anti-cartel programs over the last decades. Competitive neutrality principles are essential to ensure that any remaining commercial SOEs compete with private firms on a level playing field. Australia's Competitive Neutrality Complaints Office and Romania's state-aid portal are examples of institutional set-ups to safeguard and enforce these principles. Effective policies that tackle cartels and abuse of dominance are critical to ensure that consumers gain from reforms. In commercial sectors, laws that establish state monopolies or restrict private participation will need to be revised. In key industrial or agribusiness inputs, one or several SOEs often control the production and distribution and are often protected by exclusivity rights. Exclusivity rights may need to be amended or revoked. For example, to allow for private sector entry in the steel sector in Venezuela, subnational decrees such as those in Lara and Guyana that restrict private sector participation would need to be revoked or amended.

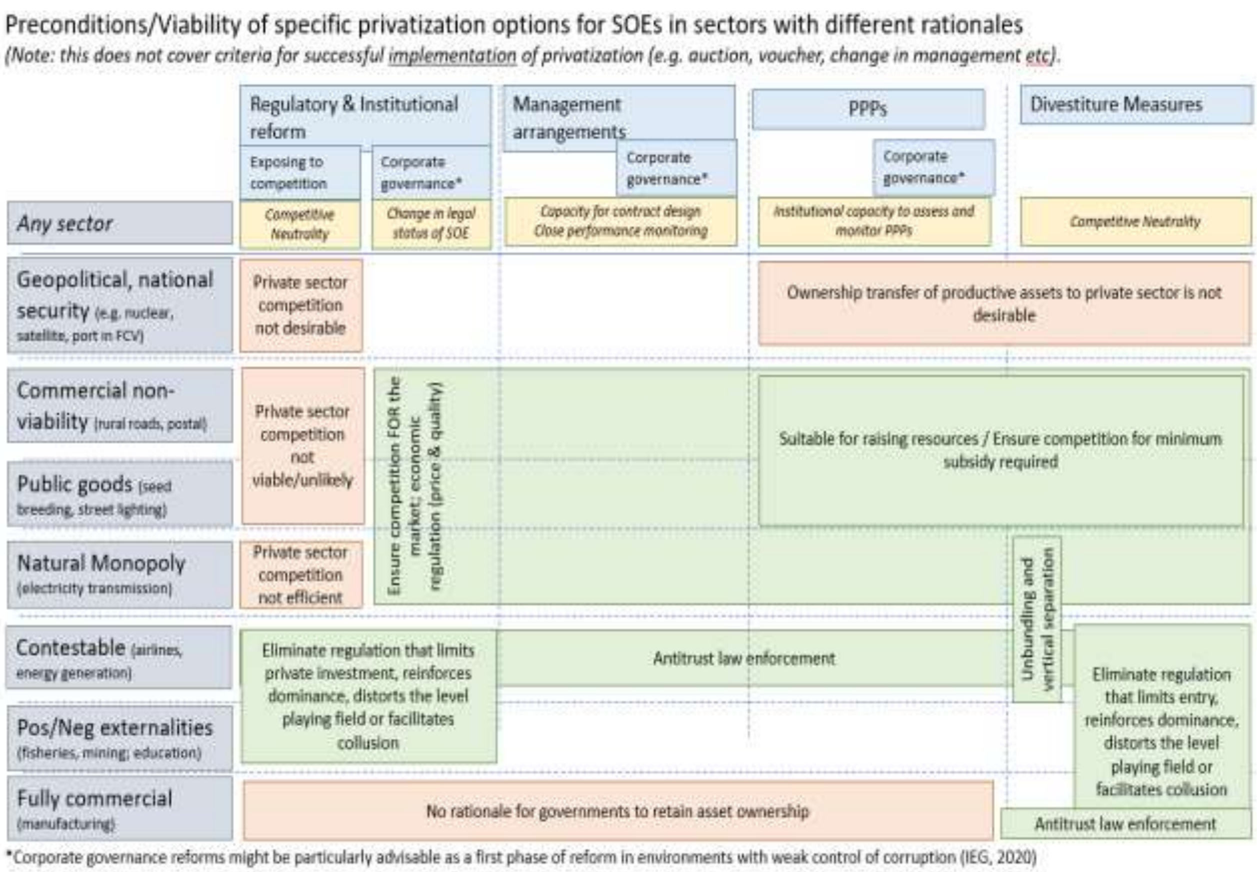
The socio-political and economic context will ultimately determine the viability of certain SOE alternatives of reforms. The alternatives proposed require to be analyzed in the country-specific context such that the specific economic interventions and policy recommendations derived from the analysis consider the regulatory, oversight and installed capacity in each case.

