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BUILDING SOE

CRISIS MANAGEMENT AND RESILIENCE

Emerging Practices and Lessons Learned
during the COVID-19 Crisis

The *Building SOE Crisis Management and Resilience* Note is one of a series produced by the World Bank's Governance Global Practice to help client countries address the impact of the COVID-19 pandemic on their economies and governance structures. Addressed to central governments and the management of individual state-owned enterprises (SOEs), this Note analyses the implications of the COVID-19 crisis for the public sector and provides guidance on how governments and SOEs could use this crisis to build or strengthen their crisis response systems. Suggested measures involve calibrating risks and introducing proper risk management systems, ensuring business continuity and resilience in emergency situations, as well as supporting the ability of public enterprises to bounce back in the post-crisis environment. This Note draws on existing World Bank analysis of emerging global trends in governments' COVID-19 response measures as pertains to SOEs. It includes practical recommendations that can be considered for implementation by governments and by individual SOEs. In addition, the Note lists examples of policy measures that could potentially be supported through the World Bank's budget support operations.

A government's primary task during a crisis is to ensure uninterrupted supply of essential goods and services to citizens, particularly to vulnerable groups. Crisis adds pressure to review and improve supply chains, particularly for the critical goods and services in question. In developing countries, SOEs are often at the forefront of these priority services, therefore, both governments and SOEs should consider the emerging risks to plan for an uninterrupted production and delivery cycle. To build resilience and prepare for crisis situations, they should work hand in hand to reconsider spending and investment priorities and adjust labor management practices to the crisis conditions. Moreover, SOEs should augment their performance reporting to track, analyze, and report their emergency spending and disclose information about their operations and crisis response to the government and the public. To avoid soft budgeting, governments may consider creating dedicated budget allocation for temporary and special public policy assignments.

The COVID-19 pandemic has emphasized the urgency of SOE reforms and encouraged political consensus that should be used to rethink and revise SOEs. This Note offers sequenced suggestions on what governments can do to ensure a rapid and targeted crisis response and considers measures that SOEs can enact to better respond to a crisis. The measures proposed in the Note are grouped into two categories: (i) reforms that could be considered and implemented at the central government level to equip their systems, calibrate risks, and instill controls over SOEs in a large scale crisis; and (ii) reforms that could be implemented by individual entities to build up their risk management systems and ensure business continuity and resilience in emergency situations. These measures can be introduced in their entirety, or in stages, as they aim towards a stronger crisis response.

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1 This Note was prepared by Governance GP Team consisting of Natalia Manuilova (Senior Financial Management Specialist), Ruxandra Burdescu (Senior Public Sector Specialist), and Anna Bilous (Governance Consultant). The Note benefited from guidance of the SOE Corporate Governance Global Solutions Group, led by Henri Fortin (Lead Financial Management Specialist), and including Andrei Busuioc (Senior Financial Management Specialist), Kjetil Hansen (Senior Public Sector Specialist), Saw Young Min (Senior Governance Specialist), and Fabian Seiderer (Lead Public Sector Specialist). The team thanks peer reviewers for their contributions: James A. Brumby (Senior Adviser), Catalin Pauna (Senior Economist) and Sarah Cuttaree (Senior Operations Officer, IFC).

The COVID-19 outbreak put the entire public sector, including SOEs, under extraordinary stress. Public institutions were at the frontline of managing the crisis in terms of health care provision, and maintaining public services under lockdown conditions. Simultaneously, public finances came under pressure due to emergency expenditure, decreasing tax revenues, and fiscal stimulus and social programs. Additionally, just as in the entire labor market, public officials and civil servants needed to work at reduced capacity due to sick leave and social distancing measures. Governments needed to deliver more with less, under unusually high public expectations and scrutiny. While the health sector and its institutional apparatus were at the frontline of responding to the outbreak, public institutions at all levels of government played a crucial role in efficient crisis response. Coordinated efforts were required from all actors - the core of government institutions; ministries of finance and economy; relevant line ministries; local authorities; key service delivery agencies and SOEs: power and water suppliers; public transport; medication and medical supplies manufacturers, health providers and laboratories, telecom providers, education systems, etc.

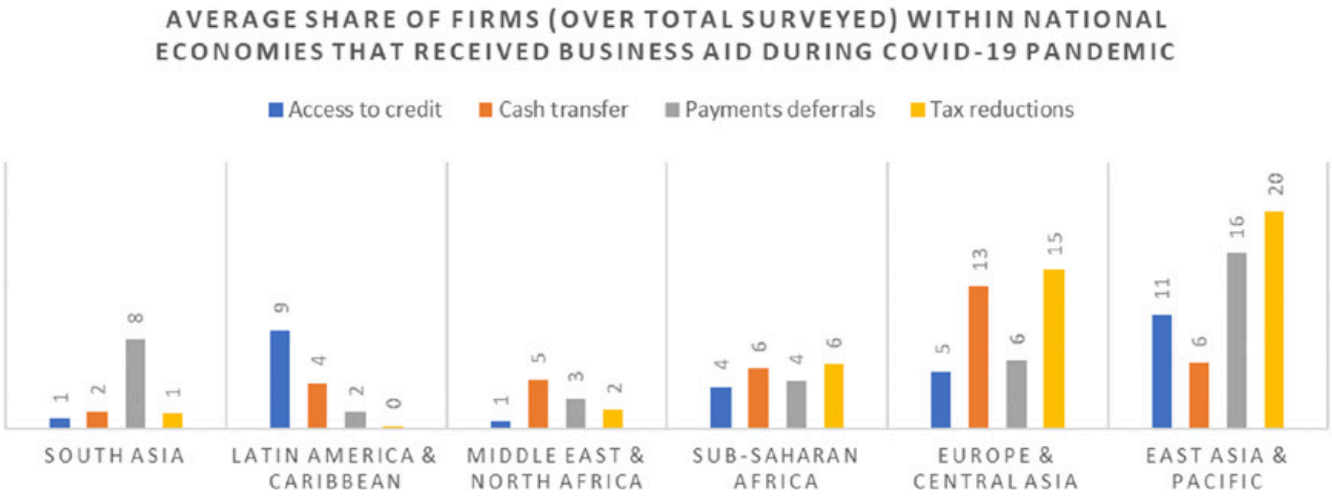
SOEs played a critical role before the COVID-19 pandemic and will continue to do so in the post-pandemic world. Globally, SOEs have been among the largest and fastest expanding multinational companies in the past two decades. In the last 10 years, an IMF study found that SOEs have doubled in importance among the world's largest corporations: at US$45 trillion, their assets are now 50% of the total global GDP.[2] Severe problems in SOEs contribute to economic slowdowns or recessions including through the need for large bailouts from the government, such as witnessed during the COVID-19 pandemic.

