

SOEs in Romania, Italy, Czech Republic and Bulgaria

Does Governance lead to Performance?

Otilia Nutu

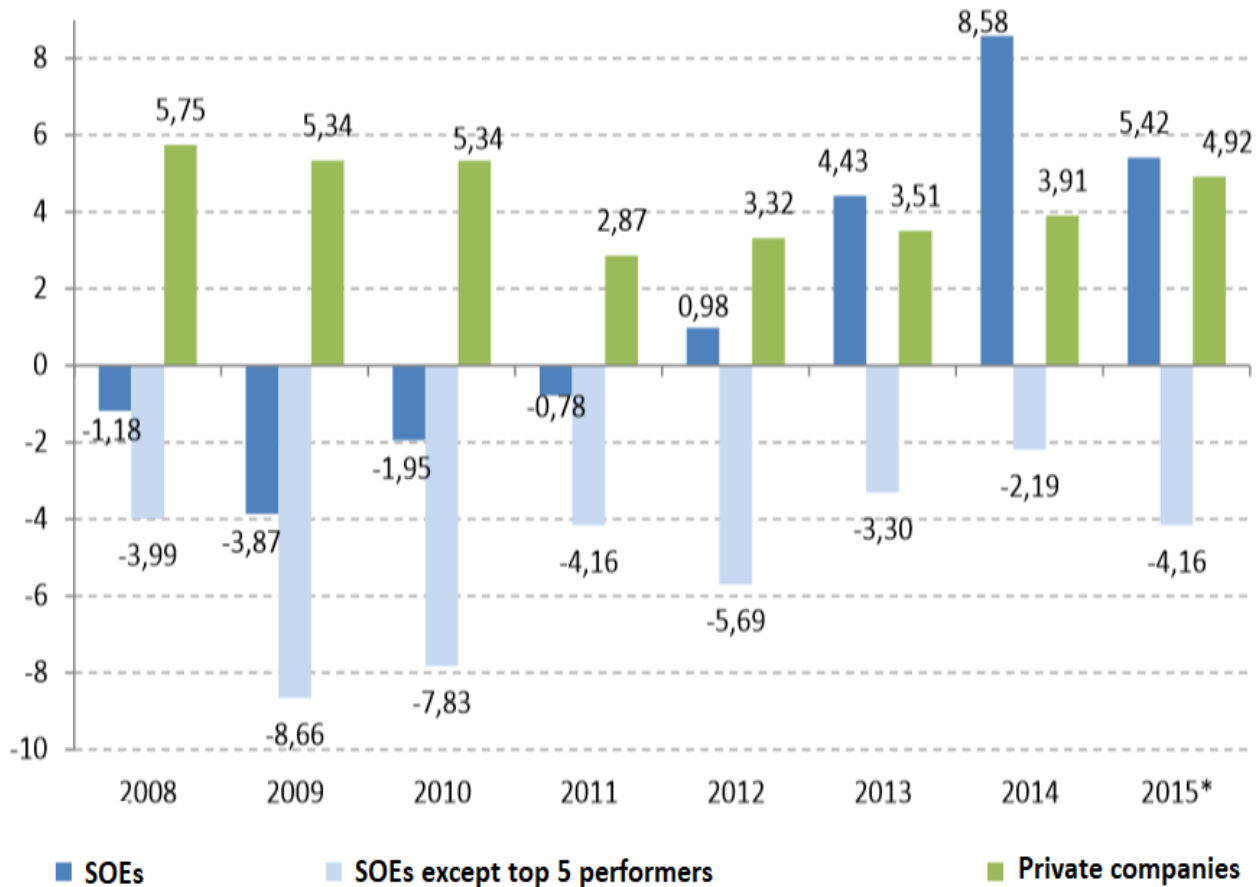
Expert Forum (EFOR)

Brussels

1. Defining & measuring “performance” for SOEs

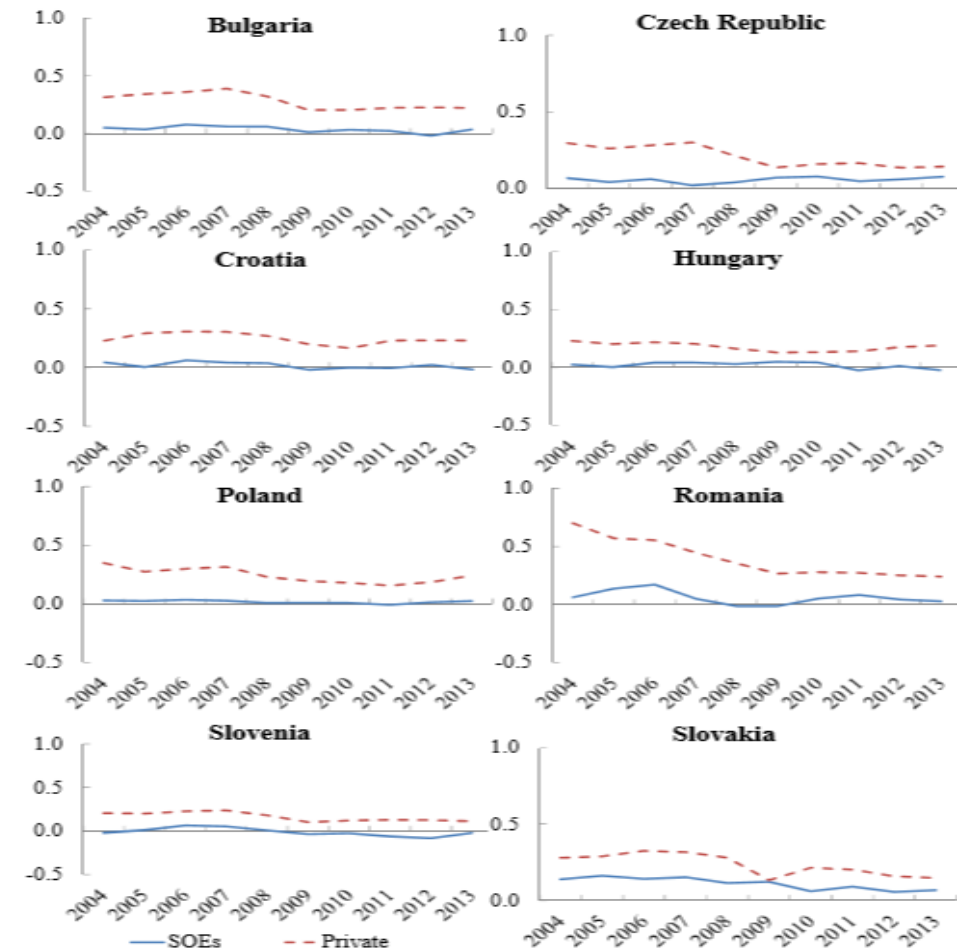
Are SOEs really comparable to private companies?

