

**SPECIAL STUDY**

# Transactions with State-Owned Enterprises

Regional

March 2016

**EBRD EVALUATION DEPARTMENT**



**European Bank**  
for Reconstruction and Development



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## Abbreviations

ADB	Asian Development Bank
ENEA	Ehemals Energetyka Poznańska S.A
ESM	Elektrostopanstvo na Makedonija – Electricity Distribution Company of FYRoM
EIB	European Investment Bank
EvD	Evaluation Department
IFC	International Finance Corporation
IFI	International Financial Institution
KEGOC	Kazakhstan Electric Grid Operating Company
KTZ	Kazakhstan Temir Zholy - Railways
OCE	Office of the Chief Economist
OECD-DAC	Organisation for Economic Co-operation and Development - Development Assistance Committee
PKP	Polskie Linie Kolejowe S.A
PSP	Private Sector Participation
SOE	State Owned Enterprise
TC	Technical Cooperation
TI	Transition Impact
TIMS	Transition Impact Monitoring System
TSA	Tajikistan State Air

## Executive summary

This is a thematic evaluation of EBRD transactions with state-owned enterprises (SOEs) in the Power and Energy and Transport sectors from 2000 to 2013. In broadest terms it examines what the EBRD intended to accomplish by providing a blend of finance and analytical and advisory work to state-owned enterprises in order to encourage reform and transition. The report addresses a set of evaluation questions regarding project the rationale, progress toward privatisation and commercialisation objectives, sectorial impact, and potential marketplace distortion.

The methodology includes: analysis of a study population of 16 completed SOE projects; sectorial indicators to understand progress at the sector or marketplace level during the prescribed time period; and, case studies in Kazakhstan and Poland. The project sample comprises nine in the energy sector and seven in the transport sector, involving 13 different clients and nine countries. The original intent (and design) of the study was to include a substantial sample of Bank operations with Russian SOEs; however, this element was subsequently removed and the sample revised significantly in light of EBRD Board guidance.<sup>1</sup>

### Key points

- SOE projects are a noteworthy percentage of the EBRD's Power and Energy and Transport portfolios.
- Generally, the projects were additional and evaluated as successful.
- The SOEs prepaid loans more often than not.
- Two SOEs of 16 privatised fully, four partially.
- All SOEs with multiple transactions were able to advance to more commercial lending from initial sovereign loans.
- Most projects were able to attract external finance often commercial. All have been able to attract commercial investment at some point.
- The EBRD was able to contribute to some legal and regulatory reforms but not consistently.
- Sectorial indicators show an overall decrease in state control and regulation, and increased private ownership between 2000 and 2008, but limited progress since then. Significant progress remains to be achieved toward independent regulation of electricity and separation of railway infrastructure from operations.

## Findings

**The EBRD's projects have contributed to discrete transitional or reform steps in SOEs, although broader transitional effects cannot be observed.**

Factors such as government interest, status as a natural monopoly, political and economic conditions and market readiness are greater determinants in the path of an SOE than the finance, assistance and policy dialogue provided by the Bank. There is a correlation between improvements in the SOEs and the EBRD's efforts. Individual projects have been evaluated and rated generally to have been successful and achieved some level of transition impact. Clearly, SOEs need to modernise and improve in order to survive in a changing world and to deliver the necessary services to the populace and SOEs likely will reform eventually regardless of the Bank's interventions. The EBRD's ability to instigate or initiate change is limited but in the appropriate environment, it may serve as a facilitator and enhancer of change in SOEs.

**The EBRD has a 'special role' in working with SOEs in its regions.**

Other IFIs operating in the EBRD's regions work with SOEs but have not actively maintained the same commitment to modernising and commercialising larger enterprises as the EBRD has. The Bank's focus on developing the private sector builds a relationship with both the SOE and subsequently the newly privatised company. The EBRD plays a unique role as an anchor investor and by providing trust and confidence through policy dialogue, long-term relationships and expertise. As one banker expressed, the EBRD's procurement process, contracts, key performance indicators, reporting, environmental and social action plans (ESAPs), technical cooperation and knowledge transfer are 'tools for commercialisation.' While the special role is acknowledged, it does not overcome the aforementioned limitations on the EBRD's influence.

**Engaging in the public sector, particularly with SOEs can help the private sector.**

A near universal response from interviewees was that investing in public enterprises often helps develop the private sector.<sup>2</sup> One banker stated that the EBRD:

"...cannot influence the sector when working with the private sector only. There is only demonstration effect. There is little transformation effect."

Transactions with SOEs build awareness of the EBRD and indicate good relationships with the government which can be particularly important in sectors such as power and energy and transport. The amount of reform or transition impact achieved based on the size of the

Bank's investment or intensity of resources may be disproportionate to intentions and objectives but the transactions in the sample and case studies were observed to be 'net positive' interactions for the private sector more often than not.

### **Repeat transactions can be an effective tool to work with SOEs.**

Multiple or repeat transactions with an SOE can be an effective tool for advancing SOEs assuming a strong understanding of opportunities and challenges is derived from previous transactions. Clearly, there must be understanding of the Bank's limited ability to initiate large-scale change overall, and specifically through repeat transactions in order to ensure common and reasonable objectives.

Repeat transactions enable the EBRD to establish a long-term relationship, elongate leverage as a lender or investor, and continue work on transition subsequent to the conclusion of a financial transaction. Even if no restructuring or regulatory reform occurs, continued investment can facilitate greater environmental and social performance, improved corporate governance, and TC and policy dialogue toward increased investment in renewables and energy efficiency. In cases of individual transactions, after disbursement, the Bank has little

leverage to compel the enterprise to reform. However, if the SOE has a successor project or desires a successor project, the Bank is able to assert more leverage or at least remain active in policy dialogue to advance the public company.