SOEs played a role in meeting the needs for medical supplies during the pandemic. When regular supply chains are interrupted or export bans for key goods are introduced, governments can engage SOEs to provide medical products or services. For example, in the midst of the COVID-19 emergency response, Indonesia and Brazil requested their state-owned aircraft manufacturer to produce ventilator prototypes. China provided corporate income tax and value-added tax incentives to companies engaged in producing medical supplies while also turning its SOEs to mask manufacturing.[3] Similar dynamics have been observed across developed countries. The aircraft manufacturing industry, having a strong state presence in terms of ownership and/ or indirect support, stepped up to deliver medical supplies during the pandemic, with companies such as Boeing and Airbus taking on medical supply functions. In parallel, there is an open conversation on ways in which states can support companies that rise up to the current challenges and assist in delivering the necessary solutions in the time of the pandemic.[4]

The COVID-19 outbreak strained the pre-crisis economic models and exacerbated pre-existing SOE challenges. The pandemic and the related containment measures put companies around the world in financial difficulty. SOEs were no exception. They had already faced challenges before the pandemic related to poor ownership, governance, and oversight mechanisms. In many developing countries, especially in low income and fragile and conflict affected countries, SOEs had operated with insufficient funding and inadequate infrastructure for many years. Merged with political interests, SOEs have long been used by officials, politicians, or vested interests to circumvent the government budget or to reward political backers with access to resources, contracts, cheap credit, or jobs. The risk is that these practices will only grow in post-COVID times, unless explicitly addressed by the governments.

2 https://blogs.imf.org/2020/05/07/state-owned-enterprises-in-the-time-of-covid-19/
3 https://blogs.worldbank.org/psd/state-owned-enterprises-and-covid-19
4 Financial Times: "Covid-19 is a chance to end row over aircraft aid" (Oct 14, 2020), France24: "France pledges 15 billion euros in aid for aviation sector" (Sept 5, 2020)

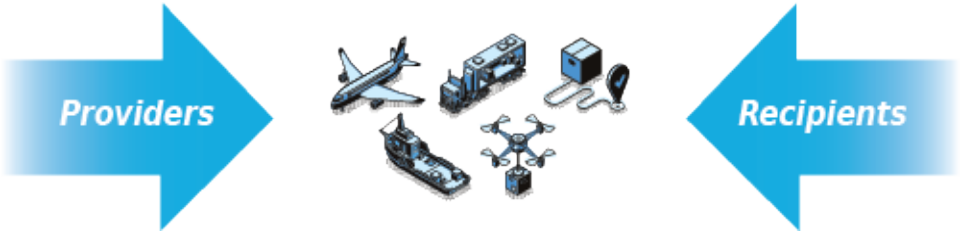
COVID-19 challenges forced governments to design support packages to stimulate business activity, but access to aid varies across regions and countries. The World Bank designed Business Pulse Surveys to estimate the impact of COVID-19 and the state support measures for all types of companies in the wake of the pandemic. These demonstrated the vast negative impact of the pandemic: from October 2020 to January 2021, companies declared that on average monthly sales decreased by over 20% compared to the previous year, a quarter of surveyed companies saw their sales fall by 50%, with 65% of businesses adjusting payroll by reducing hours, wages, or granting leave. Companies were asked whether they received help and what kind of policies reached them. The findings are summarized in the table below show the percentage of firms that declared receiving support in a form of access to credit, cash transfers, payment deferrals, and/or wage subsidies. The survey results demonstrate that policy interventions were not universally available in all countries, while some regions providing more support to companies than others. Countries with higher fiscal pressures could not afford to launch broad-based support programs, and/or failed to reach the firms in need. For instance, on average a total of 64% of companies were supported in East Asia and 62% of companies in Europe and Central Asia, compared to only 13% in South Asia. Moreover, the business aid often suffered from access inefficiencies and failed to target the companies that were affected by the pandemic.



In the context of growing state aid and COVID-linked interventions, such support should not come without additional scrutiny of the funds provided to firms and to SOEs. As companies published their 2020 financial results, the impact of the pandemic became clearer and it is now expected that many more companies—private and state-owned—will require additional state support. The COVID-19 interventions to SOEs make it a good time for governments to increase scrutiny of their performance; demanding more accountability, examine the quality of SOEs corporate governance, and determine the extent to which SOEs impact the competition field for their private competitors. Where the quality of SOE governance practices lags behind international good practice, closer alignment with the Organisation for Economic Co-operation and Development (OECD) Guidelines on Corporate Governance of SOEs (2015),[5] could help improve their effectiveness and strengthen oversight of the use of public resources, in particular in countries with high state ownership.

5 https://www.oecd.org/corporate/guidelines-corporate-governance-soes.htm

During a crisis, governments utilize all measures at their disposal to contain its impact and limit the loss of human life and its effect on the economy. SOEs are one of the vehicles employed in crisis response measures. As demonstrated by the COVID-19 pandemic response in different countries, SOEs were on both sides of crisis measures—as providers and as receivers of response measures in two major directions:



As providers of crisis response measures, SOEs are exposed to additional operational and financial stress in ensuring uninterrupted public service delivery under circumstances for which they are not necessarily equipped. As SOEs are in most cases critical for the provision of basic services to citizens, they were expected to step in and secure continued provision of such services while dealing with restrictive measures for their employees and other providers. They were also called to respond to the emergency following government decisions waiving users from paying their debts or even by waiving basic service fees and tariffs during the emergency, posing significant financial distress on SOEs. Those SOEs that are engaged in manufacturing medical supplies and medications were called to significantly increase their production, as illustrated by Box 1. The consequences of inadequate management of emergency policies related to SOEs could result in significant deterioration of their financial standing, additional fiscal pressures, increased fiscal risks, and the inability to secure continuity in basic services delivery.

