

ROMANIA SOEs

Workshop on SOE Reform hosted by the
European Commission



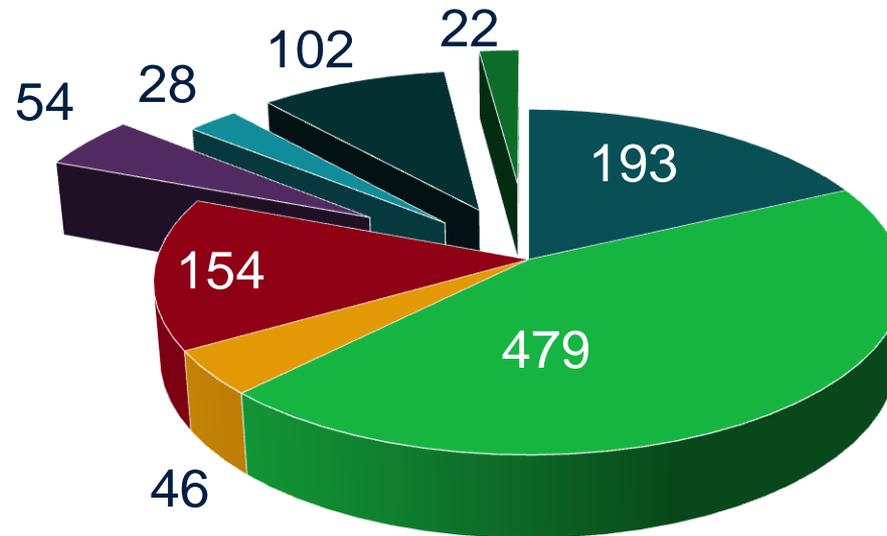
WORLD BANK GROUP

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SOEs in Romania

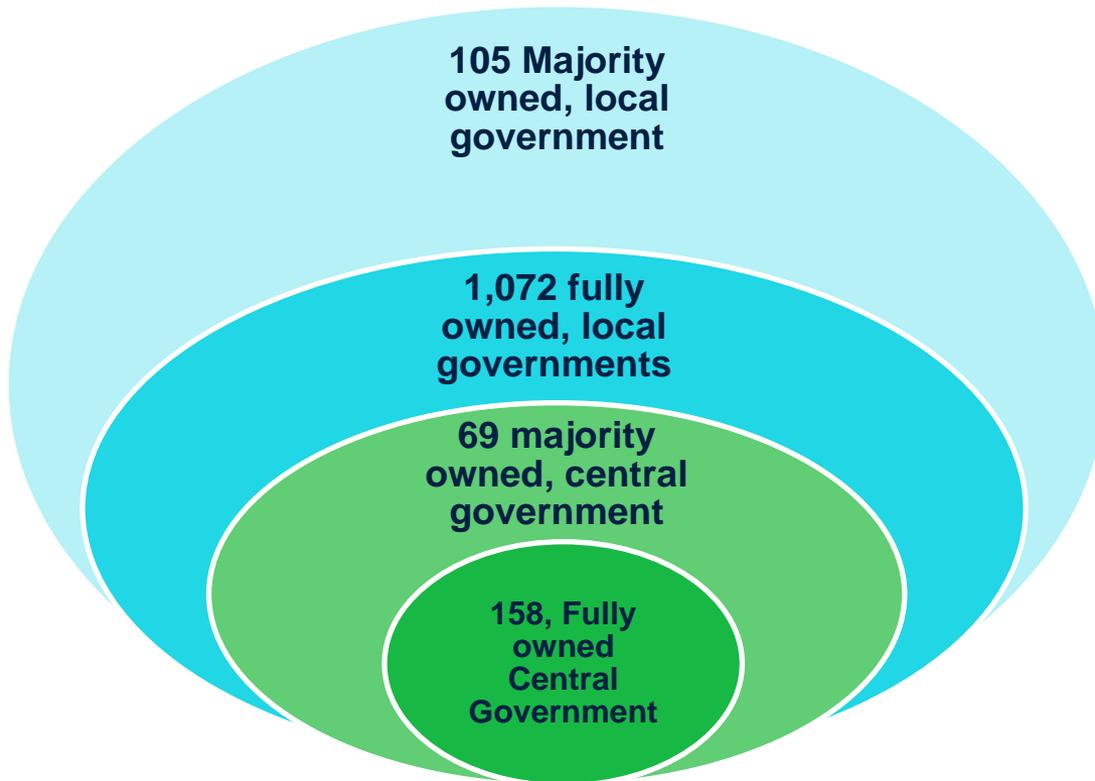
1,155 SOEs report financial statements to MOF