EBITDA SOEs vs private companies (Romania, 2015)



Fiscal Council Report

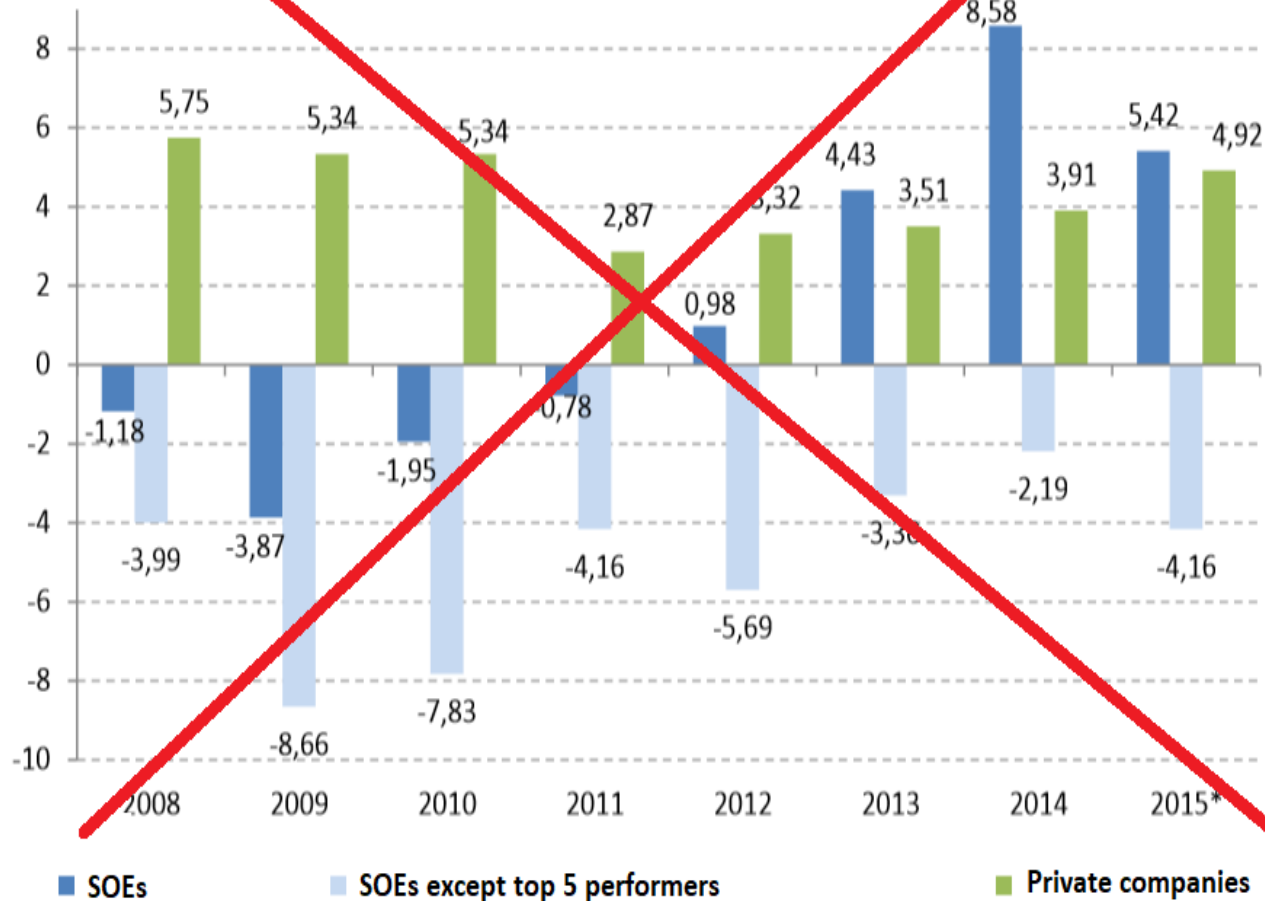
Return on Equity, SOEs and Private firms



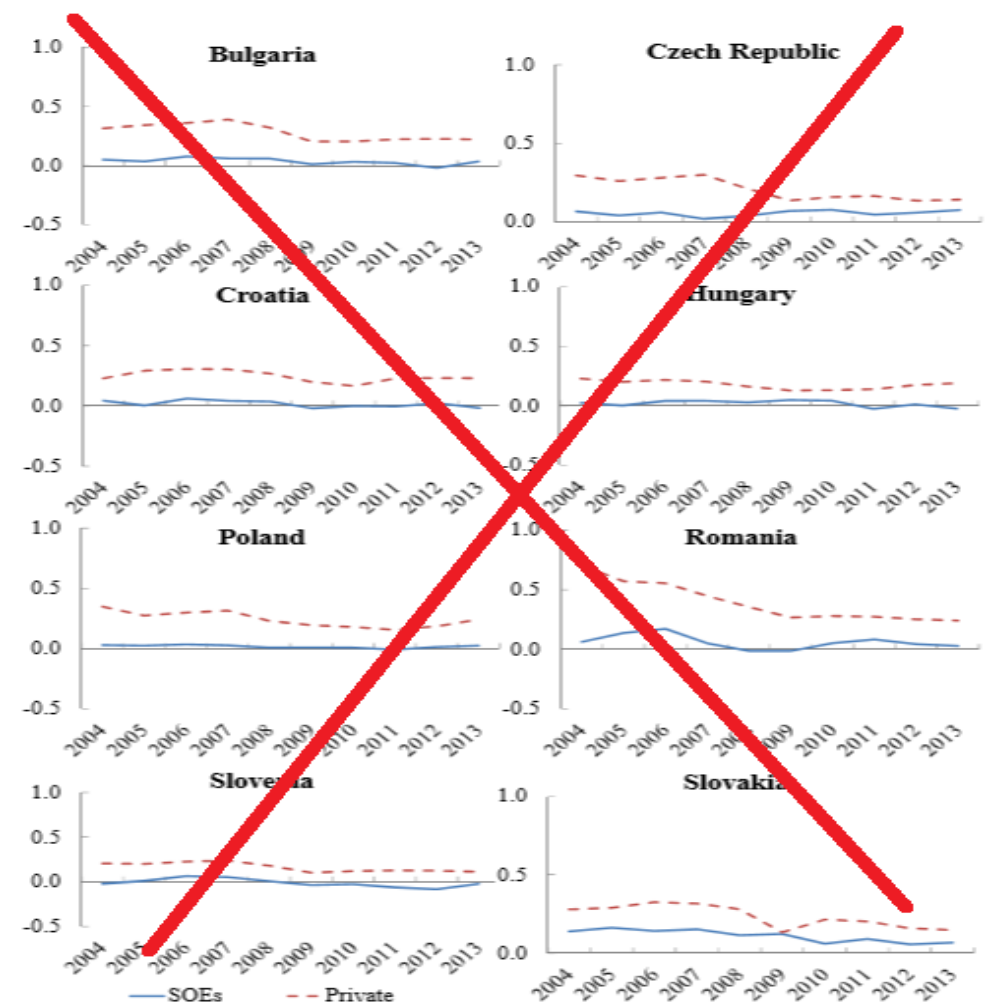
EC report

Are SOEs really comparable to private companies?