Box 1: SOEs as vehicles for crisis response

Across many regions, governments took immediate crisis response measures focused on vulnerable households, these included delaying or easing payments to public utilities while supporting the SOEs to provide essential services. Several countries in ECA and LAC have deferred utility payments for customers affected by COVID-19. For these SOEs, liquidity may become an issue during the crisis, and post-crisis fiscal concerns will only be exacerbated. For example, in El Salvador the Government allowed a 3-month deferral of utility payments without having utilities cut off and approved a one-time US$ 300 subsidy to approximately 75 percent of all households in the country. In Panama, the Government announced in March 2020 that people who had lost their jobs would not pay utilities or face internet cuts for the next three months. In Colombia, free water access was provided for over 1 million people who did not have access because of lack of payments. In-kind support, in the form of utility waivers, was a widespread measure across Southern Europe and Balkan region countries. In Albania, Bosnia and Herzegovina, North Macedonia, and Serbia, governments provided utility bill waivers to some groups of the population. In Serbia, where public-ly-owned Elektroprivreda Srbije is the main producer of electricity, all citizens were granted deferral of the payment of energy bills without surcharges (ILO 2020).

In Africa, where access to critical infrastructure is often problematic, countries were under a lot of pressure to control the supply of water, energy, and sanitation. Fluctuating commodity prices affected the region during the pandemic. As a result, oil ex-porting countries such as Nigeria and Angola experienced increased fiscal pressures due to falling oil prices as most countries reduced business activity. Against this backdrop, it was important to ensure energy access for health and sanitation purposes, and among the vulnerable and the poor. SOEs played an important role in stabilizing the situation. For instance, in both Nigeria and Angola the governments negotiated with utility companies not to shut-off energy supply due to non-payment and intro-duce more flexible payment plans. Angola also postponed electricity and water bills in the first months of the pandemic, how-ever users had to repay after a two-month grace period (AllAfrica 2020). Other countries in the region designed interventions to ensure energy access, such as full cost suspension or absorption of energy payments (Ghana, Liberia, Mali, Niger, and Nigeria), subsidy or reduction of electricity costs (Uganda, Burkina Faso, Ghana), and more incentives for renewables (Nigeria, Burkina Faso, and Kenya) (Akrofi and Antwi 2020).

This application of multiple and diverse response measures emphasizes the importance of having adequate monitoring and oversight tools in place to facilitate Ministries of Finance's role during and, even more so, post-crisis.

As recipients of government support during crisis times, SOEs are becoming a major channel for budget support measures to prevent systemic economic collapse and also for post-crisis recovery. As evidenced by the COVID-19 response during 2020, governments utilized a vast array of measures aimed at supporting failing companies. Support measures included broad tax relief, crisis related subsidies, grants, preferential loans, and loan guarantees.[6] In high-income countries, fiscal stimulus reached 10% of GDP or more, with around 40% going to supporting firms, while in countries with more limited fiscal space, governments allocated between 1% and 3% of GDP to this purpose, about 24% of which was to support businesses.[7] Examples include massive financial support provided to airline carriers in Italy and the Nordic countries and the French automotive industry.[8] Based on a sample of 482 COVID-19 related aid packages approved across five continents (as of July 2020), state aid totaled around US$7 trillion. About half of state aid schemes provided support for cross-cutting objectives to all types of firms. About 37% targeted micro-, small-and medium-sized enterprises (MSMEs), and 9.5% targeted large enterprises. Finally, 4.6% targeted support to SOEs. Close to half of the support aimed to help at least one sector, e.g. air transport, agriculture, health, and tourism (Subsidy and State Aid Tracker).[9]

One of the most impacted sectors with high state ownership is the aviation industry, which was severely hit by the pandemic and is among the most supported by governments around the world. The aviation sector required over US$166 billion globally to keep the industry afloat.[10] Positive news about vaccine availability generated optimistic recovery plans. However, delays in vaccine production and its roll out might result in half of the global narrow-body fleet and 59% of the wide-body aircraft grounded during 2021, according to the International Civil Aviation Organization. The example of New Zealand (see Box 2) and many other countries (Annex 2) illustrate the importance of airline SOEs and the magnitude of their distress during the pandemic.

Box 2: Air New Zealand During the Ongoing Pandemic

Air New Zealand—flagship carrier of New Zealand—is one of the key SOEs in the country with 52% of government ownership. The company is a strategically important SOE, given its key role in supporting export industries, international tourism, and the domestic travel network. In March 2020, the Government provided NZD $900 million Covid-19 support loan and additional NZD $117 million in Covid-19 wage subsidies, while its international operation was subsidized by the government. Despite this sizeable support, the company declared statutory losses of NZD $87 million for 2020, first time in two decades.

Amid this difficult and loss-making year, the remuneration of the company's senior management has caught public attention in New Zealand and beyond, exposing an ethical dilemma that became apparent during the pandemic. As SOEs are of national strategic value, they received larger state support and benefited from injections of taxpayers' money. The workers were "investing" in keeping the company afloat by absorbing considerable job cuts as well as a compensation benefit freeze adopted in 2020-21. However, senior management received bonuses based on the Company's share value. As the SOE is expected to adhere to a higher ethical standard this issue was debated as one bridging public trust. In response, Air New Zealand's Board of Directors maintained that financial incentives for senior management is a priority during a crisis to ensure the Company's smooth recovery, but agreed to a temporary reduction in their compensation, which was reflected in their appointment letters.

This situation provides a useful illustration on how public opinion is an important regulator of SOEs' behavior and public accountability in challenging times.

6 OECD: COVID policy tracker (2020-2021)

7 World Bank, Cirera et al, 2021: *Policies to Support Businesses through the COVID-19 Shock A Firm-Level Perspective,* World Bank Working Paper Series, Policy Research Working Paper 9506.

8 https://www.oecd.org/coronavirus/policy-responses/the-covid-19-crisis-and-state-ownership-in-the-economy-issues-and-policy-considerations-ce417c46/

9 https://blogs.worldbank.org/psd/state-owned-enterprises-and-covid-19

10 World Bank: Airline Viability Assessment (Ruxandra Brutaru, 2021)

In sectors such as aviation, where many state-owned carriers operate, insolvencies would not only disrupt service delivery, but also involve massive job losses. As a result, many governments invoked support measures to keep the airline companies in business. Based on a sample of 69 air transport subsidy and state aid schemes in 33 countries to date by the Subsidy and State Aid Tracker (SSAT), most (72.5%) support private firms or are open to both SOEs and private companies, while around 27.5% of them target SOEs only. The majority of specific SOE support measures were aimed at the air transport sector (see Annex 2), SSAT had no records of state support targeting SOEs in manufacturing, oil and gas, or agriculture. Beyond financial support, some SOEs also benefitted from competition law exemptions, notably in air transport.[11]

In the healthcare sector, the role of SOEs is being reassessed to learn from the COVID-19 experience. The role of states in streamlining vaccine development, production, and distribution has been extraordinary. With as many as 14 billion doses of vaccine needed to immunize the world's population, the first World Health Organisation-approved vaccines have ties to publicly-funded research institutions: Pfizer and BioNTech's Moderna vaccine was developed in part thanks to fundamental discoveries at the US National Institutes of Health and the University of Pennsylvania, and the AstraZeneca vaccine benefited from links to the University of Oxford. The importance of research and development investments in public health sectors seems as evident as ever. Moreover, the supply chain and delivery of medical goods and services can benefit from some targeted state involvement in a time of crisis. Finally, the pandemic exacerbated questions as to the equitable distribution of medication and other healthcare-related provisions, and the dominance of a few global pharma companies and healthcare equipment manufacturers. The industry has seen calls to increase the domestic manufacturing of active pharmaceutical ingredients[12] and improve resilience of healthcare sectors domestically.

