



Lebanon  
Joint workshop Institute of Finance / METAC  
Surveillance of SOEs



## Reporting on the financial performance of SOEs



# Outline



Objective and  
importance  
of  
transparency

International  
good  
practices

Selected  
examples

Roadmap

Questions  
and  
discussion

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# Objectives of the presentation



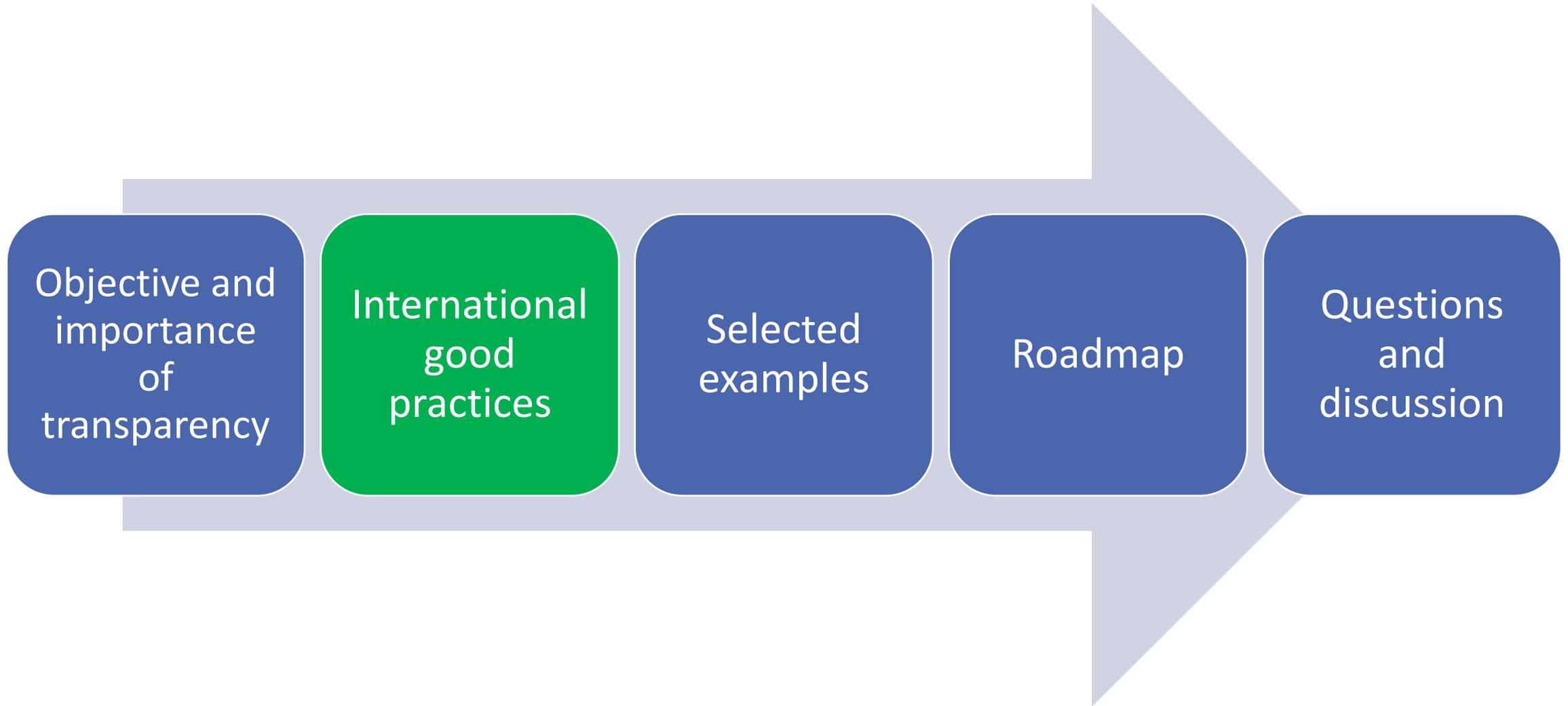
- Discuss what reporting and transparency on the financial performance of SOEs can bring to:
  - The ministry of Finance for improved surveillance and better-informed policy decisions
  - SOEs and other public institutions
- Start from neighboring experience to:
  - Discuss other countries experience that made recent progress in this domain
  - Issue a basic template to gather data from key SOEs and improve internal reporting