- Autonomous administrations
- Companies owned 100% by the state
- National companies and societies
- Other companies entirely owned by state or where the state is the major shareholder
- State-owned companies, local and foreign state capital (state capital >= 50%)
- State-owned companies, local and foreign private capital (state capital >= 50%)
- State-owned companies and with local private capital (state capital >=50%)
- State-owned companies and with foreign private capital (state capital >=50%)

SOEs in Romania (2)

Ownership (2013)



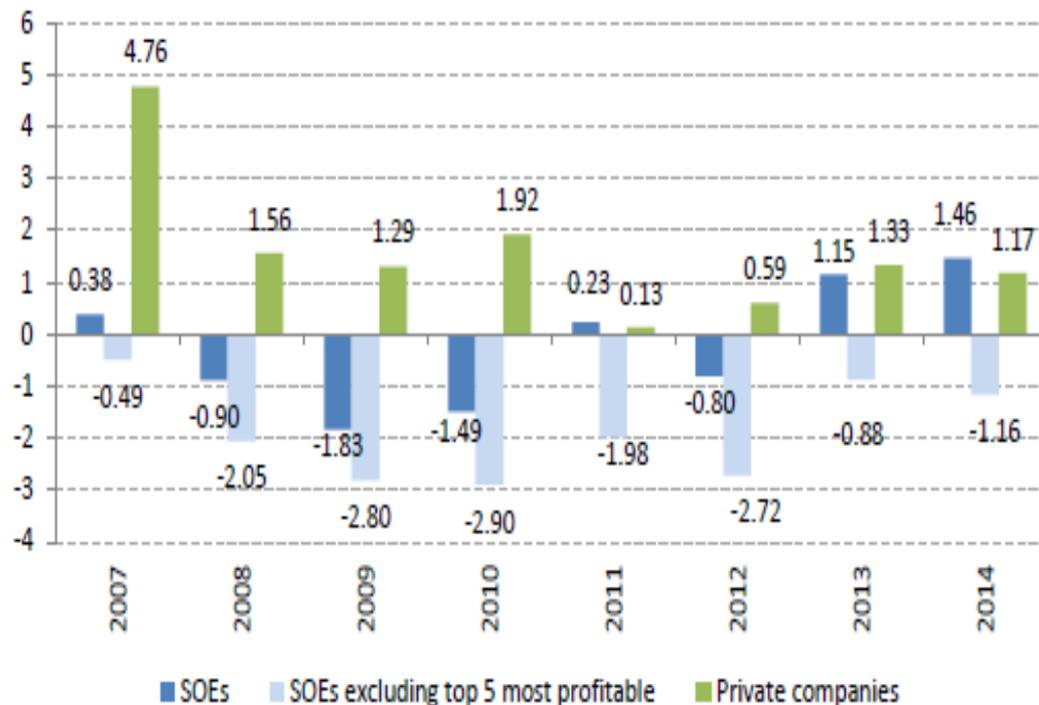
- Central government's paid-in capital equals around 5.4 percent of GDP
- Local government's paid-in capital equals around 1.1 percent of GDP
- MoPF monitors SOEs while line ministries and local governments exercise ownership

Source: World Bank Report 2014

SOEs in Romania (3)