In emergency situations and long lasting crises, such as the COVID-19 pandemic, it should be a matter of priority for governments to ensure citizens' access to critical resources and services, such as water, energy and healthcare. It is paramount to negotiate with providers for the delivery of these critical health and infrastructure services to the population. In doing so, governments should be selective with their help to SOEs and avoid across-the-board subsidies. A crisis can be a good catalyst to restructure existing support programs, acknowledging changes in public service needs. SOEs should be mandated to provide enhanced financial planning and reporting to control fiscal risks and supply rapid-response information to governments on areas such as anti-corruption monitoring and enforcement, performance evaluation, and increased accountability and transparency, for instance by requiring SOEs to submit consolidated reporting of all the support provided to them from different sources. In the post-crisis period, governments should re-evaluate the position of SOEs in the market, estimate the impact of SOE support, and ensure the continuation of a clear state ownership rationale and divest if needed. Moreover, the government should work to build sector resilience by reducing information asymmetry, tracking SOE performance, subjecting SOEs to ex-ante and debt controls, and reducing discretion to issue debt and invest in large capital projects.

Temporary crisis support measures may be effective for those SOEs that were profitable before the crisis, for others long term solutions might be considered. While certain financial measures, such as temporary loans, subsidies, or tax relief can support struggling SOEs in the short-term, their long term sustainability should be carefully assessed. According to the IMF,[13] when a SOE is profitable before the crisis, it is expected to remain so once the crisis subsides. In other cases, SOEs should also be able to sell non-core assets or postpone investments to sustain liquidity. Dividends or royalty payments to governments could be temporarily reduced or delayed and when these possibilities are exhausted, government intervention is warranted.

11 https://blogs.worldbank.org/psd/state-owned-enterprises-and-covid-19
12 Mayo Clinic Proceedings, 2020. Medication Shortages During the COVID-19 Crisis https://www.mayoclinicproceedings.org/article/S0025-6196(20)30320-7/abstract
13 IMF: COVID notes, SOEs in Sub-Saharan Africa (2021)

The COVID-19 crisis had put additional stress on countries' institutions and finances, but it also pushed countries to re-evaluate the role of SOEs and implement necessary reforms. Several governments around the world have initiated reforms aimed to reduce the SOE sector size and impact, introduce measures to track fiscal support channeled to or via SOEs, strengthen financial oversight and audit arrangements, and enforce governance practices.

The pandemic will most likely result in increased state ownership or control of more enterprises. This may take place through various financial interventions, including equity buy-outs, debt-equity swaps, equity injections, the granting of state loans eventually converted into equity, and uncompensated expropriations. Increasing state ownership in times of crisis is often done as an emergency measure, leaving little time for a careful economic assessment. Naturally, countries with stronger standards and practices of SOE governance are better prepared to anticipate and address the implications of such government intervention, while those that lack important safeguards may incur high costs. Implementation and enforcement of good corporate governance standards for SOEs, as well as learning from previous nationalizations, provide reflections and guidance on the multitude of ways to design interventions and prepare the subsequent exit from such SOEs later.

The key reform areas targeted during the crisis concern SOEs fiscal discipline, financial accountability, and corporate governance architecture. Corporate governance reforms typically include clarifying SOE mandates and objectives, improving legal and regulatory frameworks, professionalizing SOE boards and management, instilling financial sustainability of SOEs, and enhancing their transparency and public accountability. During the pandemic, SOEs' important social functions and allocation of significant funding have increased the pressures for reform, including tighter fiscal controls and improved governance of the SOEs.

Crisis adds urgency and provides a momentum for political consensus on SOE reforms. Governments and SOEs must seek to learn from the COVID-19 pandemic to improve crisis management and prepare themselves for potential future crises. The below measures are grouped into two categories: (i) reforms that could be considered and implemented at the central government level to equip their systems, calibrate risks, and instill controls over SOEs for large scale crisis; and (ii) reforms that could be implemented by individual entities to build up their risk management systems and ensure business continuity and resilience to emergency situations.

What governments can do...

1. Ensure that people have access to crucial resources such as water, energy, and healthcare: Infrastructure is equally important both to address ongoing challenges of the COVID-19 pandemic and to create an enabling environment for dealing with the pandemic and future economic recovery. Uninterrupted access to and provision of water and energy is a necessity. Equally, strengthening healthcare sector and assisting with resource provision is an important function of the state in the time of crisis. Governments should negotiate with critical infrastructure companies to ensure that basic needs are met, and design flexible and targeted support measures to ensure that the imposed pressures on the companies are not counterproductive. Government aid can include emergency financial support as well as specific assistance, for example utility staff testing, creating protective environments, providing sanitizing materials and/or services.[14]

14 https://www.worldbank.org/en/news/opinion/2020/04/22/energy-access-critical-to-overcoming-covid-19-in-africa

2. **Review subsidy programs:** Depending on the sector and nature of goods and services produced by SOEs, diverse incentive and subsidy systems are typically in place in most critical sectors of a country's economy. In times of emergency, governments can expand those subsidies and waivers to benefit affected citizens and businesses. To the extent possible, subsidy programs should avoid across-the-board or "blanket" modalities or supply-based programs. Rather, subsidy programs could be implemented in a more targeted way and be user-based. Cash transfer and social programs models and registries could be easily adapted to reach the most vulnerable. Additionally, crisis also gives a push to review existing subsidy programs.[15] For instance, fuel subsidies were administered in 44 countries as of 2019.[16] Their potential negative long-term impact on climate, governance, and corruption suggests that governments should restructure their support. Given the additional fiscal strains, governments should concentrate on making their subsidy programs more targeted and efficient.[17]

3. **Assess and plan for fiscal implications of SOEs:** In order to manage the SOE related fiscal impacts, SOEs should be mandated to establish special purpose financial planning and reporting mechanisms to identify and separate emergency related expenses and arrears. This allows central governments to make decisions on support required by SOEs as well as to include additional expenses into fiscal emergency and recovery packages to be centrally implemented. When assessing SOEs' fiscal implications, for example, pre-COVID-19 financial health and performance of SOEs should be taken into account to provide a better understanding and control of the risks. If a given SOE showed negative dynamics before the pandemic, reasons for this should be clearly identified and additional risks controlled before providing any form of support. Including SOEs in the budget and debt targets would also create greater incentives for fiscal discipline.