### **Case studies in Kazakhstan and Poland**

A section on Kazakhstan and Poland case studies presents a brief overview of electricity and rail sectors, EBRD project history, current status of the sector, and remaining challenges. Larger findings from case studies include:

- Growing interest in renewables but both countries are at early stages of development;
- Limited interest in privatising electricity transmission companies; partial privatisation of electricity generation and distribution with a long, cautious approach to full privatisation;
- The EBRD's efforts in corporate governance where applicable have generated results;
- A greater interest by governments in effective regulation than independent regulation.

## **Recommendation 1**

### **Use multiple or successive transactions with SOEs where specific reforms are possible, even if privatisation is not a near-term option.**

Since multiple engagements with an SOE can bring greater opportunity for reform but additional leverage, it is worthwhile to continue to pursue additional projects where appropriate. There is an implicit understanding that the EBRD will likely have more impact on the SOE than the sovereign government since the EBRD's main point of contact in its SOE projects is the enterprise not the government, and a commercially oriented SOE, especially if independently managed, is able to adapt and change. Reforming the government is a longer and more difficult process. A recommendation from EBRD staff was the development of long-term relationships with the SOEs but shorter timelines for individual project operational objectives as SOE management, governments and conditions can change frequently; specifically to break down larger efforts into smaller, discrete tasks. Perhaps a multiyear plan or strategy, whether a formal Bank document or a working paper, which analyses the client's path financially and operationally and sets out a strategy for achieving TI objectives while maximising revenue opportunities might enable the Bank to identify resources and gain consensus on the potential transition impact.

## **Recommendation 2**

### **Utilise conditions prior to disbursement whenever possible.**

Conditions prior to disbursement are especially important with SOEs because of the likelihood of prepayment and/or company management could be changed by the government, subject to government interference, stricken by ineffective bureaucrats or beholden to political conflict. While leverage over an SOE, especially a large one is limited, leverage is highest prior to disbursement. Conditions prior to disbursement also strengthen repeat transactions by making subsequent financing conditional upon achievement of objectives identified in previous transactions where relevant.

## **Recommendation 3**

### **Highlight transactions with SOEs in the corporate transaction databases.**

The Bank will not be able to comprehend the full effect of transactions with SOEs without understanding the full scope and volume of the transactions. Marking transactions as SOE projects would expedite analysis.

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# 1. Introduction

## 1.1 Objective and approach

This report contains the findings of a thematic evaluation of the European Bank for Reconstruction and Development's (EBRD's) operations with state-owned enterprises in the transport and power and energy sectors. The evaluation examines transaction trends, the transition rationale, market-development expectations, and results and impacts. EvD included the evaluation in its 2014 work programme to substantiate the extent to which EBRD has been additional in its operations with SOEs and to understand the larger impact of SOE transactions. Additionally, the evaluation aims to make a contribution to learning through developing an understanding of what EBRD intended to accomplish and actually achieved by working with state-owned enterprises (SOEs). The learning should prove useful for planning future transactions with SOEs and adapting EBRD's strategy of developing the private sector through strategic projects with the State.

This evaluation focusses on EBRD transactions with state-owned or corporatized government entities referred to as "state-owned enterprises".<sup>3</sup> Operations classified as state and private sector transactions are both within scope of this study. While the classification of state and private transactions and the portfolio ratio is an important issue for EBRD, the purpose of this evaluation is to understand the impact of EBRD's transactions with SOEs irrespective of the portfolio classification.

EvD underscores that the evaluation approach does not focus solely on whether SOEs have privatised, and if they have yet to privatise, assessing why the SOE has failed to privatise. SOE projects are often oriented toward developing more commercial companies and benefits to the marketplace. In some cases, SOEs are natural monopolies or considered by governments to be strategic assets and as such privatisation may not be under consideration when the EBRD decides to engage. Evaluation of results or progress is based on the larger context of the project objectives, the economic and political environment affecting the project, and contribution to larger EBRD goals. Achieving significant transition impact from transactions with SOEs is highly dependent on regulatory environment, economic conditions and political climate. For example, if a utility company privatises but the government delays implementation of independent market pricing, the impact of the privatisation is diminished.

To fulfil the study objective, this report strives to broadly answer the following evaluation questions.

1. What has been the rationale for the Bank's involvement with state-owned firms?
2. What additionality has the Bank provided in its interaction with SOEs?
3. To what extent has the Bank's involvement facilitated private ownership of these firms or growth in private participation and capital?

4. To what extent has the Bank's involvement facilitated more modern and corporatized firms?
5. How and to what extent has the marketplace benefitted from the Bank's involvement?
6. Has the Bank's willingness to engage SOEs enabled these firms to remain state-owned, prolonged existing market distortions or otherwise forestalled the emergence of other private sector players?

The evaluation questions were derived from a review of key themes from strategic documents such as Capital Resource Review 4, Article 11 of the Agreement Establishing the Bank, EBRD Transition Report 2013 "Stuck in Transition"<sup>4</sup> and others that steer EBRD's work with SOEs.

## 1.2 Methodology

### Preparation

The evaluation team prepared an Approach Paper which was reviewed by Management. Management comments were subsequently discussed at a joint Management-EvD meeting after which meeting minutes were circulated and the evaluation was undertaken.

The conduct of the evaluation included:

- Research to identify a study population
- Field missions to Warsaw in November 2014 and to Almaty and Astana in December 2014
- 72 people interviewed at EBRD Headquarters, in the field, and by telephone
- Extensive review of documentation (Board documents, Credit reviews, Transition Impact Monitoring System, EBRD databases, etc.) for all 16 projects in the study population
- Review of documentation of other SOE projects
- Review of external literature and statistical indicators related to state-owned enterprises

### Components

The methodology employed in this study to evaluate transactions with SOEs involves the following major components.