Last but not least, CPSD teams should incorporate good practices of management of confidential and sensible information to protect policy dialogue with counterparts. CPSD teams are recommended to prepare and preserve the confidentiality of the information retrieved as part of the analysis proposed in this note in order to protect the policy dialogue with counterparts. In some contexts, the information retrieved can be highly sensitive and is key to have internal validation with country teams to nuance the messages and align the key recommendations with the policy agenda. Internal quality checks, internal (official only) and confidential documentation are highly recommended before sharing the main findings with the counterparts.

How to proceed?

Figure 8 illustrates the set of preconditions, suitable measures and key enabling factors for a successful SOE reform. Policies highlighted in red indicate where specific privatization instruments might not be suitable or desirable from an economic or political perspective. For example, it highlights that regulatory and institutional reforms are suitable for sectors that do not exhibit market failures such as natural monopolies where competition from private competition might lead less efficient results. Similarly, PPP measures and divestiture measures might not be suitable for sectors where there are additional political reasons such as the protection of geopolitical assets or those related to national security. On the contrary, policies in green in Figure 8 points out those policy alternatives that can be deployed in different type of sectors and also indicate key complementary measures required for a successful reform (also highlighted in yellow). For instance, divestiture measures are recommended for contestable and commercial sectors, which can be complemented by the elimination of regulation that limits entry, unbundling vertical integration, and strengthen antitrust enforcement to foster PSD.

Figure 8. Preconditions and viability of privatization options in sectors with different rationales



Source: authors elaboration

Some considerations in the context of COVID

COVID crisis is increasing the role of the state through direct (SOEs) and CPSD teams will potentially evidence a return of government participation in commercial sectors. Worldwide governments are supporting the corporate sector to overcome the financial and economic difficulties amid COVID. This includes the provision of direct loans, grants, payroll support, as well as increased state participation that can have consequences in the long-term and affect private sector participation when not properly implemented.

As of December 2020, the WBG SOE-policy tracker identified at least 172 measures across 75 countries targeted to SOEs in response to COVID. At least 172 measures across all continents have been identified to provide support to SOEs. 44% of the measures related to SOEs identified are associated to high-income countries and 31% to lower- and middle-income countries. Europe and Central Asia region (37%) followed by East Asia and Pacific (32%) are the two most active regions in providing support to SOEs amid the pandemic.

The most common instrument of support is through capital injections (30%), followed by increased state participation (purchase of shares) 13%, and direct loans (12%). In addition to direct provision of funds, some SOEs have been called to shift some of their core commercial activities to provide essential goods such as cleaning products (e.g., hand sanitize, alcohol) and medical equipment (e.g., production of ventilators).