4. **Strengthen SOEs anti-corruption monitoring and enforcement:** SOEs face similar corruption risks as private companies, but the risks are compounded by the scale of assets they control, the considerable value of public contracts they award, and most of all their proximity to governments and politics.[18] During the pandemic, corruption risks may arise from traditional and also new sources. SOEs usually enjoy monopoly or quasi-monopoly rights that provide a privileged position in relation to the government. In the pandemic context, this privileged position may put certain SOEs in a position to secure "sweet deals" when bailouts are being decided and funds are limited. SOE procurement is especially vulnerable to corruption and collusion.[19] Full transparency in SOE activities and creating channels to denounce fraud and abuses are paramount to improve accountability and reduce corruption.

15 In Nigeria, where fossil fuel subsidies were present for decades, the Government has recently decided to put an end to this practice.
16 https://www.brookings.edu/blog/up-front/2021/02/25/seizing-opportunities-for-fuel-subsidy-reform/
17 https://www.imf.org/~/media/Files/Publications/covid19-special-notes/enspecial-series-on-covid19the-time-is-right-reforming-fuel-product-pricing-under-low-oil-prices.ashx?la=en
18 World Bank: GRAC (Sunita Kikeri, Ruxandra Burdescu, 2020)
19 Id.

5. **Introduce performance evaluation systems:** In addition to introducing a code of corporate governance and clear ownership policies in line with the OECD Guidelines, expectations from the performance of SOEs must be clarified and set. Performance standards can be set out in a performance agreement or memorandum of understanding, documenting high-level indicators, commercial and non-commercial or public policy objectives. Such measures can include: (i) performance indicators for commercial and non-commercial or public policy objectives, with criterion values, targets in line with industry standards, and relative weights allowing for the calculation of a single composite score; (ii) performance information system linking evaluation to a performance incentive system; (iii) broad, transparent, and timely external reporting of results on shareholder and societal returns for all stakeholders.[20] Countries such as South Korea, New Zealand, and Sweden provide good examples of setting up detailed performance evaluation systems and their public communication.

6. **Demand increased accountability and transparency:** Governments can consider specifying extraordinary audit and supervision provisions for SOEs at times of crisis. Governments may also require SOEs to publish financial statements and a list of all support given to various beneficiaries.[21] Any support provided to SOEs should be approved by parliament and reported in budget documents (including below-the-line operations, use of extrabudgetary funds, or contingent liabilities).[22] Where support is provided to SOEs in response to the crisis, beneficiary SOEs have to be subject to enhanced monitoring and oversight in the short term. A list of measures for government consideration can include: (i) development of expenditure tracking systems (including and beyond e-procurement platforms) so that everyone, including civil society and the general public, can track the use of funds in a transparent manner; (ii) frequent publication and dissemination of reports on public expenditure, including those of SOEs; (iii) creation of channels to report fraud and abuses; (iv) uninterrupted provision of essential services to citizens and the most vulnerable (especially in sectors like water, energy, telecoms, utilities, etc.); (v) roll out or expansion of GovTech tools for service delivery (client access to information, services, payments, etc.) and investment in digitalization post-crisis in those countries that lag behind.

20 https://blogs.worldbank.org/governance/time-rethink-state-owned-enterprise-soe-performance-trade-offs
21 https://blogs.worldbank.org/psd/state-owned-enterprises-and-covid-19
22 https://www.imf.org/~/media/Files/Publications/covid19-special-notes/enspecial-series-on-covid19government-support-to-stateowned-enterprises-options-for-subsaharan-afric.ashx

7. **Reduce SOEs' impact on the economy through improved corporate governance, restructuring, privatization, and private sector collaboration:** Corporate governance reforms have been and will continue to be significant for building better run SOEs. The crisis and its implications make the case to strengthen even more pressing. Some SOEs, faced with massive fiscal and financial challenges, will need Government funding and additional measures such as restructuring or privatization. In other cases, the Government may need to proceed with nationalization[23] of key private sector companies in need of assistance, such as the airline companies. The evidence shows that well run privatization or public-private partnerships have brought big gains for many SOEs, in both competitive and non-competitive sectors, with respect to efficiency, transparency and accountability, and integrity. Gains come if the authorities ensure that the privatization process is done transparently and correctly and it is tailored to local conditions. Where privatization or private sector participation is not possible, SOEs should be encouraged to access capital markets for partial listings and adhere to respective capital market discipline.[24]

8. **Estimate longer-term impact of SOEs' support on market dynamics:** Protecting public interest and maintaining economic stability are the main priorities of the immediate crisis response. However, in the mid- to long-term, firm competitiveness and consumer welfare require competitive and contestable markets to be preserved. As the economy recovers post-crisis, channeling state resources to SOEs can increase the risk of a subsequent financial crisis and delay the recovery. It is also critical to ensure that state aid should not be made available to firms that were failing or had structural issues before the crisis. That is why it is important to draw a distinction between firms whose difficulties stem exclusively from general market conditions caused by the crisis and those that are in distress because of endogenous reasons linked to their business models or practices, notably in competitive sectors.[25]

9. **Provide a clear rationale for state ownership to streamline continued ownership or to facilitate future divestment:** Governments should aim to indicate and disclose clear and transparent reasons for owning companies. Such ownership policy is recommended by the OECD[26] to explain to the public the reasons for continued ownership and expectations of SOEs, including in delivering public policy objectives, and indicate the circumstances in which the government would consider selling its share in the SOE. While the COVID-19 pandemic provides ample justifications for increasing state presence across multiple sectors, countries should make plans to divest such assets in future and establish/maintain reviews of state property rationale and privatization readiness plans. Examples of such institutionalized practices exist in Germany,[27] the Netherlands, and Norway.[28] This could minimize costs of increasing state presence in the economy and allow designing flexible exit strategies in advance.