**Analysis of a study population of SOEs** hereby referred to as the "study population." EvD evaluated the study population of 16 transactions signed with SOEs since 2000 in two sectors (transport and energy) including technical cooperation (TC) and policy dialogue dimensions. EvD applied a set of common analyses to the 16 projects to elicit results related to project outcomes and impact and progress toward privatisation, commercialisation, and marketplace improvements.

Annex 1 provides details on the methodology for identifying the study population.

**Sectorial indicators.** In order to understand progress at the sector or marketplace level during the prescribed time period, EvD utilised a number of indicators related to privatisation, regulations, state control and infrastructure quality produced by EBRD, Organisation for Economic Co-operation and Development (OECD) and World Economic Forum.

**Case studies in Kazakhstan and Poland.** In order to supplement the above analyses with a more qualitative and experiential assessment, EvD developed two case studies. EvD assessed the following SOEs, KEGOC (power) and KTZ (rail) in Kazakhstan and BOT (power), ENEA (power), and PKP (rail) in Poland as case studies. The two countries were chosen as case study countries because of the 16 projects in the study population, four were completed in Kazakhstan and three in Poland. Moreover, EvD thought the contrast between the two countries – EU/non-EU, advanced transition/transition, Central Europe/Central Asia – could prove insightful. Case studies were based on extensive review of available documentation (at country, sector, and project level) and interviews held in the EBRD Headquarters as well as in Poland and Kazakhstan – where EvD met representatives from SOE clients of the EBRD, government regulatory bodies, private sector companies, industry associations, other IFIs and EBRD staff in the resident offices.

## Study population

### Key characteristics

The study population included:

- Nine power and energy projects and seven transport projects;
- Three equity and thirteen debt transactions;
- Nine countries and thirteen different clients;
- Six transactions classified as private portfolio and seven classified as state;
- Nine transactions denominated in Euros, six in US dollars and one in Polish zloty;
- Four projects were completed in Kazakhstan, three in Poland.

Identifying an SOE subset to evaluate was difficult. There is no singular official EBRD definition of a state-owned enterprise based on for example model of incorporation or percentage of government ownership, or an SOE flag in the EBRD's databases. The objective was to identify companies controlled by the state in industries where the Bank's activity was significant. The methodology used to identify the study population was shared with Management at the Approach Paper phase and incorporated Management feedback.<sup>5</sup>

For purposes of this evaluation, the SOE is the transaction's client and the identification of the client as an SOE is based on the identification provided by the Banking team. The structure of the enterprise could be wholly state-owned, closed joint stock company, open joint-stock company, unitary federal enterprise or other corporatized entity that is majority owned and operated by the state.

The study population reflects EvD's effort to identify all completed non-sovereign transactions with SOEs completed from 2000 until the end of 2013 in the transport and energy sectors with those SOEs being existing companies operating in the marketplace.

Regarding terminology, please note the study population serves as the 'sample' since the projects constitute a sample of EBRD's transactions with SOEs. However, the SOEs in the study represent the entire population of projects given the criteria listed above but are not a statistically representative sample of all EBRD transactions with SOEs. See Annex 1 for more detail.

Table 1: Projects in the study population

Operation Name	Op Signing Date	Facility Amount € (EBRD)	Portfolio Class	Instrument Type	Country Team (RA)	Op Currency Name
<a href="#">Slovenske Elektrarne - Sector Restructuring Loan</a>	06-Mar-02	120,083,151	STATE	DEBT	Czech/Slovak/Hungary/Slovenia	USD
<a href="#">Belchatow II</a>	10-Aug-06	51,068,345	STATE	DEBT	Poland	EUR
<a href="#">ZSE Electricity Distribution Privatisation</a>	16-Oct-03	60,515,003	PRIVATE	EQUITY	Czech/Slovak/Hungary/Slovenia	EUR
<a href="#">ESM Pre-privatisation Share Purchase</a>	12-Oct-04	45,000,000	PRIVATE	EQUITY	West Balkans	EUR
<a href="#">KEGOC: North-South Power transmission</a>	16-Mar-04	26,507,991.	STATE	DEBT	Kazakhstan	USD
<a href="#">Slovenske Elektrarne Restructuring Loan II</a>	08-Apr-04	30,000,000.	PRIVATE	DEBT	Czech/Slovak/Hungary/Slovenia	EUR
<a href="#">KEGOC: Ekibastuz-YukGres power transmission</a>	24-Nov-05	36,947,844.	STATE	DEBT	Kazakhstan	USD
<a href="#">ENEA Privatisation</a>	16-Oct-08	48,557,559	PRIVATE	EQUITY	Poland	ZLOTY
<a href="#">AB Lietuvos Energija (f. Lietuvos Elektrine)</a>	18-Feb-10	71,000,000	STATE	DEBT	Baltics	EUR
<a href="#">Tallinn Airport Loan</a>	15-Oct-02	7,251,255	STATE	DEBT	Baltics	EUR
<a href="#">TSA Air Fleet Upgrade Project</a>	27-Jul-05	3,795,498	PRIVATE	DEBT	Central Asia	USD
<a href="#">PKP Energetyka Network Management Project</a>	29-Mar-04	10,666,859	STATE	DEBT	Poland	EUR
<a href="#">Constantza Port Development</a>	21-Sep-04	16,000,000	STATE	DEBT	Romania	EUR
<a href="#">Chisinau Airport Modernisation Project II</a>	05-Dec-08	25,500,000	PRIVATE	DEBT	Caucasus/Moldova/ Belarus	EUR
<a href="#">KTZ Transtelecom Communication Infrastructure Modernisation</a>	15-Sep-08	39,987,669	STATE	DEBT	Kazakhstan	USD
<a href="#">KTZ</a>	29-Sep-10	79,705,469.31	STATE	DEBT	Kazakhstan	USD

## Limitations

The study methodology has some limitations as detailed below. Despite the limitations, EvD believes examination of this study population provides an instructive view of transactions with state-owned enterprises because the companies:

- Were selected on an *a priori* basis according to an established set of criteria regardless of project success
- Represent a purposive sample to enable comparability to the portfolio and a diverse set of types of transactions, portfolio classifications, deal sizes and countries
- Enable analysis of the entire population for the given criteria

The key limitations are as follows.