Figure 9. Number of measures by income-level

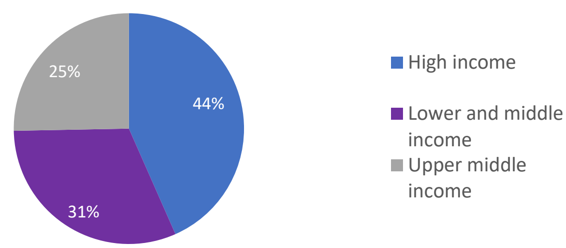


Figure 10. Number of measures by type of instrument

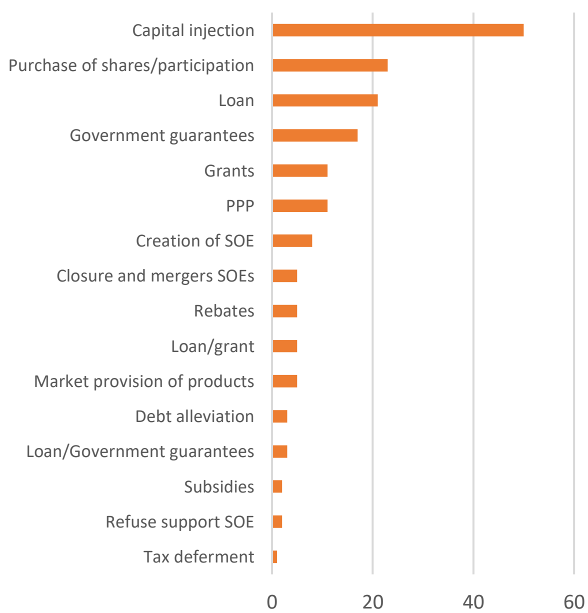
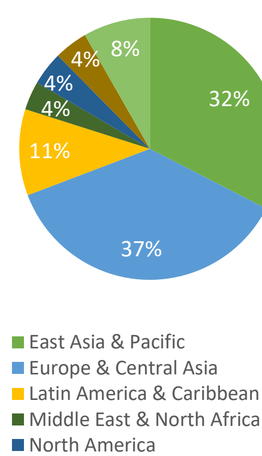


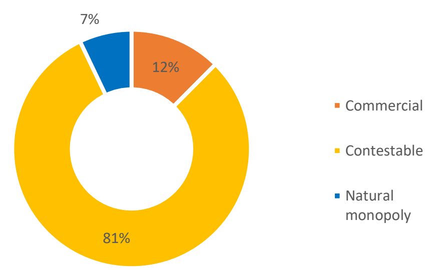
Figure 11. Number of measures by region



Source: authors' elaboration based on WBG SOE-policy tracker

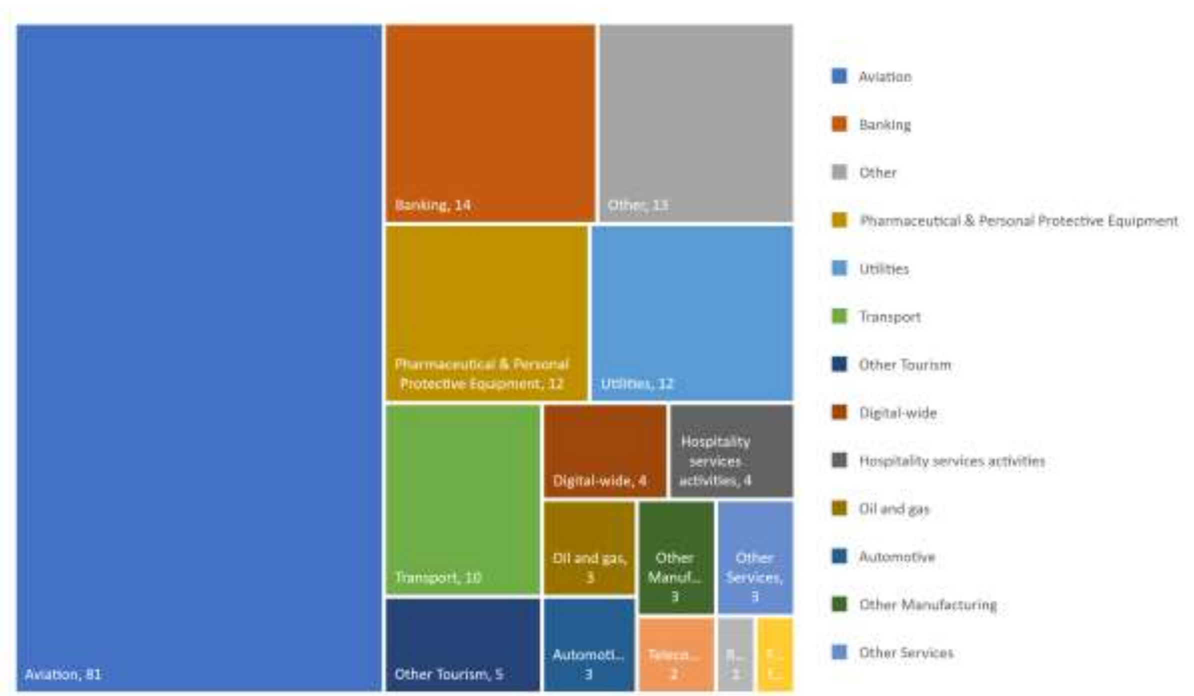
Most SOE-related measures amid the pandemic are identified among commercial and contestable sectors often carried out by the private sector, which should be carefully monitored to ensure competitive neutrality principles in the provision of the support. 12% of the measures related to SOEs in response to the COVID shock correspond to fully commercial sectors, where there are low barriers to entry and under normal circumstances can be provided profitably by the private sector such as manufacturing sectors (e.g., medical and protective equipment, automotive, etc.) and hospitality services (e.g., hotels, restaurants). However, the COVID shock has triggered the government support to these hard-hit sectors. Approximately 80% of the total measures identified are targeted to contestable sectors that correspond to markets with some degree of contestability, in which there is presence of large fixed costs and technological barriers to entry, but these could be served efficiently by more than one firm depending on market conditions such as demand structure and market size. In this case, most measures refer to the aviation and banking sectors (Figure 13). Less than 10% of the SOEs evidence worldwide in response to COVID are targeted to natural monopolies sectors, in which the costs for the provision of a good or service are minimized by concentrating the production in a single firm. In the latter, most measures respond to utilities (e.g., electricity, water).