10. **Post-COVID, tackle structural problems and build sector resilience to be able to confront a prolonged or recurrent crisis** Some of the most critical policy recommendations are: (i) improve transparency and disclosure framework of SOEs to address information asymmetry; (ii) use scorecards that track the performance of SOEs against benchmarks among peers in the country, in the region, or OECD; (iii) subject SOEs to ex-ante controls and debt controls; (iv) reduce the discretion of SOEs to issue debt and undertake large capital projects;[29] and (v) regu-larly review if an SOE is still necessary and whether it delivers value for taxpayers' money.

23 Lessons from past nationalizations, in particular from sectors such as air transport and the automotive industry, combined with evidence on the impact of good governance of SOEs, can provide guidance on how best to design these interventions and prepare in advance for exiting from them. See OECD.
24 World Bank: GRAC, forthcoming publication in 2020 (Sunita Kikeri, Ruxandra Burdescu)
25 https://blogs.worldbank.org/psd/state-owned-enterprises-and-covid-19
26 OECD: Guidelines on Corporate Governance of State-Owned Enterprises (2015)
27 OECD: State-Owned Enterprise Governance: A Stocktaking of Government Rationales for Enterprise Ownership (2015)
28 OECD: A Policy Maker's Guide to Privatization, Corporate Governance (2019)
29 https://blogs.iadb.org/gestion-fiscal/en/solving-the-state-owned-enterprises-puzzle-in-latin-america-and-the-caribbean/

What SOEs can do...

1. **Ensure uninterrupted supply of essential goods and services for citizens, especially the most vulnerable.** Key utility SOEs need to assure provision of essential services to the population in general and especially to the most vulnerable (in key sectors like water, energy, telecoms, transport, and beyond), while managing important and increasing fiscal constraints. For example, several countries have deferred utility payments for those affected by COVID-19. Among other options, introduction of flexible payment plans can be used to provide the necessary relief for those affected by the crisis. For these SOEs, liquidity may become an issue during the crisis and post-crisis fiscal concerns will only be exacerbated. This situation emphasizes the importance of having adequate monitoring and oversight tools in place to facilitate ministries of finance's role during and post-crisis. Good practice examples: introduction of key performance indicators in Malaysia, monitoring tools in the Caribbean (Grenada, SVG, St. Lucia) and ECA (Lithuania, Kazakhstan).

2. **Review and build scenarios to secure supply chains for critical goods and services in advance:** To address the immediate crisis and prepare for the future, SOEs need to secure their alternative supply chains in case of crisis and interruption of regular goods and services flows. For example, if SOEs are medical producers, they need to build alternative supply chains to ensure uninterrupted production cycles. Other SOEs engaged in critical goods production (bread, basic foods, fuel) and service providers need to include their crisis response measures into the crisis management plans of the government. This can be done in coordination with the central government crisis councils to ensure that countries have their critical needs met and all necessary supplies for production of critical goods stocked up.

3. **Plan for potential reprioritization of spending and investment:** Emergency and crisis situations typically lead to unforeseen or unbudgeted payments. SOEs need to develop a crisis response plan to identify categories of emergency expenses and categories of expenditures that should be delayed until after the crisis. These plans should remain flexible and be conducted with managerial and board approval in a transparent manner. Such spending or investment reprioritization would create space for emergency payments and minimize liquidity constraints under crisis circumstances.

4. **Rethink labor management:** SOEs should be encouraged to develop specific plans for their work force considering the extraordinary circumstances. Plans should include adoption of flexible work arrangements, continuity of labor related benefits, and special treatment to short-term employees and contractors and others. Each of these measures should be costed and included in the financial reports to be shared with central government authorities. For critical industries (i.e. SOEs manufacturing medical supplies, medicines, basic food, power, and water companies), companies need to ensure proper access to working facilities in the absence of public transportation, and necessary disinfection measures to ensure the safety of their workers.

5. **Augment the dedicated financial reports and processes to include emergency measures to increase accountability:** This measure would allow the SOE to track, analyze, and report their emergency spending in a clear and transparent manner. Dedicating specific lines in accounting and financial reporting would expedite the internal approval process, allow the SOEs to monitor their crisis response measures and timely report to the governments and parliaments.

6. **Increase transparency via public communication and information disclosure:** SOEs may consider developing a special crisis response communication campaign that would allow them to regularly update the government and the public about their crisis response measures, state aid received, and spending incurred. By raising their communication effort and disclosing information timely, SOEs would allow proactive monitoring of their activities and provide assurance to the public that the crisis is well managed and respective measure are properly implemented.

7. **SOEs should address fiscal and financial consequences, including the tightening of credit conditions and liquidity crunch:** From a policy stance, key utilities need to operate in a business as usual scenario in an overall environment that is anything but. Fiscal and financial considerations will be key for all SOEs and even more so for those with pre-existing challenges. With debt at record levels in many countries, the tight interlinkages between sovereigns, banks, and the SOE sector will be affected by the consequences of the pandemic. For many countries the challenges the SOEs need to confront include: (a) restructuring existing debt in a context in which the legal and institutional framework for SOE insolvency needs further strengthening; (b) addressing liquidity pressures while not all governments have the necessary fiscal, monetary, and financial capacity to articulate liquidity facilities; and (c) asset quality deterioration that can adversely interact and lead to (individual and systemic) insolvency problems.[30] A way to avoid soft budgeting is to create a separate budget allocation for temporary and special public policy assignments, following the example of Sweden. This involves calculating the financial return target for conventional operations, to clarify the additional cost for the crisis response for reimbursement. Such support measures differ from bailout in that they are targeted at the budget gap to either avoid shutting down services or undertaking special tasks, whereas bailouts aim at ailing enterprises.[31] SOEs should prepare and regularly update their financing and borrowing plans to ensure sufficient liquidity under normal and crisis circumstances, contemplating measures for emergency funding and respective sources.