# Reporting and transparency: why is it important?



- Limited understanding of the financial position of SOEs leads to:
  - Poor understanding and reporting on fiscal risks
  - Emergency patches with no long-term view / solution
- Improve reporting on the financial performance and risks from SOEs
  - Brings more meaningful discussion and focus on the real issues of SOEs (exposure to exchange rate volatility, profitability, etc.)
  - Classify the portfolio of SOEs and public institutions by type of risk
- External reporting can create credibility and make sovereign financing costs more affordable
  - Show that government has a good understanding of fiscal risks and has a sound framework in place and a credible plan to management them
  - Paving the way for a future reform plan in Lebanon

# Outline



# Fiscal transparency code (for SOEs)



Dimension	Principle	Practices		
		Basic	Good	Advanced
<b>Public corporations</b>	The government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them	All transfers between the government and public corporations are disclosed on at least an annual basis	All transfers between the government and public corporations are disclosed and based on a published ownership policy, a report on the overall financial performance of the public corporations sector is published on at least an annual basis	All direct and indirect support between the government and public corporations are disclosed, and based on a published ownership policy. A report on the overall financial performance of the public corporations sector, including estimates of any quasi-fiscal activities undertaken is published on at least an annual basis

# OECD guidelines on disclosure by the Government



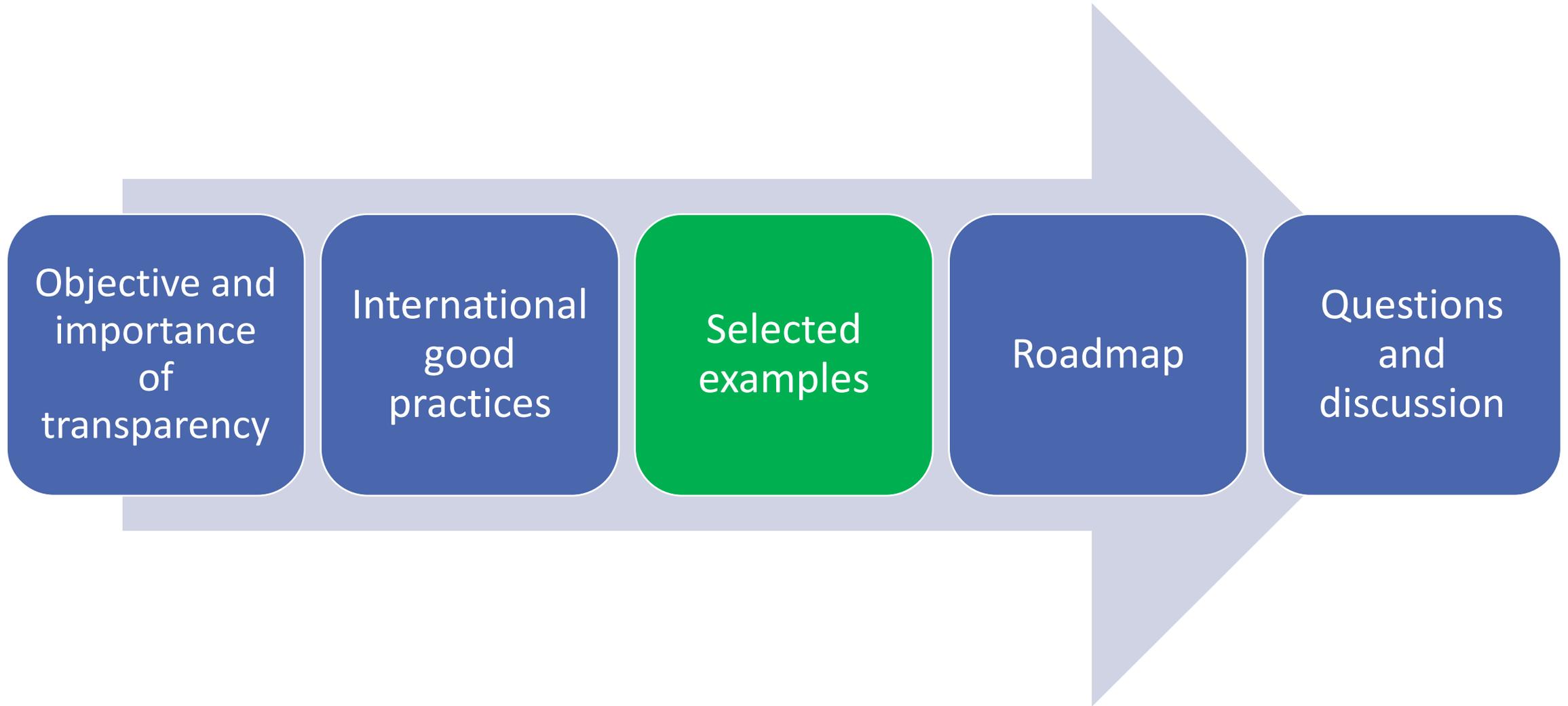
- State should publish annually an aggregate report on SOEs that allows readers to obtain a clear view of the overall performance and evolution of the SOEs
  - ▶ Scope and size of the SOE sector, including list of all SOEs and percentage of voting shares in each entity
  - ▶ Any special rights or agreements that diverge from general corporate governance practices (e.g. golden share, veto powers)
  - ▶ Financial performance and value of the SOEs as well as total value of the state's portfolio of SOEs and aggregate financial information and key financial indicators
  - ▶ Information on key non-financial performance indicators
  - ▶ State's ownership policy and information on how it has implemented this policy
  - ▶ Information on the organisation of the ownership function
  - ▶ Changes in SOE Boards and that state's role in board nomination and appointment
  - ▶ Nature, form and amount of any non-commercial assistance provided to SOEs
  - ▶ Information on factors affecting competitive neutrality, e.g. applicability of public procurement rules, state aid rules
- Financial transactions and state's exercise of its ownership function should be audited from time to time
- The report as well as the individual SOE reports should be available on the internet