Figure 12. Number of measures related to SOEs amid the pandemic



Source: authors' elaboration based on the WBG SOE-policy tracker

Figure 13. Number of (global) measures aimed to SOEs by sector in response to COVID-19, (March-December 2020)



Source: authors' elaboration based on the WBG SOE-policy tracker

COVID poses significant challenges on regards to the SOE agenda as it might expand the role of the state in commercial and contestable sectors with risks of crowding-out the private if the assistance is not provided under objective criteria, as well as transparency and accountability good practices. Even though COVID brought an unprecedented crisis and challenges for governments, it is essential that competition principles continue informing the policy interventions and that an assessment of potential risks for unlevel the playing field for private operators are incorporated as part of the set of criteria for providing government support to SOEs. This is key to protect market-based incentives for the private sector activity and to ensure transparency and accountability. Despite the unprecedented circumstances, the governments should conduct a cost-benefit analysis approach to determine whether firm-specific assistance is needed as opposed to sector-specific assistance especially when granted to SOEs that compete vis-à-vis private operators. As of June 2020, SOEs in the aviation sector received 6.8 dollars of every 10 dollars of assistance granted by worldwide governments, whereas private operators were receiving about 3 dollars (Licetti, Sanchez-Navarro, & Perrottet, 2020). Governments should minimize the provision of assistance on a preferential basis to SOEs to avoid unlevel the playing field. For that purpose, governments should confirm that there is a clear economic rationale to support SOEs and avoid to provide assistance to SOEs on exclusivity basis, especially when there are other private companies in the sector and grant the support under similar and objective conditions (e.g., period of loans, interest rates). Transparency and accountability of the assistance is also essential to minimize the risk of unlevel the playing field in favor of certain market players based on ownership or to avoid the resources been allocated to politically connected firms.

When opting for direct increased participation in the form of equity, the governments should define a clear exit strategy and should refrain from intervening in managerial decisions and prevent disruption of business decisions. The purchase of shares and increased state participation as a support measure in commercial and contestable sectors should be considered as a last resort. If deemed necessary, the governments should define ex-ante an exit strategy and should refrain from intervening in managerial decisions and prevent disruption of sound business decisions. For instance, governments can obtain non-voting shares and limit their role as "observer" on the managerial boards, to maintain as much as possible the market-based incentives on the firms.