- **Lei 44.5 bn** turnover, 4 percent of GDP
- **Assets** constituted around 30 percent of GDP, almost double OECD average
- Share of SOEs in economy has been decreasing (over 8,000 in the 1990s)
- Profits concentrated in top 5 companies (and returns)
- **297k** employees (7.6% of total workforce), down from 406k in 2007

Return on Assets (ROA, percent)



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Note: $ROA(\%) = \text{Net income} / \text{Total assets}$

Key SOEs in Romania

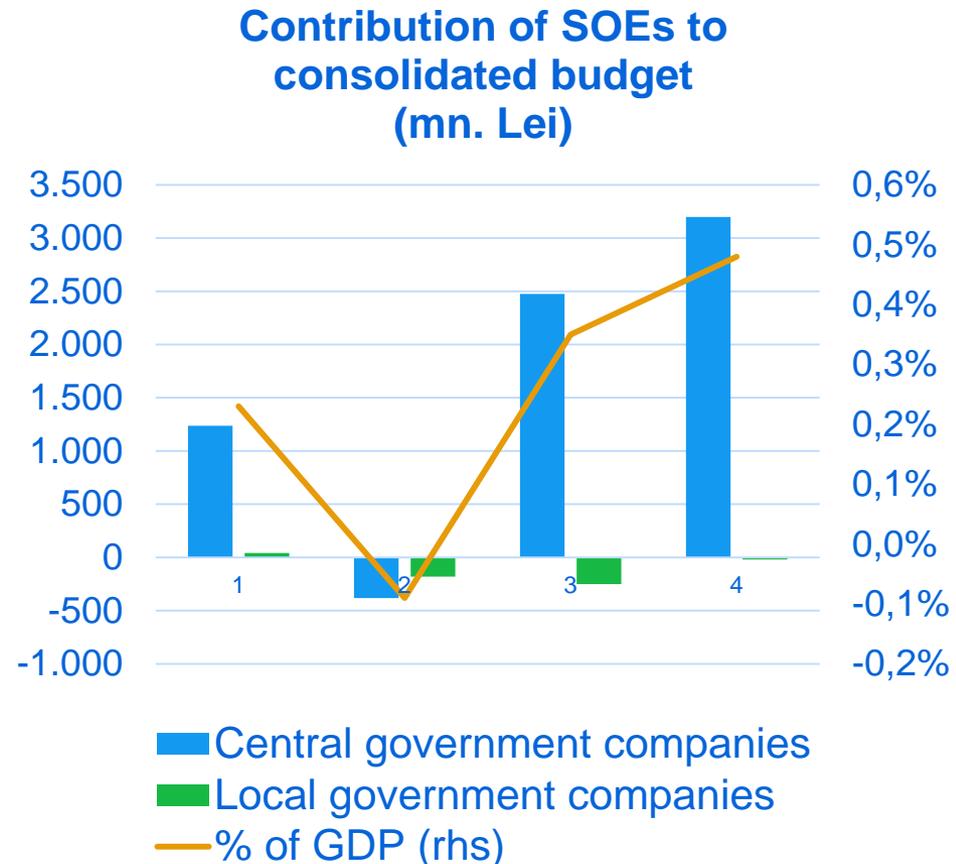


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Profitability reliant on top performing five companies