# Guidelines from the World Bank and the IMF



- Monitoring the financial performance and potential fiscal risks from SOEs is facilitated by SOEs providing timely, reliable and relevant information on material matters affecting the company – as a minimum SOEs should be required to report annually on their performance
- Financial information should be reported in line with high quality internationally recognized standards of corporate disclosure - many countries are requiring that their SOEs report according to International Financial Reporting Standards (IFRS)
- The financial statements should be accompanied by a narrative report discussing and providing context to the results
- More and more countries are requiring SOEs to report on how they comply with the provisions of their corporate governance code
- SOEs' financial statements must be subject to an independent external audit based on high-quality standards – increasingly the International Auditing Standards (IAS) are being adopted
- In addition to audits of the financial statements, audits of performance information and compliance with the legal framework are also conducted
- The audit may be conducted by the Supreme Audit Institution (SAI), independent external auditors or a combination of the two
- The audited financial statements should be available online

# Outline



# Morocco: the example of the M@SSAR tool and process



- Key data collection through a shared IT system
  - Initial budget, financial statements
  - Financial and economic indicators
  - Budget transfers
- Other functionalities:
  - Reporting on Budget execution
  - Additional controls: payment orders, public tender procedures
- Business intelligence tool:
  - Dashboard to help policy decision (both at the aggregate level and for specific SOEs)
  - Documentation repository: nominations, board committee meetings, audits

# Tunisia: report on the financial performance of SOEs



- Presentation of SOEs
  - Legal framework, classification by sector
  - Focus on key SOEs (not all are covered by the report)
- Activity and financial indicators
  - Financial indicators: Net operating result, net financial result, liabilities, arrears
  - Activity: Value of investment, number of passengers (for the airline company), etc.
  - Analysis of the various indicators for each company selected: key reasons such as exposure to exchange rate volatility, crude oil price, etc.
- Other information:
  - Financial transfers between SOEs and the Government
  - Ongoing restructuring plans for SOEs