- A study population size of sixteen is not a statistically representative sample of all of EBRD's transactions with SOEs
- Without an EBRD definition of a SOE and an official marker in the databases to identify a transaction with a SOE, EvD may not have included all relevant projects in the study population
- Exclusion of Russia from the scope of the study eliminates consideration of outcomes from the Bank's largest state-owned client<sup>6</sup>
- Findings from this study may or may not be relevant to transactions with SOEs outside the scope of this study; e.g. transactions in other sectors, transactions with municipal authorities,

and sovereign loans to 100% state-owned and controlled entities

## 1.3 Organisation

The study is organised along the lines of the methodology. After this introduction, the sections are presented as follows.

- Understanding EBRD's involvement with SOEs (Section 2)
- Analysis of the study population (Section 3)
- Sectorial indicator presentation and analysis (Section 4)
- Case study results (Section 5)
- Conclusions including evaluation question responses, findings and recommendations (Section 6)

Each section is oriented toward the stated specific analysis and results with broader results analysis found in the Conclusions section.

## 2. Understanding the EBRD's involvement with state-owned enterprises

### Summary

This section discusses the Bank's rationale for investment in SOEs; specifically statutory directives and a theory of change. There is analysis of the study population to identify the most common transition impact objectives and the size of the study population relative to the larger portfolio to help understand the magnitude of the investment in SOEs. Notable findings include that the most common transition impact objective was Framework for Markets and the sixteen projects in the study population comprised 25% of the value of the 81 completed projects in the portfolio from 2000-2013.

### 2.1 Rationale for the Bank's involvement

#### Statutory directive

The EBRD states its commitment to furthering progress towards '*market-oriented economies and the promotion of private and entrepreneurial initiative*', and as a result, has adopted guidance to restrict its participation in the state sector.<sup>7</sup> The EBRD, as an international financial institution, aspires to be exceptional in its approach to operate akin to a private sector financial institution that invests chiefly in private sector projects. SOEs provide a challenge as they are controlled by the state yet may operate competitively in the commercial marketplace. Furthermore, reform of the SOE may benefit private sector development and growth.

Article 11 of EBRD's charter outlines the Bank's methods for transacting with SOEs.

EBRD seeks to:

- Make or co-finance together with other multilateral institutions, commercial banks or other interested sources, or participating in, loans to;

- Invest in the equity capital of;

- Underwrite, where other means of financing are not appropriate, the equity issue of securities by;

- Facilitate access to domestic and international capital markets through the provision of guarantees, where other means of financing are not appropriate, and through financial advice and other forms of assistance for;

"...Any state-owned enterprise operating competitively and moving to participation in the market-oriented economy or any state-owned enterprise to facilitate its transition to private ownership and control; in particular to facilitate or enhance the participation of private and/or foreign capital in such enterprises."

In addition, Article 11 cites:

"making or participating in loans and providing technical assistance for the reconstruction or development of infrastructure, including environmental programmes, necessary for private sector development and the transition to a market oriented economy"<sup>8</sup>

which would also seem relevant to state-owned enterprises since infrastructure in EBRD countries of operations is frequently owned or managed by SOEs.

The Bank's commitment to transactions with SOEs extends to present-day strategy. The *Capital Resources Review 4* (2011-2015) specifically discusses accelerating privatisation, restructuring and other activities with state-owned enterprises across different industries and countries of operations – mentioning SOEs eight times. The paper approved by the EBRD Board of Directors in April 2014, *Re-Energising Transition: Medium-Term Directions for the Bank*, one of EBRD's roadmaps toward the future, highlights engagement with SOEs as a component of success,

"The message is that reform creates opportunities for investment and will therefore see the Bank more engaged. A critical mass of Bank investments and a willingness to support private as well as public sector enterprises – where there is evidence of a commitment to reform – will often be crucial for success."

#### Theory of change

Since the Bank is committed to undertaking SOE projects in order to promote private sector development in various forms, the Bank's activities should naturally support a theory of change. "A Theory of Change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks—interchangeably referred to as outcomes, results, accomplishments, or preconditions is depicted on a map known as a pathway of change/change framework, which is a graphic representation of the change process."<sup>9</sup> Figure 1 is a high-level theory of change map for EBRD transactions with SOEs since it would be difficult to evaluate the aggregated results of sixteen distinct projects with different objectives, locations, clients, and financial instruments. The diagram lists inputs, outputs, outcomes and impacts typical to SOE projects along with assumptions and risks which affect or mitigate results.

Figure 1 Theory of change



Source: EvD

The logic of the theory of change is EBRD provides *inputs* to achieve *outcomes* with finance being chief among the inputs. The aggregate effect of the outcomes is expected to be larger *impacts*. Other inputs include technical assistance, policy dialogue, covenants and contracts, and EBRD knowledge.

The outputs displayed are the anticipated operational results of privatisation and modernisation or expansion projects including technical cooperation. In this theory of change, the outcomes would be better companies, more entrants and capital in the private market, improved efficiency and sustainability, and an improved regulatory environment. If successful, the Bank will have achieved impact such as growth of the private sector and better livelihoods for people.<sup>10</sup> Examples of better service leading to better livelihoods might be more reliable electricity and heating, wider distribution network of electricity, improved rail service enabling people to work in different locations or transport goods, or improved environmental performance which helps overall health.