EBITDA SOEs vs private companies (Romania, 2015)

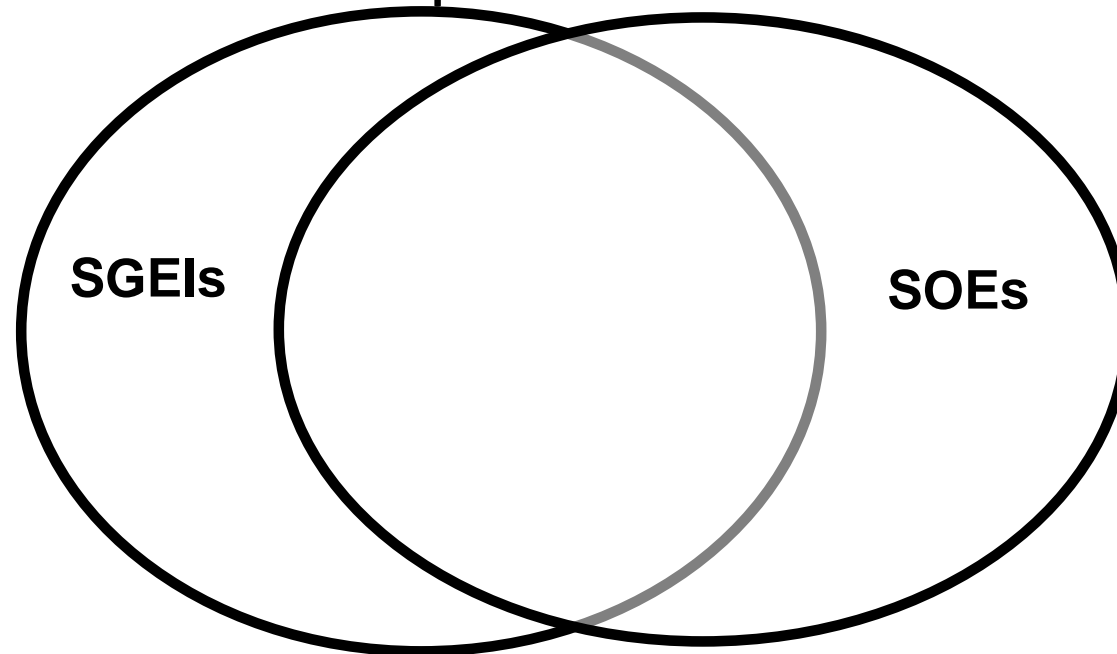


Return on Equity, SOEs and Private firms



What are SOEs and why do they exist?

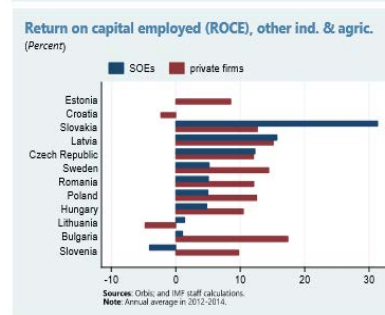
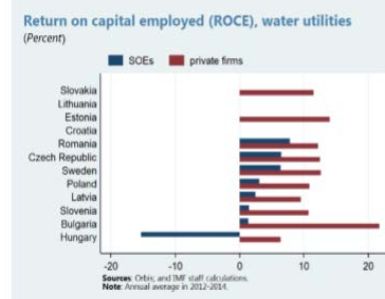
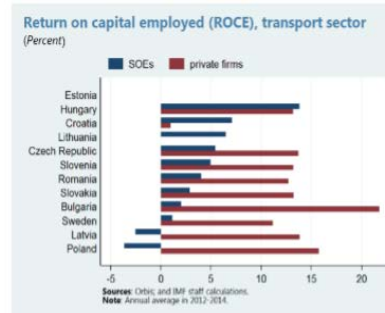
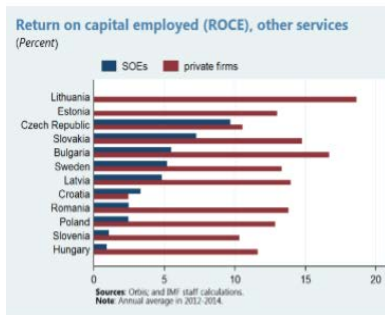
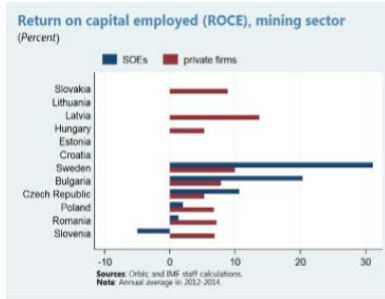
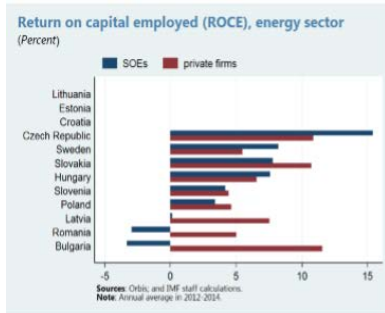
- Different from purely commercial companies
- Not exactly entities providing only public goods and services
 - SGEI
- **Continuum** between SGEI provision and commercial



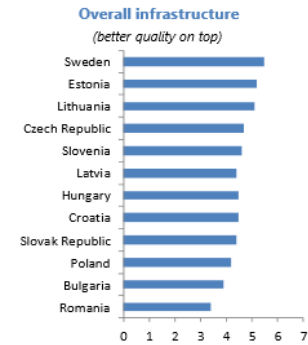
Several ways around this, but limitations

- Sectorial comparisons (IMF, EC) – each sector same SGEIs

Financial



Output

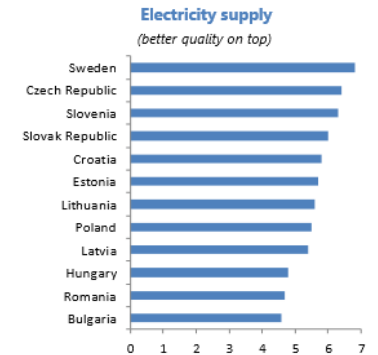


Note: Composite indicator of energy, transport, and ICT infrastructure. Source: WEF Global Competitiveness Indicators (2016-2017).

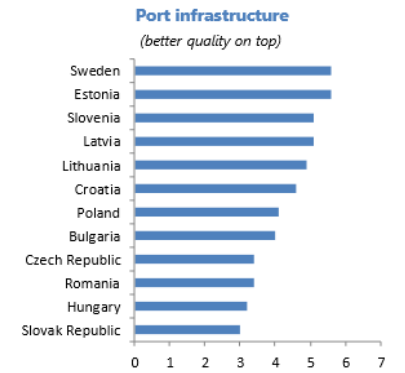


Note: Quality of the railroad system, from 1=extremely underdeveloped, to 7=extensive and efficient. Source: WEF GCI (2016-2017).

Output Quality



Note: Reliability of electricity supply, i.e. lack of interruptions and lack of voltage fluctuations, from 1=extremely unreliable, to 7=extremely reliable. Source: WEF GCI (2016-2017).



Note: Extensiveness and condition of seaports, or access to seaports, from 1=extremely poor, to 7=extremely good. Source: WEF GCI (2016-2017).

- Benchmark before/after privatization

What we recommend

- Two options:
 - Define SGEI/PSOs clearly in the legislation, finance it separately from public budgets, avoid cross-subsidies between commercial activities vs for-profit
 - **You can then simply benchmark profitability of commercial part with private & commercial companies and monitor cost to budget/output for SGEI part**
 - Define a set of indicators that are relevant for “benchmarking” considering the SGEI vs commercial activity limitation for each company / sector
 - **Our research method**

1. Researching SOEs: performance (vs governance)

What we did: 1. Sample SOEs

	RO	IT	BG	CZ
CENTRAL / REGIONAL				
Roads	CNADNR	ANAS	MRDPW	RSD
Railways	CFR Calatori	Trenitalia	BDZ (passenger)	CD (passenger)
Electricity	HE, CEO, ELCEN	IREN	NEK	CEZ
Gas	Romgaz	IREN	Bulgargaz	
Ports	Constanta		Burgas	
Airports	OTP		Sofia AP	
Forestry	Romsilva		SW SOE - Blagoevgrad	Lesy Ceske
Post	Posta Romana		BG Post	Ceska Posta
LOCAL				
Urban transport	RATB	Metro Milanese	Sofia Metropolitan	DPP
DH	RADET	IREN	TOPLO	
Water	Apa Vital	AMIU Genova, AQUE Torino	Russe water	
Waste		AMIU Genova		