# South Africa: surveillance of the MoF



- **Corporate plan** submitted to the Responsible Minister and MOF one month prior to the start of the financial year
- Board must establish procedures for **quarterly reporting** to the Responsible Minister to be submitted within one month of the end of the quarter
- **Annual report, audited financial statements and auditor's reports** (covering financial, performance and legal compliance audit) submitted to Responsible Minister and MoF within 5 months of the end of the financial year. Responsible Minister required to table in Parliament within one month

# South Africa: SOE report

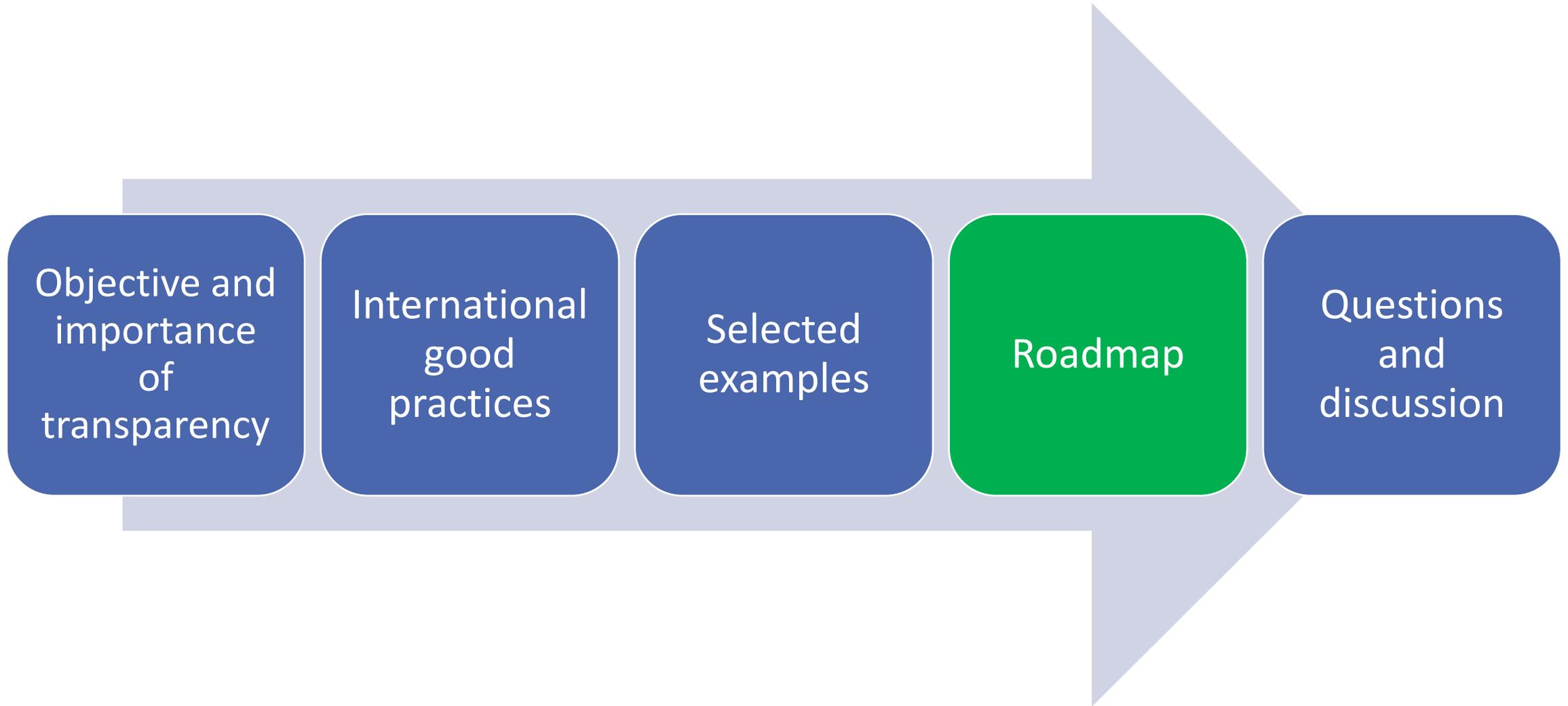
<b>Revenue</b> ▲	<b>Net operating expenses</b> ▲	<b>EBITDA</b> ▲	<b>Net profit</b> ▼
<p>Up <b>1,3%</b> to <b>R75,1 billion</b>, mainly due to a weighted tariff increase of <b>2,9%</b>, partially offset by a <b>1,3%</b> decline in rail freight volumes and a <b>2,4%</b> decline in port container throughput</p>	<p>Up <b>1,9%</b> to <b>R41,1 billion</b> – positive, considering FY2019 cost level reflected zero growth compared to FY2018</p>	<p>Up <b>0,7%</b> to <b>R34,0 billion</b>, with EBITDA margin <b>down</b> from <b>45,6%</b> to <b>45,3%</b></p> <p>Performance is <b>below its potential</b> as a result of <b>insufficient maintenance of ageing infrastructure</b> and <b>sluggish global economic growth</b></p>	<p><b>Down 34,9%</b> to <b>R3,9 billion</b>, primarily due to prior year’s fair value adjustments being <b>R2,5 billion</b> higher than the current year</p>