A theory of change lists assumption and contextual factors. A key assumption for transactions with SOEs is limited interference by the Government and that the SOE is interested in further commercialisation. For example, in the case of Chisinau Airport Modernisation II, the Government of Moldova decided to cancel the SOE's project with EBRD, prepay the loan and embark on a concession. The TSA Air Fleet Upgrade project reflected a desire to open the Tajik air market and modernise operations but limited interest in commercialising the national air carrier.

Major contextual factors such as economic conditions and political stability are critically important. In the case of KEGOC, the national Kazakh electricity transmission company, EBRD is currently engaging with the Government to support the reform of tariff regulations to a more market-oriented structure. However, this has proven difficult as the Government seeks to ensure affordable pricing for the populace.

Privatisation, or even significant reform of state-owned enterprise, is a difficult endeavour because of possible effects such as reduction in employment, reduced control over strategic assets, higher prices to consumers, etc. Thus, political will, leadership and organisational change serve as important components to ensure reality of change.

In summary, the Bank, understanding the contextual constraints on success, aims to apply the appropriate combination of finance, assistance and knowledge to encourage a willing, independent and capable SOE to take steps toward reform resultant in benefits to the enterprise and the sector.

## 2.2 The EBRD's involvement

### Transition impact objectives in the study population

The focus of EBRD participation with SOEs stems from the institutional commitment to enhance the private sector in countries of operation. Reform or advancement of the SOE, whether it is commercialisation, corporatisation, or privatisation, serves as a complement to investment in private sector entities. Transactions with SOEs may offer EBRD opportunity to attain transition impact at the corporate level through restructuring or improved business conduct, and also the sector level through improvement of market frameworks or increasing competition. A look into the gains sought by EBRD transactions may be gleaned through a review of the transition impact objectives of the study population. The output of the review may be found in Table 2. EvD analysed the 31 transition impact objectives as reported by 14 of the 16 projects in the study population in the Transition Impact Monitoring System in order to better understand what EBRD aims to achieve via its SOE projects.<sup>11</sup>

Table 2: Transition impact objectives for study population

<i>Transition Impact Objective (in order of recurrence)</i>	<i>No. Projects with Objective</i>
Frameworks for Markets	8
Competition	5
Setting Standards of Corporate Governance and	5
Demonstration of Successful Restructuring	4
Private Ownership	4
Demonstration of New Financing Methods/Products	3
Market Expansion	2
<b>Total</b>	<b>31</b>

The most common TI objectives were framework for markets, competition and setting standards of corporate governance and business conduct, followed by demonstration of successful restructuring and private ownership. Private ownership was selected four times while framework for markets was selected eight times. While movement toward private ownership of the SOE is an important strategic objective, improvement of the sector and the enterprise proved to be a more frequent objective in the study population. Without an appropriate environment or a ready enterprise, successful privatisation is unlikely. This point was voiced in Kazakhstan where representatives of the SOEs and the Government opined that Kazakh environment was not ready for KEGOC and KTZ to be fully privatised.<sup>12</sup>

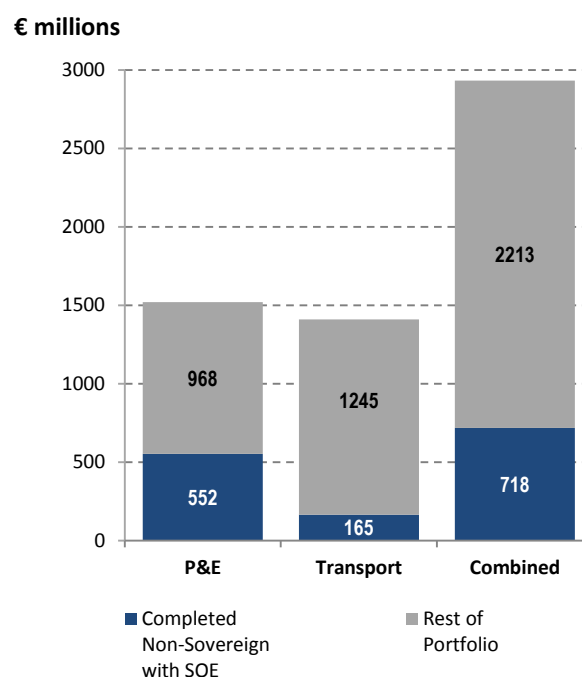
## Scope of SOE transactions

In order to learn more about the scope and significance of SOEs, EvD compared the study population to the completed projects in the larger power and energy and transport portfolios for the years 2000-2013 to understand the magnitude of the investments as well as similarities to the larger portfolios for the given time period.

The total value (Facility Amount) of the 81 completed transactions for both sectors during 2000-2013 was €2.92 billion. The total finance for the power and energy portfolio was €1.52 billion; 1.41 billion for transport. The combined value of the sixteen project population was €718 million divided into nearly €552 million for power and energy and 165 million for transport. Thus, transactions with SOEs represented a significant percentage, 25 percent, of the combined portfolios and 36 percent of the power and energy portfolio and 12 percent of the transport portfolio for projects completed between 2000 and 2013. It should be emphasised that

these transactions represent non-sovereign transactions with SOEs. Including sovereign transactions with SOEs would increase the percentage of projects related to SOEs.

Figure 2: Value of project study population and completed projects in power & energy and transport portfolios



Source: Data Warehouse, September 2014

The average deal size for the SOEs in the population was €43 million and €35 million for completed non-sovereign transactions 2000-2013 in the combined power and energy and transport portfolios. Looking at the individual portfolios, the average facility amount for power and energy was €40 million and €33 million for transport. Thus, the average SOE deal in the study population was slightly larger than the average deal in the portfolio. It should be noted that the exclusion of Russia from the study population omits some of the largest transactions with state-owned enterprises especially for transport. The two completed transactions during 2000-2013 with Russian Railways (RZD) were valued at approximately €435 million.