What we did: 2. Place SOEs on SGEI/commercial continuum

Public services / goods

Commercial services / goods

Budget pays (general taxation)

Consumers pay (price)

Public agency

For-profit company

SOEs

Performance: delivery @ reasonable cost

Clear separation public goods / profit

Performance: profit maximization

CNADNR, ANAS

RAI Uno

Posta Romana

Hidroelectrica HPP

MRDPW, RSD

TVR public television

TOPLO

Ceska Posta

Romsilva forest management

CFR Infrastructure

RADET DH

BG Post

SW SOE - Blagoevgrad

Romgaz, Bulgargaz sup

IREN DH

Lesy Ceske

CFR Calatori

Port Constanta, Burgas

TAROM airlines

Trenitalia

Aeroport Otopeni, Sofia Airport

IREN gas

BDZ Passenger

Russe Water

IREN electricity

CD Passenger

AMIU Genova

NEK CEZ

RATB, Metro M

CFR Marfa

Apa Vital, IREN water

CE Oltenia electricity

Sofia Metro, DPP

AQUE Torino

Transelectrica (regulated), Bulgargaz pipes

ELCEN

What we did: 3. Define indicators comparable across companies placed on same spot

Identified areas of risk (procurement – of core vs non-core activity items; sales; output)

Energy sector / mining:

- Percentage of overheads: Overhead/revenues; overhead/installed capacity; overhead/distribution assets (both in \$ and in km of wires and number of transforming stations); overhead/number of consumers; overhead/sales to consumers (as opposed to wholesale market)
- Cost of coal / oil / gas per MWh (procurement)
- Price of electricity EUR/MWh in direct contracts vs similar contract on power exchange (underestimated sales)
- output (GWh) or turnover (EUR) per employee; arrears as share of turnover, correlation of arrears with electoral cycles
- overdue receivables / turnover

Transportation – railways:

- Percentage of overheads: Overhead/revenues; overhead/number of clients; overhead/sales to clients
- output (person-km, tons) / employee; revenue (EUR) / output (traffic, tons); profitability compared to private counterparts.
- procurement: cost per car /locomotive, SOE vs private.
- miscellaneous (non-core activity related) procurement / total procurement (highlights if company procures useless supplies)
- Freight transport - sales: price per ton of major commodity (e.g. coal), SOE vs private freight transporters
- Overdue receivables / turnover, SOE vs private transporter (e.g., SOE allows clients to default on payments)
- turnover / employees

What we did: 3. Define indicators comparable across companies placed on the same spot

Water-sewage operator

- Price / km of newly build sewer main, Price / km of newly build water main
- Price per unit of service (usually m³)
- overhead/number of consumers; overhead/sales to consumers
- miscellaneous (non-core activity related) procurement / total procurement
- turnover / employees

Local public transportation

- Price for client served
- Number of employees (other than direct operators) / number of clients
- Price of insurance per vehicle
- overhead/number of clients; overhead/sales to clients
- turnover / employee
- OPEX / turnover
- revenue (tickets + subsidies) / clients
- procurement: cost per vehicle (bus; tram; trolleybus)
- miscellaneous (non-core activity related) procurement / total procurement

What we did: 3. Define indicators comparable across companies placed on the same spot

Construction contracts / infrastructure (for public authority-like SOEs)

- Cost per km of newly built motorway / standard national road
- Cost per km of yearly maintenance of motorway / standard national road
- Profitability of commercial partners (contractors), national vs foreign; national vs EU funds
- miscellaneous (non-core activity related) procurement / total procurement
- turnover / employee

Postal services:

- arrears / turnover; correlation of arrears with electoral cycles
- turnover / employee
- miscellaneous (non-core activity related) procurement / total procurement
- profitability benchmarked with private postal services?

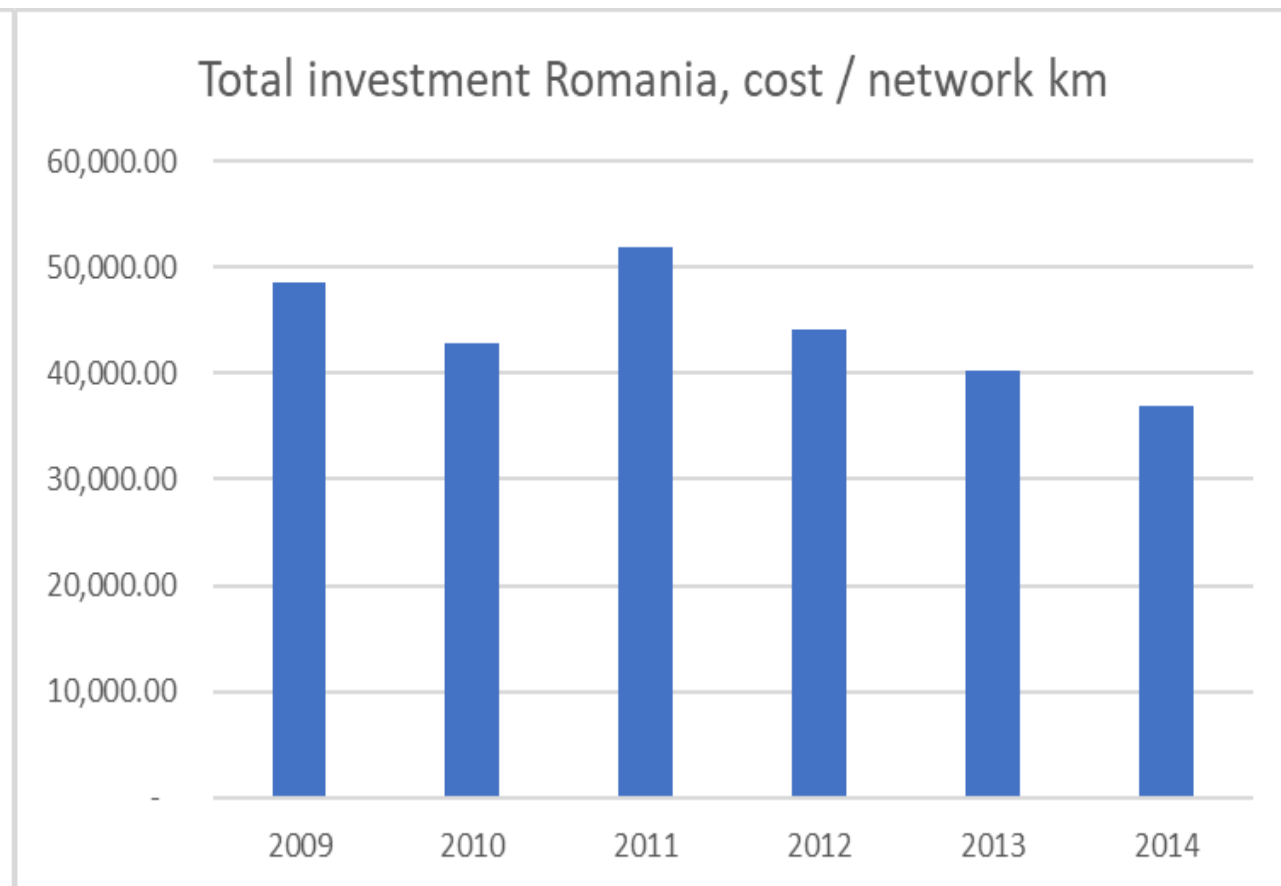
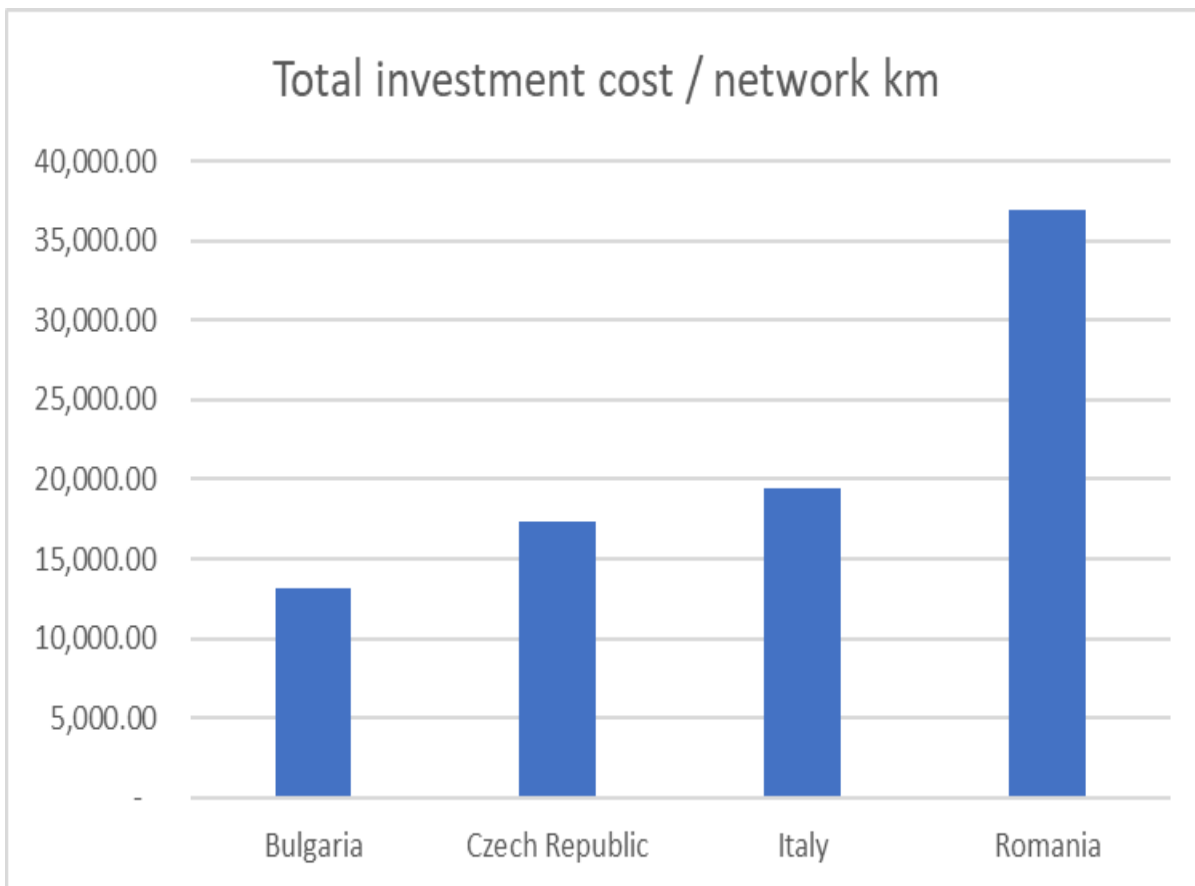
Forestry:

- arrears / turnover; correlation of arrears with electoral cycles
- turnover / employee
- miscellaneous (non-core activity related) procurement / total procurement
- area of forest managed by SOE/ total country surface (evolution in time)

What we did: 4. Limit – 10 key indicators

- Criteria: available data, comparability, relevance
- Purpose: measure variations of performance
 - Across time (e.g. 2010-2015) vs across countries (Ro-Bg-It-Cz)
- Variations: search deeper for explanations (illustrated on Romania)
- Correlate with governance
- List of indicators:
 - Roads: Total investment cost / network km
 - Railways - passenger: cost/passenger-km (total operational costs/passenger-km)
 - Energy, gas: profitability benchmarked with similarly structured companies and GWh/employee
 - Forestry: profitability vs preservation of forest
 - Ports: traffic per employee (airports – passengers; ports – cargo)
 - Postal services: benchmarking of profitability (considering all similar SIEG)
 - Urban transport: cost/passenger-km; water: cost/m³
 - DH: arrears or subsidies/GCal

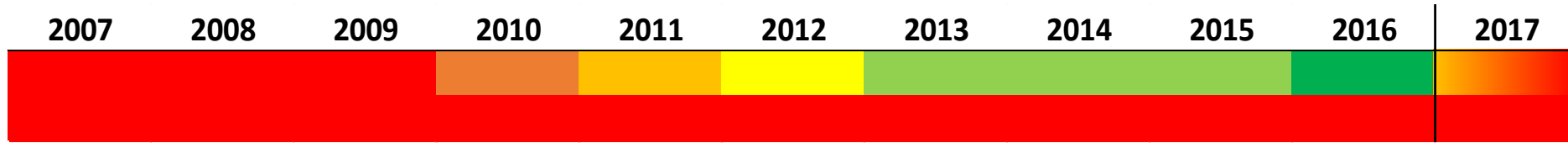
Roads: Total road investment cost / network km



OECD data, own calculations. Total investment includes upgrades, new constructions. RO: partly backlog of investments, partly over-expensive procurement. Note: Competition Council highlights motorway costs in Ro = 3x BG

RO: hike in spending in 2009 – crisis year and 2011 (Transalpina case). Reduction of costs: reduced investment spending, procurement on EU rules