8. **Calibrate crisis management and business continuity plans:** SOEs should be mandated to prepare emergency and business continuity plans in a coordinated manner, while executives from relevant SOEs should be part of government emergency management teams. Such plans should identify specific measures and differentiate those internal to the SOE and those that require coordination with other government entities. Under crisis conditions, such plans should be adjusted to account for the specific circumstances and may include, for example, organizing a crisis response team to manage the crisis response, assigning back up responsibilities for critical operations and functions, establishing remote protocols for critical operations and functions, regularly updating off site back-ups, etc. Plans should, to the extent possible, also identify the potential financial and fiscal implications during the crisis. Plans should also pay increased attention to environmental and social aspects and embed environmental, social and governance principles in their medium and long-term strategy and reporting. The International Finance Corporation *Tip Sheet for Company Leadership On Crisis Response* is a quick reference guide for companies on how to lead the crisis response and could be a good starting point.[32]

30 WB Supporting Firm Resilience, A firms support program for COVID Phase 2 Response, 2020
31 https://blogs.worldbank.org/psd/state-owned-enterprises-and-covid-19
32 https://www.ifc.org/wps/wcm/connect/f1c08aae-7474-4224-ac3a-bd59fc98fdea/Tip+Sheet_CG_Company+Leadership_COVID19_April2020.pdf?MOD=AJPERES&CVID=n7Q.ZUI

Table: Potential development policy operation (DPO) measures for SOE crisis response

Potential Prior Action (To credit actions already taken or to be taken during emergency response phase)	Potential Trigger for Multi-Tranche Operations (To induce actions to be taken for the recovery phase)	Possible Result Indicator
The Borrower has identified the SOEs that are engaged in essential services and goods production to ensure that their operations are sufficiently funded and included in the Center of Government emergency plan. The areas to consider must include but are not be limited to: medical supplies, medications, basic foods, electricity, water, telecom, infrastructure services etc. The Borrower has issued SOE guidelines/ regulations/decree to: • ensure continuity in the provision of essential public services, critical goods, and basic foods production, including via building alternative supply chains for uninterrupted production cycle; • reduce or eliminate late fees, introduce payment rescheduling, eliminate late fee penalties, and other interim subsidy programs targeted to low-income users or those who lost income during the crisis; • authorize the increase of arrears in both revenues and payments to relieve immediate obligations to third parties in order to prioritize the use of their liquidity to counter effects of the crisis; and • record the financial situation of companies prior to the crisis and specifically identify financial operations related to the crisis (loss of income, increased expenditures, and increased arrears).	The Borrower has embedded emergency measures to support SOEs that are providers/ producers of critical good and services. The necessary funding and security measures are included in the government level business continuity plan. The Borrower has developed and approved regulations/decree to recover and strengthen SOEs, and ensure uninterrupted production following the crisis, including: • developing multiple scenarios to secure supply chains for critical goods and services expected to occur during and immediately after the crisis. • assessing the financial and operational situation of SOEs as a result of the crisis and development of recovery plans with identification of the required financial support; • setting up reporting mechanisms from SOEs to the central government and ministry of finance to properly calculate the volumes and costs of emergency measures and subsidies channeled through SOEs, to keep track of the emergency measures costs. • setting-up or strengthening SOE monitoring tools at the CoG and the ministry of finance, and streamlining collection and analysis of SOE reporting for prompt control over the budget funds and subsidies channeled via SOEs to the crisis response. • analysis of policy options to strengthen the affected SOEs, including through modalities to attract private investment; and • assessing the situation of SOE employees and developing labor management plans to support transition programs when needed.	The Borrower has identified the SOEs that are engaged in essential services and goods production to ensure that their operations are sufficiently funded and included in the Center of Government emergency plan. The areas to consider must include but are not be limited to: medical supplies, medications, basic foods, electricity, water, telecom, infrastructure services etc. The Borrower has issued SOE guidelines/ regulations/decree to: • Percentage of critical SOEs (to be defined by each country) that maintained uninterrupted critical services provision, critical goods, and basic foods production during the crisis. • Percentage (or number of users) that benefited from uninterrupted critical services. • Number of users benefiting from reduced fees and penalties from SOEs. • Percentage of SOEs arrears. • Private investment in SOEs to support recovery.

The latest report[33] from the European Bank for Reconstruction and Development (EBRD) says 45% of people in the EBRD's post-communist economies now favor higher levels of state ownership. Citizens also increasingly expect the state to be able to reduce the health and economic risks they face. Past epidemics have been shown to leave a large dent in people's trust in the economic and political institutions that underpin democracy and the market economy. The new report shows that individuals reaching adulthood during major recessions tend to have more positive views of public ownership and income redistribution. Weak institutions would allow the "grabbing" hand of the state to siphon off resources meant for people in need, give jobs to friends and family, and let state banks be used for political gain. Firms that could not operate profitably in a low-carbon economy may be kept alive as "zombie companies", and firms that are nationalized during the pandemic may never be privatized. On the other hand, good governance would allow the "caring" hand of the state to guide economies through the transition to a green economy, transparently providing essential support and adopting forward-looking policies.

Privatization, deregulation, and measures to reduce state interference in the economy were the dominant trend following the collapse of communism in the late 1980s. Since then, however, the 2008-09 global financial crisis and subsequent recession demonstrated that market forces alone will not always provide socially optimal outcomes and government intervention is needed to combat climate change and to deal with the increasing challenge of economic inequality. The new report notes that SOEs continue to play an important role in the EBRD regions, providing almost half of all public-sector employment. It says they can be a stabilizing force for economies, pro-viding employment during downturns and in disadvantaged regions. However, governments are not particularly effective in the management of state enterprises, which are likely to be less innovative than their private-sector counterparts.

State-owned banks have grown in importance across the EBRD regions since the mid-2000s and have become major competitors to the private sector, because many have less stringent lending standards, lower net interest rate margins, and a higher tolerance of non-performing loans. A willingness of state banks to assume risks can help soften the impact of economic shocks. On the downside, however, firms that borrow from the state financial sector tend to be less innovative and show weaker productivity growth. This is partly a reflection of the fact that state-owned banks may be more susceptible to political interference in their lending decisions and so channel finance away from more productive firms.

"The economies of the EBRD regions stand at a crossroads, with decisions on policies and institutions that are taken now potentially determining their paths for decades to come. The current period of crisis and upheaval triggered by the global pandemic represents a valuable opportunity to lay the foundations for a wealthier, fairer and greener future," said Beata Javorcik, EBRD Chief Economist.