Nonetheless, the proportion of transactions with SOEs relative to the portfolio and amount invested indicates that EBRD's extant SOE business is sizable. Of course, these two sectors were selected for this study because SOEs tend to comprise a significant share of the portfolio. Assessing agribusiness would produce a different result.

## 3. Analysis of the study population

### Summary

In Section 3, Analysis of the study population, EvD assessed the 16 projects in the study population for additionality, results, private sector participation, commercialisation, and legal and regulatory contributions. Results of the analysis include:

- Generally, the projects were by and large additional and evaluated to be successful.
- The companies prepaid loans more often than not.
- Two companies in the population privatised fully, four companies partially.
- All of the companies with multiple transactions were able to advance to more commercial lending from the initial loan.
- EBRD attracted 3.046 billion Euros in external finance or 104% percent of the Bank's own investment in these projects.

### 3.1 Additionality

In terms of the study population, all the evaluated projects received a rating of Largely Verified or Fully Verified from EvD for the additionality dimension.<sup>13</sup> Thus, the projects in the study population were viewed as reaching a minimum threshold of additionality. This additionality is in spite of many of the state-owned companies being huge companies, some larger than EBRD, that do not require EBRD's funding. In order to assess the additionality of the transactions with SOEs, EvD refers to the elemental analysis provided by the EBRD's Office of the Chief Economist (OCE). The assessment should be based on a combination of the three following dimensions of the Bank's additionality: terms, attributes, and conditionalities.<sup>14</sup>

#### Terms

When verifying the additionality of SOE projects, terms are the most difficult aspect because the SOE is often able to self-fund or able to obtain finance on the commercial market or from other IFIs. When structuring transactions with SOEs, EBRD is normally able to include distinctive terms that support the argument for additionality. Some of those terms include the following.

- Lending to the SOE without recourse to the sovereign which is often not the case with other IFIs
- Tenors up to 16 years
- Full credit guarantee to a local bank to permit funding the SOE without increased net exposure (Slovenske Elektrarne – Sector Restructuring Guarantee)

EBRD was also a lender in instances when the SOE could not raise capital on the commercial markets. The TSA project in Tajikistan is an example.

#### Attributes

The area of attributes is where EBRD's additionality is most evident. One successful transaction normally leads to the achievement of an operational objective but does not necessarily lead to successful reform of an SOE. Representatives from the companies, governments and EBRD stressed the importance of long-term relationships. Repeat transactions with the same SOE facilitate innovative financial projects (bonds, guarantees, etc.) infrastructure modernisation and energy efficiency and smart grids (energy sector). The long-term relationship gives EBRD through evidence of commitment, continued policy dialogue, and its arsenal of instruments – procurement, contracts, ESAPs, etc. – the ability to keep the reform efforts moving.

In EBRD's countries of operation, EBRD's role in advancing state-owned enterprises may be unique. The European Union provides grants to state-owned enterprises for reform thereby limiting the SOE's incentive to privatise. The split between the role of the World Bank and the International Financial Corporation (IFC) as the respective public and private sector arms of the World Bank Group leaves neither organisation with a clear mission to develop state-owned enterprises. Other than privatisation transactions, IFC did not begin investing in state-owned enterprises until 2013. The World Bank Group's Multilateral Investment Guarantee Agency (MIGA) did not provide its Non-Honouring of Sovereign Financial Obligations product to commercial lenders working with SOEs until 2013.<sup>15</sup>

During EvD's field mission to Poland, the representative from European Investment Bank mentioned that the EIB mission was to build infrastructure by providing favourable terms to borrowers and that EBRD's focus on transition impact, in-country presence, and expertise made EBRD the IFI with the most influence on SOEs in Poland. In Kazakhstan, the representative from ADB reported \$3 billion in lending but only \$455 million was non-sovereign. In the discussions with the SOEs in Kazakhstan and Poland, they uniformly offered that the finance, expertise, and reputational enhancement provided by EBRD were worth the extra requirements.

Why is EBRD uniquely additional? As one EBRD staff member mentioned, when a company is a state-owned enterprise, EBRD's client and partner is the Government, and then the company privatises, and EBRD's client and partner becomes the private company. EBRD plays a unique role as an anchor investor and by providing trust and confidence through policy dialogue, long-term relationships and expertise.

EBRD's role as an anchor investor is particularly true in of Kazakhstan where huge SOEs (such as KEGOC and KTZ) are willing to partner with the EBRD to provide a message about the reliability of the companies to the market. The EBRD brand was seen to provide a level of trust and the promise of transparency through corporate governance, procurement, etc. thus enabling confidence for possible investors.

In the cases of the privatisations and bond issuances in the study population, they may not have occurred or been less successful if EBRD had not served as anchor investor and ensured appropriate corporate governance and expertise. Syndicated loans often required EBRD backing to ensure commercial bank participation. For SOEs seeking to modernise and corporatize in the circumstances observed by EvD, EBRD offered distinct attributes.

A resultant question is do these distinct attributes create a comfort level with EBRD and hinder the further commercial development of the SOEs. Evaluation question 6 in this study, “Has the Bank’s willingness to engage SOEs enabled these firms to remain state-owned, prolonged existing market distortions or otherwise forestalled the emergence of other private sector players?” explores this issue in more detail.

### Conditionality

In transactions with state-owned enterprises, conditionalities aimed toward commercialisation and private sector improvement were distinctly present. Some of the more common effective conditionalities were the appointment of independent board members, development of board committees, IFRS reporting standards, and application of EBRD procurement regulations.

Some key conditionalities which achieved significant effect included:

- Application of EBRD procurement rules for projects with KEGOC and KTZ which were adopted at the holding company level, Samruk-Kazyna, which now uses EBRD-based procurement procedures for all international procurements.
- Investment programmes and Environmental and Social Action Plans (ESAPs) leading to increased energy efficiency and carbon reduction at KEGOC.
- Audits by KPMG were viewed as a noteworthy conditionality by ENEA.
- The placement of an independent board member at PKP was considered a significant step in preparing for the PKP Cargo privatisation.
- The business plan for Chisinau Airport is a major milestone in the airport’s development.