<b>Capital investments</b> ▲	<b>Cash generated</b> ▲	<b>Ratios</b> ▲	<b>Personnel costs</b> ▲
<p>Up <b>3,5%</b> to <b>R18,6 billion</b></p>	<p>Up <b>2,1%</b> to <b>R35,9 billion</b></p>	<p>Gearing of <b>47,6%</b> and <b>cash interest cover</b> at <b>2,9 times</b> both within loan covenant requirements</p>	<p><b>2,7%</b> of <b>personnel costs</b> invested in training artisans, engineers, and technicians</p>



<b>B-BBEE</b> ▲
<p>Maintained at <b>Level 2</b> – with <b>R31,31 billion</b> spend or <b>111,82%</b> of total measured procurement spend as defined by DTIC codes</p>

# Outline



# Roadmap to strengthen surveillance and disclosure on SOEs



## Get started

- Undertake a census of all SOEs to compile a single, comprehensive list
- Assess the availability, reliability and timeliness of annual reporting from SOEs and take steps to being addressing gaps
- Accurately record all transfers of funds between the central government and SOEs
- Capture the financial data in Excel and undertake a high-level analysis of those SOEs for which financial information is available
- Begin producing reports for internal use

## Develop the SOE report

- Analyze the financial information of SOEs and assess fiscal risks, starting with strategically important and high risk SOEs
- Produce a first, high level report on SOE sector, providing an overview of the sector, fiscal support provided to SOEs, assessment of fiscal risks and mitigating measures, and financial indicators and overview of the activities for major SOEs
- Gradually build out the analysis provided in the SOE report to cover all of the key elements