33 https://www.ebrd.com/news/2020/emerging-economies-at-crossroads-as-state-role-set-to-grow-in-wake-of-covid19.html

AUSTRIA	Subordinated loans	The measure aims at supporting particularly affected entities and sectors.	The Austrian €150 million subordinated loan (convertible into a grant) in favor of Austrian Airlines AG aims at partly compensating the airline for the damages suffered due to the coronavirus outbreak. Austrian Airlines is part of the Lufthansa Group, minority owned by the government.	EUR 150 million
BARBADOS	Grants	The measure aims at supporting particularly affected entities and sectors.	Barbados approved Barbadian dollars (BBD) 3 million (US$1.5 million) for the Caribbean regional carrier LIAT (LI, Antigua). The money transferred from the country's Consolidated Fund.	BBD 3 million
BELGIUM	Multiple measures	The measures aim at ensuring that companies have sufficient liquidity to maintain their activities.	Deferral in the payment of concession fees owed by Walloon airports to the Walloon authorities. The scheme is accessible to the operators of the Charleroi and Liege airports, offering them a possibility to defer the payment of concession fees that would be due for the year 2020.	N/A
CANADA	Suspension/rebates on input costs	The measure aims at supporting particularly affected entities and sectors.	The Canadian government is waiving ground lease rents from March 2020 through to December 2020 for 21 airport authorities that pay rent to the federal government. The government also provides comparable treatment for Ports Toronto, which operates Billy Bishop Toronto City Airport and pays a charge to the federal government.	Up to CAD 331.4 million
DENMARK	State guarantees for loans	The measure aims at supporting particularly affected entities and sectors.	The support is provided as a State guarantee on a revolving credit facility in favor of SAS. Denmark will guarantee up to approximately €137 million of such revolving credit facility.	EUR 137 million
ESTONIA	Equity	The measure aims at ensuring that companies have sufficient liquidity to maintain their activities.	The Estonian government decided to increase the share capital of Nordica by EUR 30 million.	EUR 30 million
FINLAND	Equity	The measure aims at supporting particularly affected entities and sectors.	Finland participated in the rights issue launched by Finnair in June 2020. With 55.8% of the shares, the Finnish state is Finnair's largest shareholder. The total capital increase is approximately €500 million, with the State receiving rights to subscribe for new shares in an amount of €286 million, corresponding to its current shareholding level. The remaining shares were offered on the market, subject to pre-emptive subscription rights of other existing shareholders.	EUR 286 million

FRANCE	State guarantees for loans	The measure aims at ensuring that companies have sufficient liquidity to maintain their activities .	France 's support to Air France takes the form of: (i) a State guarantee on loans, and (ii) a subordinated shareholder loan to the company by the French State, totaling up to €7 billion .	EUR 7 billion
GERMANY	Multiple measures	The measures aim at supporting particularly affected entities and sectors.	Germany contributes €6 billion to Lufthansa's recapitalization, together with a €3 billion state guarantee on a loan. The recapitalization measures consist of: (i) €300 million equity participation through the subscription of new shares by the state, corresponding to 20% of Lufthansa's share capital; (ii) €4.7 billion silent participation with the features of a non-convertible equity instrument; and (iii) €1 billion silent participation with the features of a convertible debt instrument. The recapitalization is financed by the Economic Stabilization Fund (Wirtschaftsstabilisierungsfond), a special fund established by Germany in order to provide financial support to German companies affected by the coronavirus outbreak.	EUR 9 billion
LATVIA	Equity	The measure aims at supporting particularly affected entities and sectors.	The Republic of Latvia, as the major shareholder of Latvian airline airBaltic, approved equity investment of up to €250 to overcome the economic crisis caused by COVID-19. As a result, the Latvian state's shareholding will increase to 91%.	EUR 250 million
NEW ZEALAND	Subsidized loans	The measure aims at supporting particularly affected entities and sectors.	The New Zealand government is providing up to NZD 900 million dollars (US$528 million) loan to Air New Zealand. The 52% state-owned flag carrier will be able to use the money if its cash reserves fall below a certain undisclosed level over the next two years, while the government will be able to turn the loan into shares in the airline.	NZD 900 million
PORTUGAL	State guarantees for loans	The measure aims at supporting particularly affected entities and sectors.	The European Commission has approved, under EU state aid rules, €133 million in liquidity support to SATA Air Açores. The aid will allow the company to fulfil its public service obligations, provide essential services, and ensure the connectivity of the Azores outermost region.	EUR 133 million
RUSSIA	Grants Suspension/rebates on input costs	The measures aim at supporting particularly affected entities and sectors.	Aeroflot has been provided with 300 million roubles to sustain its air connections. VTB Leasing, the lease-finance arm of the Russian state-controlled VTB Bank, granted Aeroflot a grace period for lease payments on 67 aircraft - 19% of Aeroflot's fleet. The subsequent pending debt would be fully paid off in July 2021.	RUB 4 billion

SAMOA	Equity	The measure aims at supporting particularly affected entities and sectors.	Samoan tala (WST) 1 million capital injection to Samoa Airways. This assistance is provided so that Samoa Airways can pay its dues to local businesses while the airline is grounded by the Government's travel ban.	WST 1 million
SENEGAL	Not specified	The measure aims at ensuring that companies have sufficient liquidity to maintain their activities.	Senegal has allocated West African CFA franc (XOF) 45 billion (US$74.6 million) to Air Senegal as part of a financial assistance package for its transportation industry.	XOF 45 billion
SINGAPORE	Equity	The measure aims at ensuring that companies have sufficient liquidity to maintain their activities.	Singapore Airlines announced the issue of Singapore dollar (SGD) 5.3 billion (US$3.7 billion) in new equity and raised up to SGD 9.7 billion (US$6.7 billion) to bolster liquidity. Singapore Airlines' largest shareholder (56%) is Temasek, a sovereign wealth fund, committed to subscribing to its pro-rata entitlement and backstopping the balance.	SGD 5.3 billion
SWEDEN	State guarantees for loans	The measure aims at supporting particularly affected entities and sectors.	Sweden partly compensates SAS for the damage suffered due to the cancellation or re-scheduling of its flights because of the imposition of travel restrictions linked to the coronavirus. The support takes the form of a state guarantee on a revolving credit facility in favor of SAS. Sweden will guarantee up to approximately €137 million of such revolving credit facility.	EUR 137 million
THAILAND	Multiple measures	The measures aim at ensuring that companies have sufficient liquidity to maintain their activities.	The Thai government announced US$1.8 billion bailout fund for struggling state carrier Thai Airways. The government set up a committee of aviation and business professionals to oversee the airline as it restructures its debts and raises capital.	US$ 1.8 billion
UAE	Equity	The measure aims at ensuring that companies have sufficient liquidity to maintain their activities.	Emirates received a capital injection by the Dubai government to support the Middle Eastern airline in the aftermath of the coronavirus outbreak.	Not disclosed

Source: Subsidy and State Aid Tracker