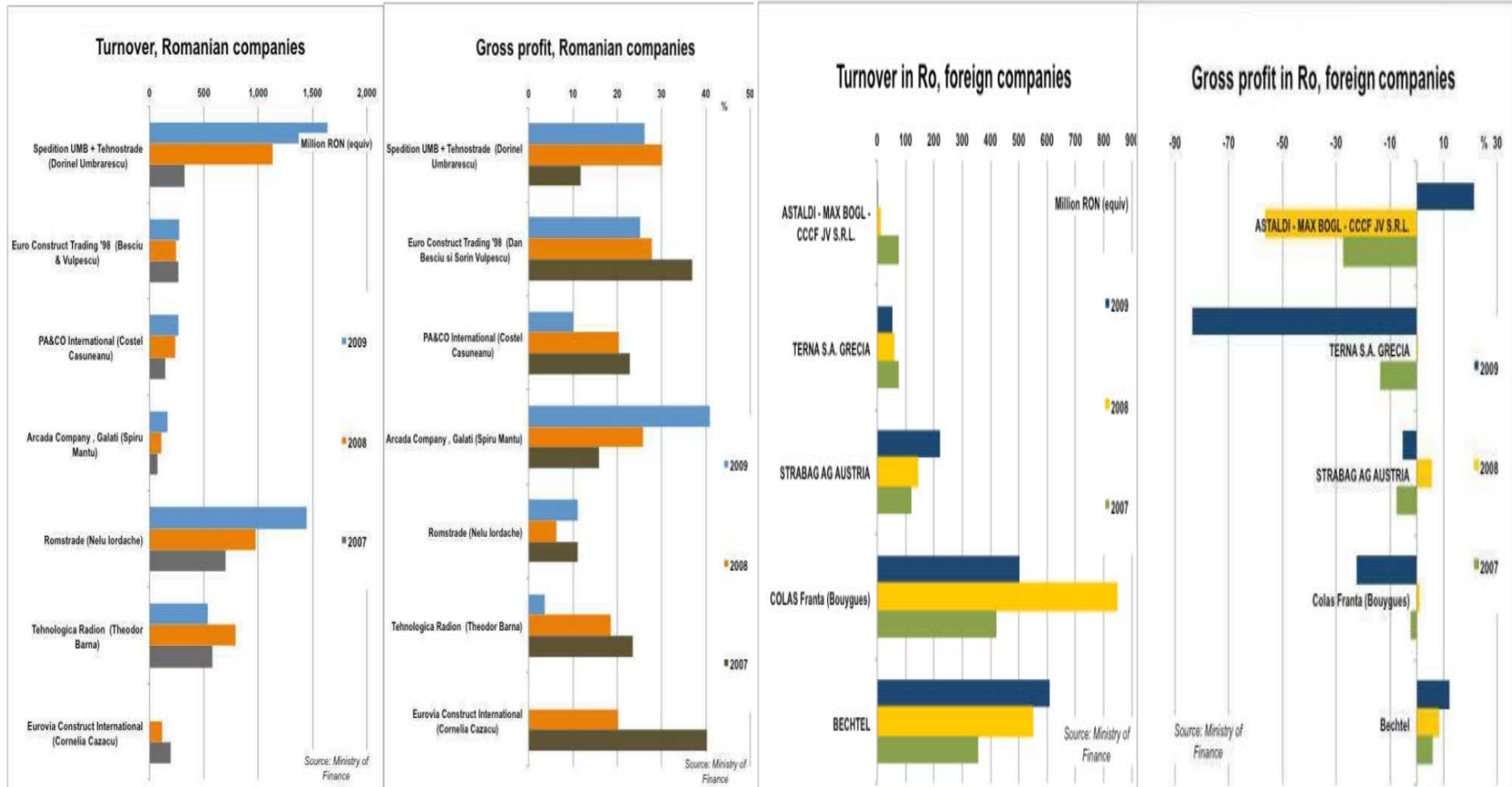
In-depth Roads analysis: CNADNR Romania



General framework
CNADNR governance

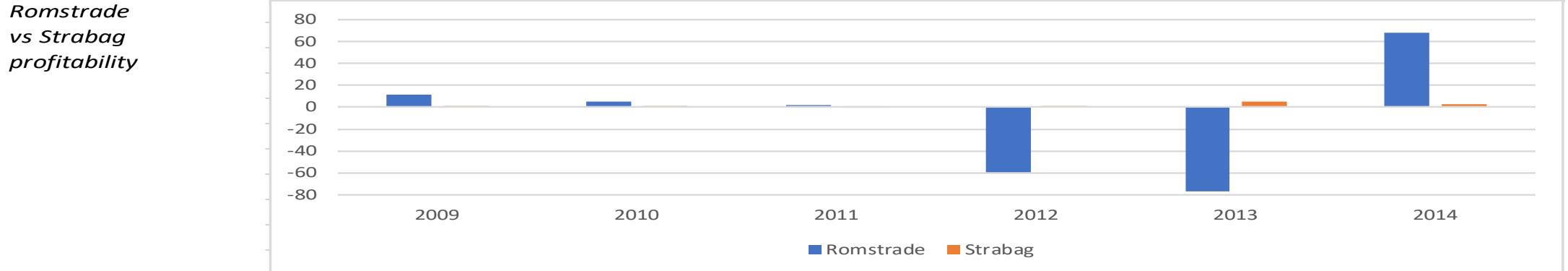
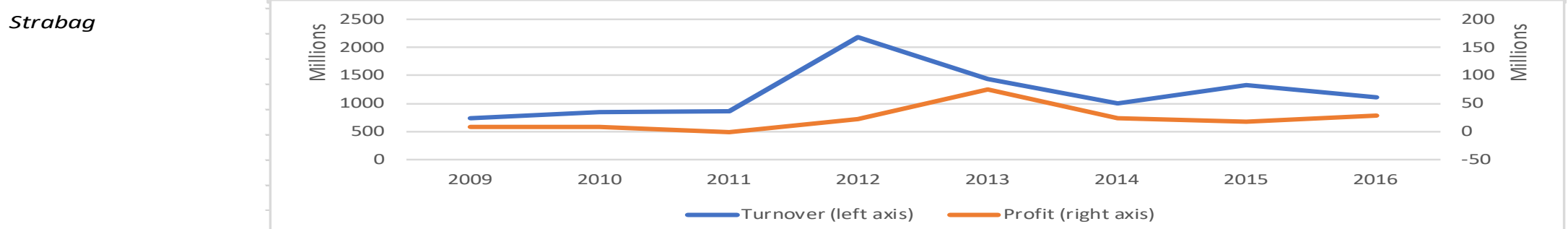
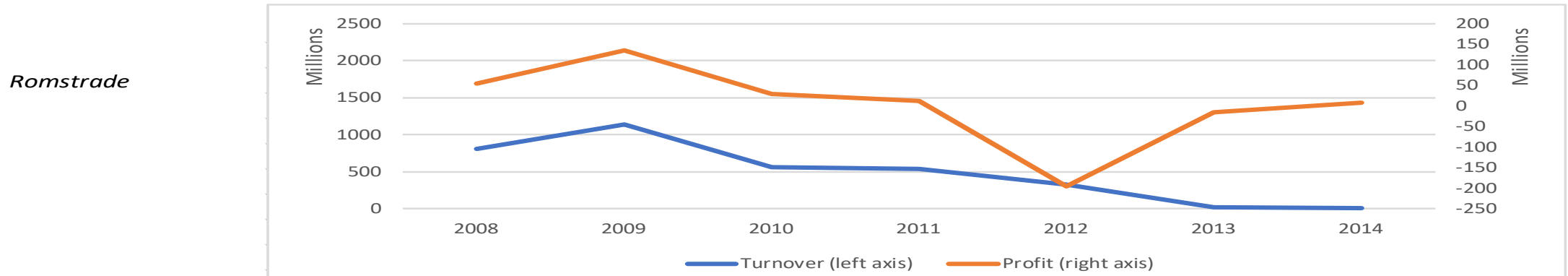
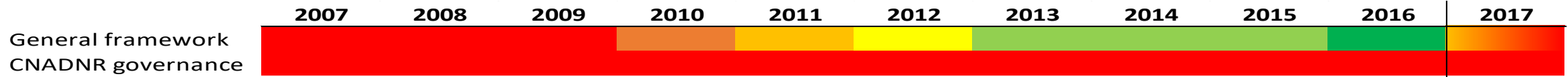
Procurement
Profitability partners