VI. Concluding remarks

As a result of the implementation of this *SOE policy assessment tool*, the CPSD teams will have a comprehensive analysis to understand the main challenges across sectors for private sector participation as well as some indications of the options of SOE reform. The implementation of the steps proposed in this document will provide an overview of the issues across sectors and key red flags for a set of prioritized sectors. However, more detailed analysis by sector and complementary deep dives that could inform the IFC country strategy with special emphasis is key sectors (e.g. INFRA or digital) could be pursued depending on the prioritization exercise and decision of the DRM. Some examples of recommendations resulting from this analysis in former CPSDs are shown below.

Table 13. Examples of recommendations for SOE reform in former CPSDs

Country	Specific Recommendation
Angola	Pursue SOE reform/Privatization/PPP in priority sectors/companies (energy, transport, ICT, education, health/water)
Côte d'Ivoire	Review role of SOE's in sectors where a strong role of the public sector may not be required

Ghana	Develop regulatory framework for divestment of government majority on SOEs or PPP engagements through concession (in natural state monopoly sectors such as transport infra, social services, and utilities) with clear policy objectives, methodology and approach
Indonesia	Rationalize import regulations, e.g., state-owned import monopolies
Kazakhstan	Include municipalities in PPP law and recognize them as entities able to engage in PPPs Develop regulatory framework for divestment of government majority on SOEs or PPP engagements through concession (in natural state monopoly sectors such as transport infra, social services, and utilities) with clear policy objectives, methodology and approach
Morocco	Enact a new PPP law
	Identify viable infrastructure services to outsource to the private sector
	Review the competitive neutrality of SOE commercial activities by implementing subsidiarity analyses and clarifying the scope of SOE activities. Apply the same set of rules and provide the same incentives to SOEs' commercial activities as those offered to private firms (for example, procurement, access to land, access to finance)
Philippines	Streamline the PPP administration process and amend relevant section of BOT law
Rwanda	Decide on appropriate SOE involvement within each sector. For example, for each sector with one or more SOEs, the government (perhaps with development partner support) should evaluate the extent of competition within a sector, the relative competitiveness of SOEs versus private enterprises, significant social considerations, and long-term economic development goals.

VII. Essential resources, toolkit, set of experts that can provide technical support and quality assurance

This section briefly sums up the key **contact points** across the WBG, analytical resources, and databases that CPSD teams can explore as part of the analysis proposed in this note. The final section also contains the relevant literature.

Toolkit for SOE analysis and resources and roster of experts to support CPSD teams (Technical support and quality assurance)

Unit	*Resource*	*Unit contact (Experts)*	*Link (if available)*
Markets & Technology Unit	M&T SOE WBG repository	Martha Licetti Dennis Sanchez	https://worldbankgroup-my.sharepoint.com/:x:/g/personal/dsancheznavarro_worldbank_org/EepT-LXi3tJDoSa5REurVC8BiyVxR6KaXXGdPCB2WdDmUA?e=DpPeqg
Markets & Technology Unit	*M&T Tool for assessing distortive potential of SOEs*	Martha Licetti Dennis Sanchez	Forthcoming