While there were numerous conditionalities implemented, EBRD bankers did discuss the issue of limited leverage with state-owned enterprises to enforce conditionalities. One of the most successful tools was utilising conditions prior to disbursement. In general, conditions prior to disbursement are more effective but they are especially important with SOEs since the larger ones may be likely to prepay and/or company management could be changed by the government, subject to government interference, or ineffective bureaucrats (see O). Covenants provided some leverage but their effectiveness is limited when dealing with a sovereign entity.

Several bankers expressed a need for a long-term strategy but short-term milestones to obtain results with the understanding that those short-term projects build toward a longer-term strategy. Major structural and legislative reforms can take years. Policy dialogue and an effective relationship with the Government require sufficient time to develop trust and a viable channel of communication. However, SOE management may change when the government does or company strategy may change based on short-term political or economic considerations.

## 3.2 Project performance ratings analysis

### Rating results

Table 3 displays the ratings from the projects evaluated by EvD in the study population along with the TIMS ratings. Eight of the sixteen projects have been evaluated, which do not represent a statistically representative sample.<sup>16</sup>

Highlights of the ratings analysis are the following.

- All eight projects received *Successful* overall ratings.
- There were no *Unsuccessful*, *Unsatisfactory*, or *Negative/Negligible/Highly Unsatisfactory* overall or category ratings.
- The projects were rated *successful* or *good* most frequently by EvD.
- All Transition Impact ratings, both EvD and TIMS, were at least *Marginal* or above

Table 3: EvD and TIMS ratings for study population, 2000-2013

Overall Project Rating	No. of Projects	Specific Category Rating	Operational Objectives No. of Projects	Environmental No. of Projects	EvD's Transition Impact No. of Projects	TIMS No. of Projects
Highly Successful	4	Excellent	2	0	2	2
Successful	37	Good	4	6	3	5
Partly Successful	11	Satisfactory	2	2	2	8
Unsuccessful	3	Marginal	0	0	1	0
		Unsatisfactory	0	0	0	0
		*Highly Unsatisfactory			0	0
<b>Total</b>	<b>55</b>		<b>8</b>	<b>8</b>	<b>8</b>	<b>15</b>

\*also Negative/Negligible  
Source: EvD

EvD also compared the evaluated projects in the study population to the larger Power & Energy and Transport

portfolios in order to determine if the ratings varied substantially for SOE projects. EvD has evaluated 55 projects in the combined Power and Energy and Transport portfolios for the given years and criteria, of which eight

were part of the study population. These 55 projects represent sovereign loan and private, commercial projects also.

For overall ratings in the combined portfolio, the projects were mostly rated *successful* or *highly successful*, 41 of 55 projects, but there were fourteen projects rated as *partly successful* or *unsuccessful*. The observer could infer that both the study population and the larger portfolios have been significantly more successful than not. The data given the study population size and the variation in projects do not support an inference that somehow transactions with state-owned enterprises are more successful or more likely to be evaluated successful than projects in the portfolio. EvD also compared the transition impact ratings from its evaluations of the study population and the portfolios. None of the projects with SOEs had an *unsatisfactory* or *marginal* transition impact rating under TIMS. EvD rated one as *marginal*.

## Analysis

The *Successful* overall rating for all the SOE projects along with no unsatisfactory or lower category ratings is striking. Why were the evaluation ratings primarily positive? EvD offers the following observations.

First, transactions with SOEs often bring guarantees, comfort letters and other instruments reducing financial risk in the project. Default or non-performing loans are relatively rare. None of the projects in the study population were non-performing or underperforming.

In addition, the Bank may contribute to more successful project management through better procurement processes, performance based contracting, and knowledge support to project implementation units. EvD met with one of the international construction contractors to KEGOC. The firm reported that the work on the EBRD-sponsored projects was undertaken efficiently and generally finished ahead of schedule. Some investments involve specialised technical cooperation and extensive discussions between EBRD and SOE management to restructure the company, employ EBRD procurement rules and contracts, change tariff structures, etc. The constant flow of communications between EBRD and the client and the client's stakeholders, namely the government, draws attention to the project and may provide considerable knowledge transfer from EBRD to the client. EBRD's guidance in the creation of specific committees within the supervisory board of PKP helped the company manage its subsidiaries more efficiently.

## Prepayment, a common result

Prepayment in the study population was a frequent occurrence and a frequent subject during EvD's interviews with EBRD bankers. Ten of the 14 debt projects in the study population were prepaid. The ZSE Electricity Distribution Privatisation Project is classified as both a debt and equity project and was not prepaid. Particularly notable prepayments were:

### Power & Energy

- AB Lietuvos €65 million
- Belchatow II €50 million
- KEGOC Ekibastuz-YukGres €27 million
- KEGOC North South €15 million

### Transport sector

- KTZ Transtelecom €33 million

The proportion of prepaid projects in the study population was higher than the entire portfolio which was 42 of 83 projects.

Some bankers extolled the virtues of prepayments by SOEs by explaining that the prepayment evidenced the SOE 'no longer needed' the Bank's funding because the SOE could obtain commercial funding or improved its cash flow. They also noted that the prepayment internal rate of return was often higher. In addition, the principal along with whatever fees and interest were collected could then be repurposed. Other bankers interviewed were firm in the belief that prepayment reduced total net income to EBRD, and reduced the potential for achievement of transition impact by eliminating the Bank's financial leverage and/or shortening project duration. The prepayment plus EBRD's fee assured a credible internal rate of return but normally reduced the total expected return to the Bank thus financial performance might be rated *successful* but not *highly successful*, and the reduction in tenor reduced the time available to complete all transition impact objectives. Prepayment may be utilised as a tool to shed conditions and advice from the Bank.