Romanian vs foreign
e.g. 2011

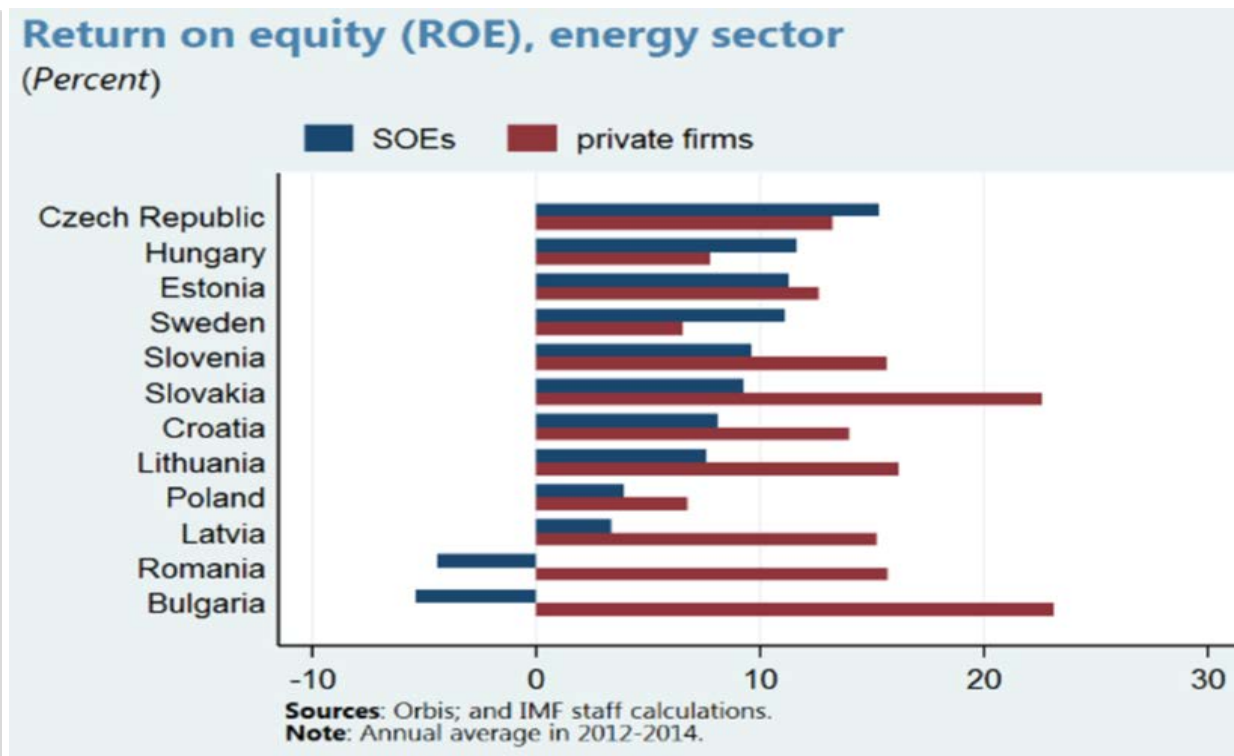
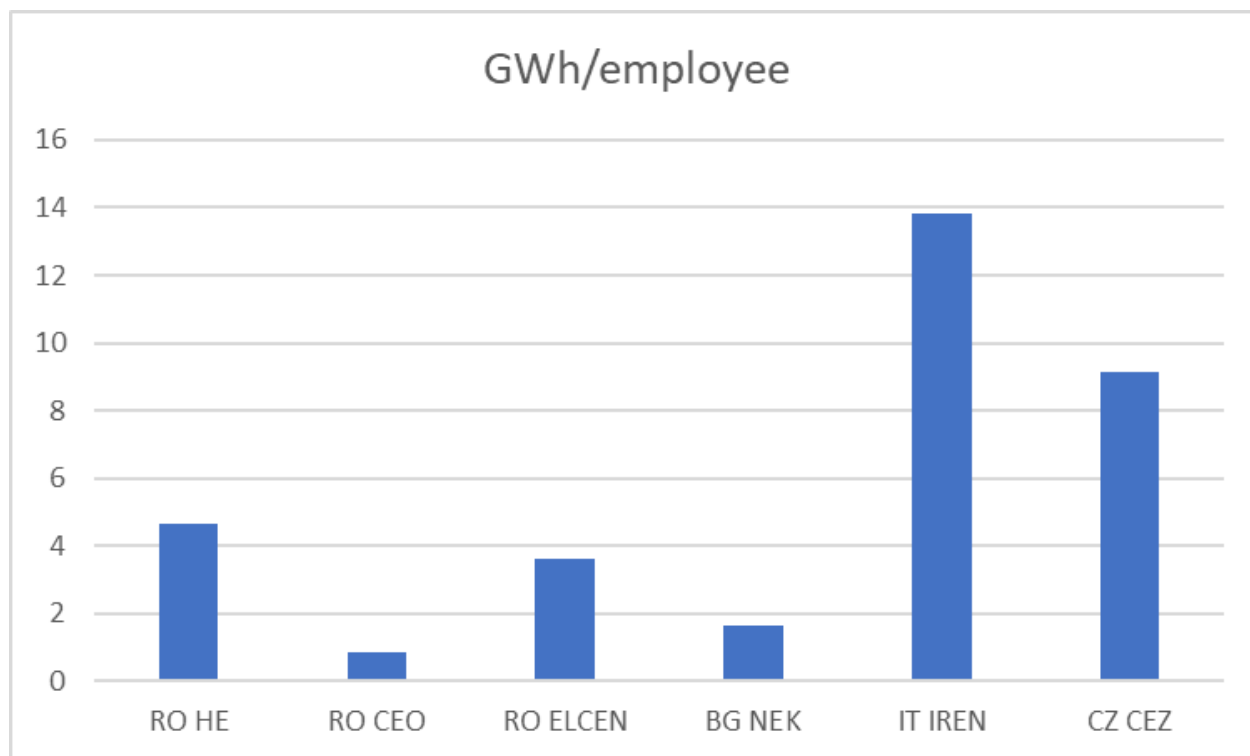


Foreign cos
less profitable
(tenders)

In-depth Roads analysis: CNADNR Romania



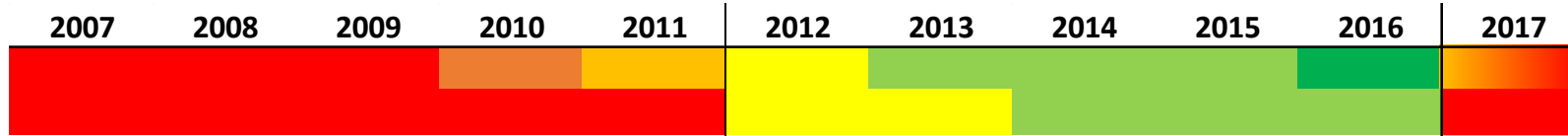
Energy: GWh/employee; profitability



To compare exactly the same figures, we used electricity generation vs employment for electricity generation, as some companies – NEK, CEZ, IREN are integrated companies / groups comprising many activities. This is why we cannot benchmark profitability between them directly. Cogeneration is considered jointly (electricity + heat total production in GWh)
Note: the better governed, the better the performance. IREN and CEZ are stock-listed; NEK and CEO are notoriously inefficient; Hidroelectrica is a case detailed below.