Markets & Technology Unit	*CPSD SOE Knowledge note*	Martha Licetti Dennis Sanchez Tanja Goodwin Sunita Kikeri Jean Saint-Geours	Forthcoming
Markets & Technology Unit	*Product and Market Regulation indicators (PMR) and country questionnaires*	Martha Licetti Georgiana Pop Graciela Miralles Tanja Goodwin	https://datacatalog.worldbank.org/dataset/markets-and-competition-oecd-wbg-pmr-indicators-selected-non-oecd-countries-2013-2018
Markets & Technology Unit	*SOE checklist (economy-wide and sector-specific questionnaire)*	Martha Licetti Georgiana Pop Graciela Miralles	Module 1 iSOEF https://worldbankgroup.sharepoint.com/sites/gsg/CGFR/Documents/iSOEF/iSOEF%20Guidance%20Note%20Module%201_Decision%20Review%20clean-FV.pdf
Markets & Technology Unit	*Repository of analytics on SOE and competitive neutrality principles and market effects (approx. 20 country and regional analytical pieces)*	Martha Licetti Georgiana Pop Graciela Miralles	Available upon request
Markets & Technology Unit	State-aid policy tracker amid COVID	Martha Licetti Georgiana Pop Graciela Miralles	https://dataviz.worldbank.org/views/AID-COVID19/Overview?:embed=y&:isGuestRedirectFromVizportal=y&:display_count=n&:showAppBanner=false&:origin=viz_share_link&:showVizHome=n
Markets & Technology Unit	SOE-related measures amid COVID	Martha Licetti Dennis Sanchez Gemma Torres	http://wbgmssqlefip001.worldbank.org/Analytics/powerbi/Topic/MAT/SOE-COVID19
Infrastructure Finance, PPPs and Guarantees GP	Infrastructure Sector Assessment Program (Infra SAP)	Imad Fakhoury Mikel Tejada Ibanez Patrice Claude Charles Jeffrey John Delmon Rupinder K. Rai Shyamala Shukla	https://worldbankgroup.sharepoint.com/sites/ppp/isap/Pages/index.aspx
Infrastructure Finance, PPPs and Guarantees GP	Jointly IFC and WBG - PPP legal resources center	Imad Fakhoury Mikel Tejada Ibanez Patrice Claude Charles Jeffrey John Delmon Rupinder K. Rai Shyamala Shukla	https://www.worldbank.org/en/topic/publicprivatepartnerships/overview#2
Digital Development team	Governance and market questionnaire for SOEs in digital sectors	Tania Begazo James Anderson	Available upon request
Infrastructure Finance, PPPs and Guarantees GP	PPP Knowledge Lab – Matrix and considerations for assessing fiscal implications of a PPP project	Imad Fakhoury Mikel Tejada Ibanez Patrice Claude Charles Jeffrey John Delmon Rupinder K. Rai Shyamala Shukla	https://pppknowledgelab.org/guide/sections/34-assessing-fiscal-implications-of-a-ppp-project
Proprietary datasets with access to WB staff	*Factiva*	Martha Licetti Dennis Sanchez Jan Orlowski	Library/ FACTIVA https://www.emis.com/

Proprietary datasets with access to WB staff	*EMIS*	Martha Licetti Dennis Sanchez Jan Orlowski	Library/ EMIS https://www.emis.com/
Governance team	Corporate governance toolkit for SOEs	Immanuel Steinhilper	http://documents.worldbank.org/curated/en/228331468169750340/Corporate-governance-of-state-owned-enterprises-a-toolkit
Governance team	SOE Corporate governance regional studies and country diagnosis	Alexandre Arrobbio Immanuel Steinhilper	Available upon request
EFI	Integrated framework iSOEF and country-level implementation results	Alexandre Arrobbio Henri Fortin Vivien Foster Sudarshan Gooptu Eva Gutierrez Ruth Hill Sunita Kikeri Martha Licetti Natalia Manuilova Georgiana Pop Marc-Anton Wilhelm Diego Rivetti Immanuel Steinhilper	http://efisoe
EFI	EFI SOE database	Martha Licetti Ana Paula Cusolito Andrea Dall'Olio Tanja Goodwin Jan Orlowski Fausto Patino Dennis Sanchez Diego Rivetti Immanuel Steinhilper	Forthcoming
EFI FCI Financial Stability & Integr.	Analysis of SOFIs and corporate governance of SOFIs	Jean Denis Pesme Eva Gutierrez	Available upon request
External sources	BTI transformation index	Martha Licetti Tanja Goodwin Georgiana Pop Dennis Sanchez	https://atlas.bti-project.org/share.php?1*2018*GV:SIX:0*CAT*ANA:REGION
External sources	OECD landscape of SOEs by country	Martha Licetti Dennis Sanchez Tanja Goodwin	https://www.oecd.org/corporate/oecd-dataset-size-composition-soe-sectors.htm
External sources	ORBIS firm-level database	Martha Licetti Ana Paula Cusolito Tanja Goodwin	Available upon request subject to management approval

VIII. Annexes

A. Tools and resources for sector-specific deep dives

In case the CPSD team require to conduct a deep dive on a specific sector to explore more in detail the market dynamics, a final list of factors, resources and red flags are proposed here. This last set of topics and resources are recommended only for contestable and fully commercial sectors and particularly in those where TTLs would focus for strategic purposes of the analysis. Specific factors, resources and indicative red flags are described in Table 14. Additional sector-specific tools and questionnaires are indicated as part of the toolkit and complementary resources in case the team requires further support or detail in a specific sector (e.g. INFRASAP).