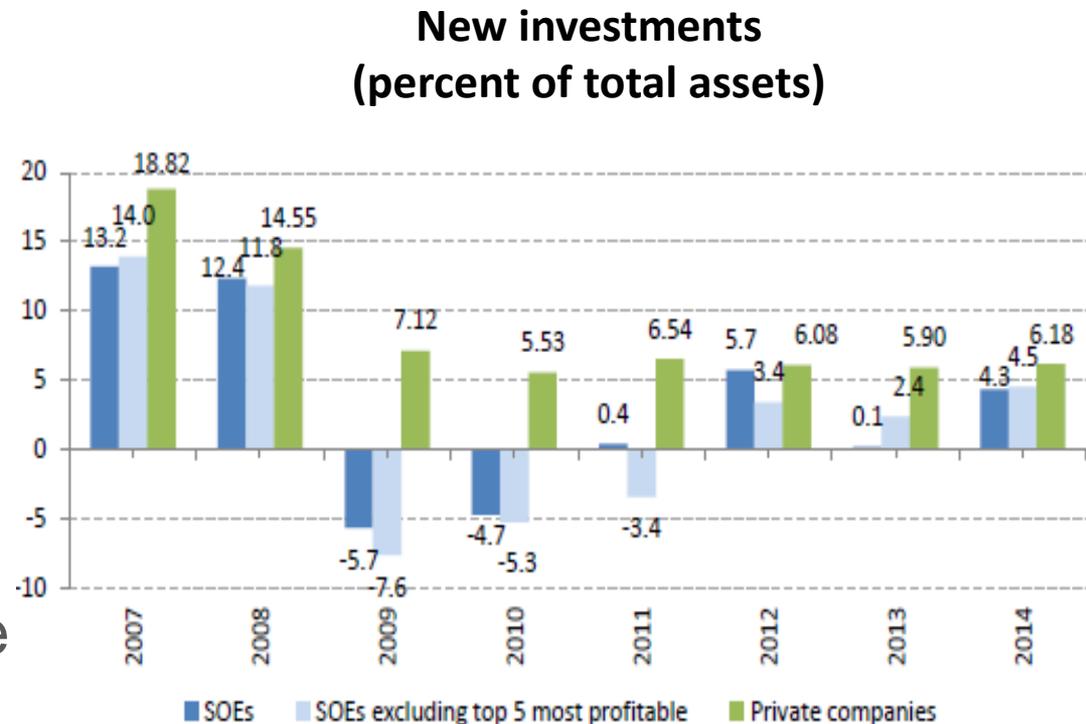
- SOEs recorded **losses in 4 of last 8 years** – with profits concentrated in 5 largest SOEs
- *“Removing [top 5]points out losses across all other state companies”* (Fiscal Council)
- **21 percent of arrears** in economy (3.7 percent of GDP)
- Variable impact on the budget –also quasi fiscal transfers, guarantees and other contingent liabilities



Source: Fiscal Council Report 2014

Need for investment is more pronounced in SOEs

- Share of new investments in total assets has increased
- Value remains lower than in private companies
- New investments were mainly self-financed due to deleveraging
- Not just concentrated in top 5 SOEs



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Note: $ROA(\%) = \text{Net income} / \text{Total assets}$

Corporate and Financial Governance of SOEs in Romania

Achievements and Perspectives

Enhancing corporate and financial governance

- Financial performance is very unevenly distributed among SOEs
- Improvement of SOEs' performance supported by legislative reforms (*Emergency Ordinance no. 109/2011*) to strengthen corporate governance of public enterprises
 - MOF to develop a system to assess performance of SOEs and line ministry oversight
 - Ordinance aimed at depoliticizing and professionalizing the management of SOEs (though compliance is mixed)
 - Changes in the selection, appointment and functioning of the Board of Directors and managers
 - Increasing transparency and providing information in order to make the public companies more responsible
 - Entry in liquidation procedure of the National Coal Company and Termoelectrica

Three-pronged approach to reform

1. Proposed SOE law would tighten the professional criteria of Board and management appointees and give legal responsibility to the MOPF to supervise implementation
2. Enhancing the transparency and VFM of SOE operations
 - Moving to market price agreements, clearing arrears, publishing financial statements and addressing audit qualifications
3. Measures to improve the pricing framework and efficiency of the energy and transportation sectors
 - Roadmap to deregulate prices for consumers and corporate customers

Key factors going forward

- Approve and fully implement provisions of the proposed new SOE legislation (focus on compliance)
- Build the capacity of the MoPF to monitor SOE performance
- Restructure loss-making SOEs, with insolvency or liquidation to improve resource allocation
- Clearly separate functions of ownership, policy, governance, and monitoring
- Continue the energy market deregulation
- Reignite the IPO and privatization agenda
- Assess SOEs performance against clearly set targets and performance indicators and report transparently (follow up on audit recommendations)

Thank you



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