In-depth Analysis: Hidroelectrica Romania

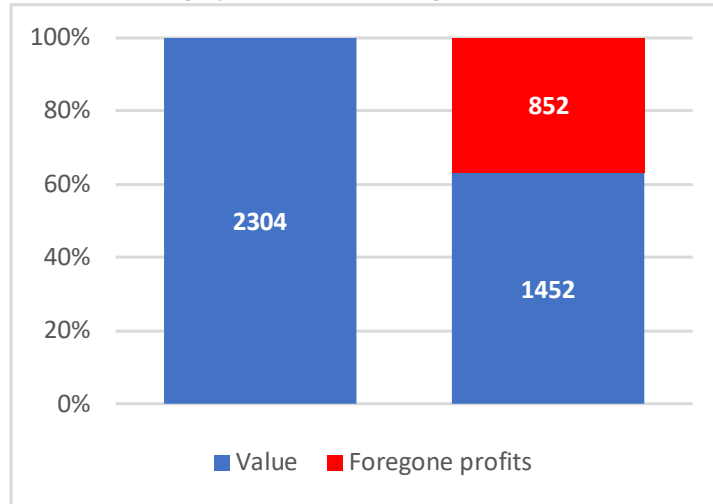
General framework
HidroE governance



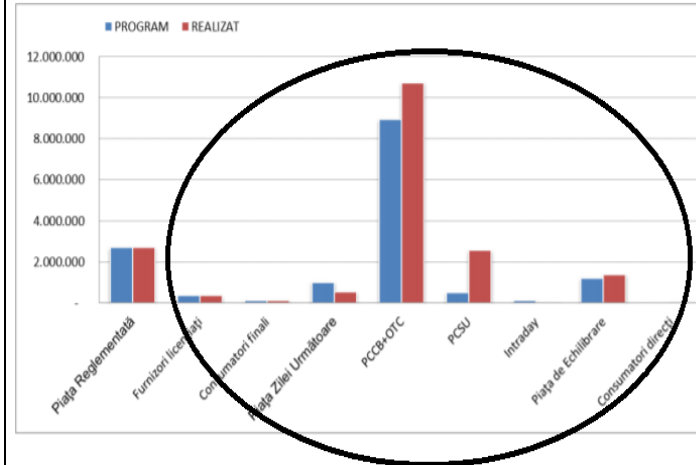
Below market price sales

Foregone profits

Smart guys contracts - e.g. 2011, mn RON



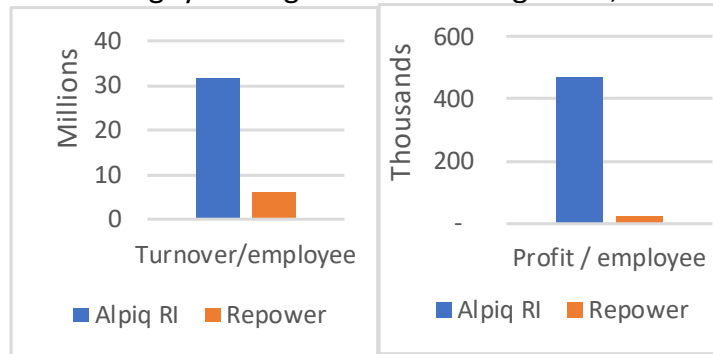
No smart guys, e.g. 2016 (except attempt 2013)



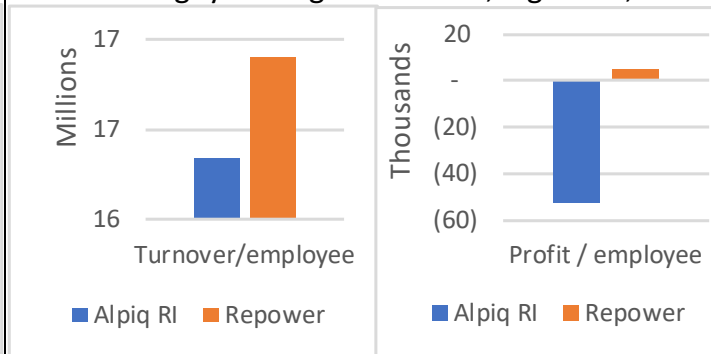
No transactions
outside competitive market
No foregone profits

Profitability of traders

Smart guys vs regular traders - e.g. 2011, RON

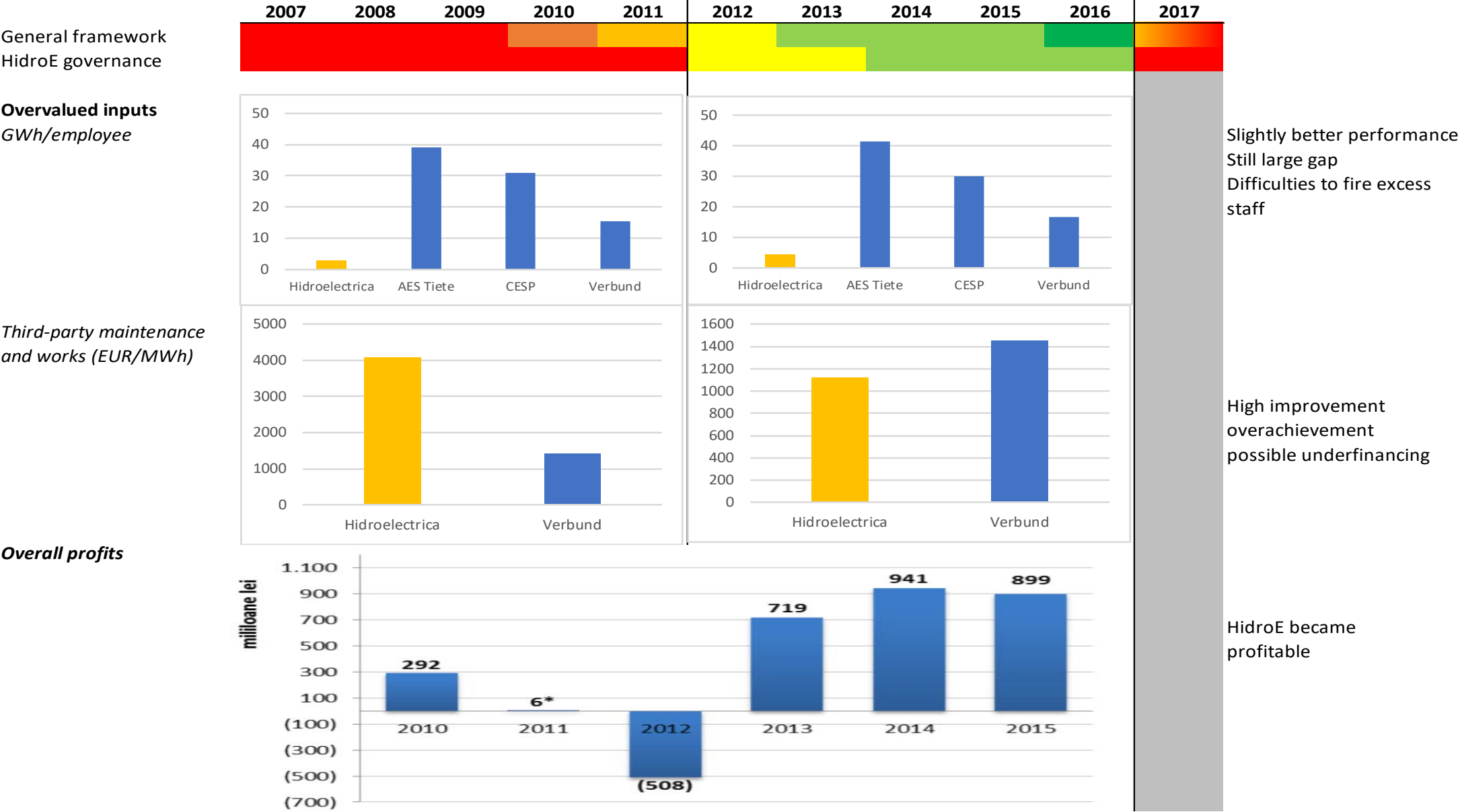


Ex- smart guys vs regular traders, e.g. 2015, RON



Regular traders fare better
than "smart guys"

In-depth Analysis: Hidroelectrica Romania



Conclusions

- Very few “benchmarkable” indicators, as companies are very different. However, general indicators highlight general issues, research can be refined to explain variations (“case studies”)
- Needed: DATA TRANSPARENCY
 - + full implementation of state aid, proper SGEI definition and financing
- Disclaimer: bad governance, bad performance do not necessarily mean corruption; but acting on governance and performance **limits** corruption

THANK YOU!

Otilia Nutu

otilia.nutu@expertforum.ro

0040 723 643 471