Table 14. Market dynamics in a sectoral deep analysis (complementary resources)

Topic	Guidance Factors	Example of resources to consult	Key variables	Red flags
Market structure	- **Determine whether there are private competitors in the sector with SOE presence.** - **Determine in which segments there is participation of SOEs. For instance,** ➢ Input supply ➢ Production ➢ Delivery ➢ Import ➢ Wholesale ➢ Retail ➢ Infrastructure ➢ Service provision ➢ Last mile delivery - **Verify whether the SOEs are the largest market players (market share, if available)**	- Enterprise surveys indicators of percentage of firms with at least 10% of government/state ownership. - Sectoral studies. - Competition authority reports. - Regulatory agency reports and resolutions. - Sectoral datasets with revenues, sales, position in the market (e.g. GSMA for telecom operators) - Enterprise surveys with the number of competitors by sector. - Sectoral regional reports.	- Identification of segments of operation of the SOE. - Number of private competitors in commercial or contestable segments. - Market share of the SOEs in different markets/segments of operation. - Market share of private competitors in different markets/segments of operation. - Concentration indexes (e.g. HHI, CR4) if information available. [37]	- SOEs vertically integrated participating in different segments of the value chain of the sector. - SOE is among the top-4 companies in markets highly concentrated based on HHI index (if available). - No private competitors in contestable and fully commercial sectors.
Market dynamics	- **The evolution of the market share of the SOEs over the last 5 years** - **Entry of private firms (domestic or foreign) entered in the last 5-years** - **Exit of private companies over the last 5-years**	- Sectoral studies. - Regulatory agency reports. - Ministry of Finance reports. - Report of oversight bodies. - Competition authority reports. - Sectoral datasets with revenues, sales, position in the market. - Enterprise surveys with the number of competitors by sector. - PMR indicators of competition by sector.	- Evolution of the market shares of SOEs over the last 5 years. - Number of new competitors (private) in the sector. - Exit of private companies in the sector.	- Market shares of SOE has remained stable or increased despite the entry of new competitors in the market. - Large exit of private companies over the last 5 years with limited entry of private competitors. - New SOEs in the sector. - Limited entry of private companies despite regulatory changes in the sector.

[37] Herfindahl-Hirschman Index (HHI) and N-firm concentration ratio CR (e.g. CR3 for top-3 companies) can be computed by CPSD teams based on the sector-specific information available. For example, sales, total revenues, number of subscribers, number of connections, energy generation capacity can be employed for computing this concentration indexes. For further details see (OECD, 2018)

Entry barriers for private investors	- **The role of the SOEs as sector regulator can interfere in the entry of competitors (e.g., provide the licenses for private competitors)**	- PMR barriers index in service and network sectors. - PMR barriers index to FDI, treatment of foreign suppliers. - Ministerial decrees. - Reports from regulatory bodies. - Acts of creation of the SOEs. - Decrees of the functions of the board members of SOEs. - Sanctions of the Competition Authority to SOEs for anticompetitive practices.	- Sector segments where private competitors require the explicit authorization of SOEs to enter to the market. - Segments where private competitors require explicit clearance or documentation for provision a specific location or consumer segment.	SOEs is the regulator or the authority to issue the permits for providing licenses to private operators. Private competitors require explicit clearance and documentations provided by the SOE to supply a market. SOEs determine the access conditions (e.g. fees, duration, priority access) to private operators.

Source: authors elaboration adapted from MCPAT SOE check list and iSOEF (World Bank, 2019)

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