## Advanced reporting

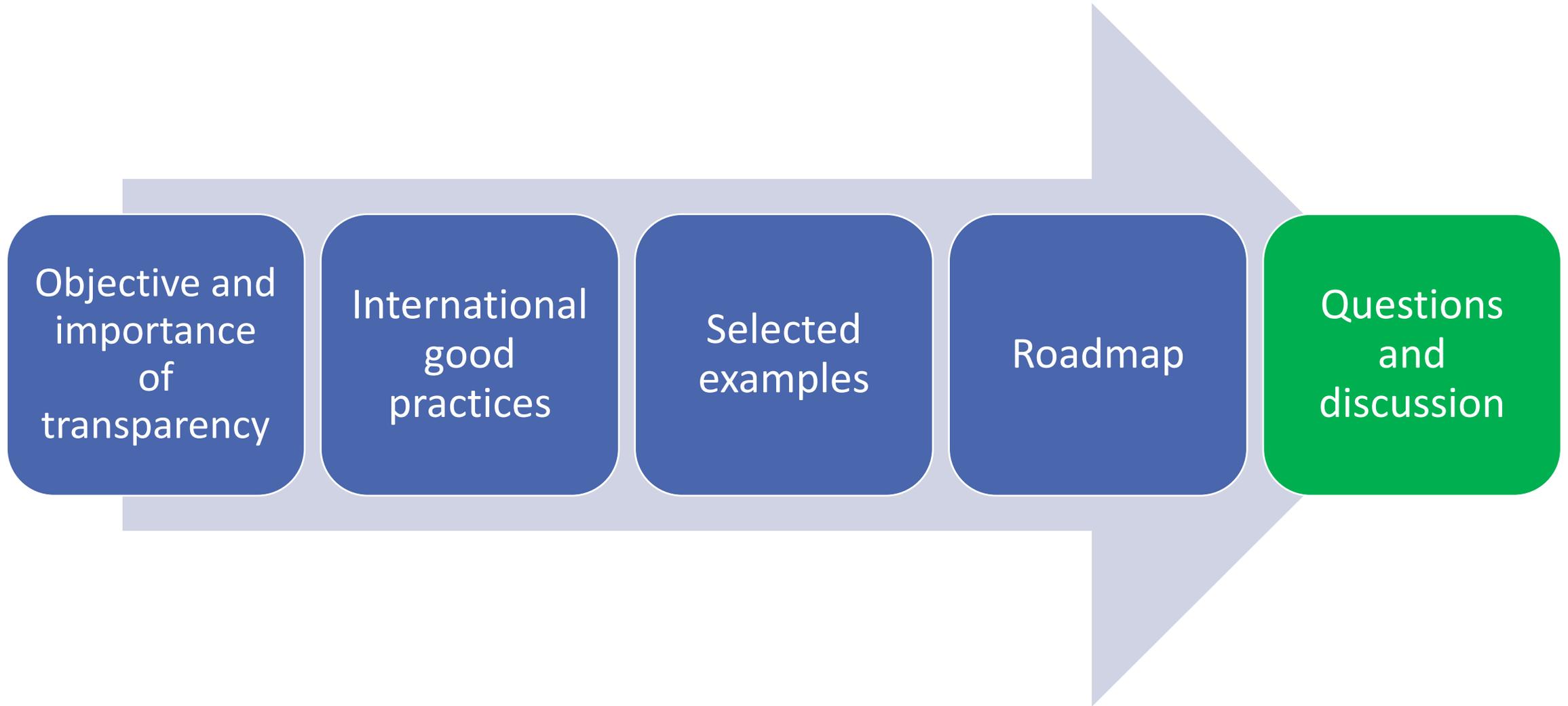
- Regularly produce a SOE report providing comprehensive analysis on the SOE sector, subsectors and major SOEs and including
- Produce higher frequency reporting, e.g. quarterly

# Practical steps for Lebanon



- Start with a simple Excel worksheet to gather regular data from SOEs
  - Key financial data (similar to the HCT)
  - Analysis of key drivers (economic indicators, latest developments of the sector)
- Prepare a financial reporting template:
  - Report regularly to Senior Management of Ministry of Finance with a dashboard, key financial indicators
  - A summary of analysis of key drivers and resulting fiscal risks
  - Policy recommendations
- Proposed approach:
  - Create a working group with the MoF and a selected number of SOEs to pilot the experience
  - Start gathering data on a quarterly basis and issue a quarterly report to the Director of the MoF within a month
  - Gather feedback and selecting a larger group of SOEs

# Outline



# Questions and discussion



- International good practices and examples presented:
  - Feasibility in Lebanon
  - Roadblock and challenges
- Proposed sequenced approach:
  - Is it possible to start with a selected group of SOEs and institutions? Which ones?
  - How to unify the reporting?
- What are the key challenges to tackle for all the key steps:
  - Data gathering and consolidation
  - Analysis
  - Reporting to Senior Management of the MoF