The Bank's official position on prepayments is nuanced. The latest EBRD's Investment Policies and Product Guidelines states the following:

'Both cancellations of loans prior to full disbursement and prepayments of outstanding loans are frequently a result of the borrower's ability to finance at lower rates, or on more relaxed conditions. In this respect, prepayments are generally market-driven. While a client's ability to prepay may be associated with positive developments in a country's transition or a project's progress, the act of prepayment will eliminate the Bank's income on the asset concerned. ... The Bank is not solely interested in its financial return, but also in the success or failure of a project.'

When assessing transactions with SOEs, the phrase, "The Bank is not solely interested in its financial return, but also in the success or failure of a project ..." is extremely important. The possibility of prepayment heightens the risk of lower financial return, and the SOE's ability to self-finance may lower the project's additionality. Thus, the Bank's challenge when assessing transactions with SOEs at project origination is to ensure the appropriate terms, conditionalities and attributes that comprise additionality because of the likelihood of prepayment.

## 3.3 Privatisation and private sector participation

For each SOE in the study population, Table 4 depicts the specific goals related to private ownership or private sector participation, relevant actions undertaken by EBRD, the outcome of the actions, and the current status of the company – state-owned, partially privatised or privatised.

Table 4: Private sector participation (PSP) goals, actions, outcomes and current status in the study population

SOE	Specific PSP Goals	EBRD PSP Oriented Actions	PSP Outcome	Current Status
AB Lietuvos Energija	N/A (more focused toward meeting EU standards)	Supported unbundling by providing finance to reorganised holding company	Unbundling Limited listing on stock exchange	State-owned
BOT Mining and Energy (Belchatow II)	N/A	N/A	Absorbed into PGE, major energy SOE resulting in partial privatisation Stock exchange listing	Partially privatised
Chisinau Airport	Transition impact objective of private sector participation	Facilitate concession tenders	Private cargo operations (TIMS) Private airport parking (TIMS) Increase in private operators (TIMS)	State-owned
Constanta Port	N/A	Some concessions achieved during loan preparation phase	Increased PSP	State-owned
ENEA	Privatisation project	Participated in partial privatisation	Partial privatisation	Partially privatised
ESM	Privatisation project	Privatised	Privatisation	Private
KEGOC	Not specific project objective but pursuant to Sustainable Energy Action Plan which has objective of increasing PSP	N/A	Increased access to grid for private companies Launch of people's IPO for subsidiaries	State-owned/beginning partial privatisation process
KTZ	Transition objective of more widespread private ownership	Support for unbundling Improvement legal framework in order to facilitate outsourcing to the private sector Letter commitment to partial privatisation (Transtelecom) Creation of privatisation plan (Transtelecom) Corporate governance improvements oriented toward privatisation (Transtelecom, Kaztermirtrans)	Unbundling Launch of people's IPO for subsidiaries	State-owned/beginning partial privatisation process
PKP	Financial restructuring Privatisation project	Participated in unbundling PKP Cargo privatisation	Partial privatisation	Partially privatised/plans to privatise Energetyka
Slovenske Elektrarne	Support of unbundling through financial restructuring Private ownership	- Restructuring - Preprivatisation support	Privatisation	Private
Tallinn Airport	N/A	N/A	N/A	State-owned
TSA	N/A	Advocacy for licensing of foreign airlines	Increased foreign private airlines operating in Tajikistan	State-owned
ZSE	Privatisation project	Participated in partial privatisation	Partial privatisation	Partially privatised

Highlights of the analysis include the following.

- Of the thirteen state-owned companies being assessed, two are now privatised and four have been partially privatised. KEGOC and KTZ (and subsidiaries), the two large Kazakh SOEs, are in the process of partial privatisation according to the Privatisation Programme 2014-2016 of Samruk-Kazyna (that is being implemented with EBRD in an advisory role).
- In all of the projects in the study population which featured privatisation as a specific objective, some form of privatisation, full or partial, did eventually occur.
- EBRD participated directly in the privatisations of ENEA, ESM, PKP, Slovenske Elektrarne and ZSE via investments. EBRD played a key role as an anchor investor and advisor in each of the privatisations, full or partial.
- The Bank's projects have contributed to greater private sector participation in the SOE's business

conduct. Examples include implementing concessions for private sector operators at Constanta Port, increasing the number of foreign airlines operating in Tajikistan, and improving the legal framework for outsourcing to the private sector at KTZ.

In EvD's discussion with both bankers and OCE staff, there was a strong opinion that assessing the success of a specific state-owned project only gives a partial view of the entire marketplace. A privatisation transaction must be seen in context of all the companies which may have been unbundled and the regional market. In the case of ESM, EBRD played an important role in unbundling Macedonia's vertically integrated state-owned electricity company, and by all accounts, provided knowledge, support and finance to facilitate successful privatisation of the distribution company. However, Macedonia was unable to privatise the generation company. In the case of the rail industry, the state-owned rail companies may be eager to privatise their energy subsidiaries but are less willing to part with freight or infrastructure subsidiaries.

Management of the state-owned enterprises in Poland spoke of the need to centralise management and board activities after unbundling because of ineffective financial management, confused lines of authority and overlapping boards of directors between the state-owned parent company and its subsidiaries. Heretofore, a successful privatisation project not only may fail to complete the advancement of the private sector but often indicates that considerable more effort is needed.

## 3.4 Commercialisation

### Commercialisation in the non-privatised SOEs

EBRD elects to invest in natural monopolies and other state-owned enterprises that do not privatise. As discussed in Section 1, the Bank elects to engage in transactions with public enterprises operating competitively and strives to facilitate commercialisation, corporatization, and modernisation in those enterprises. EvD analysed the study population to record indicators of commercialisation as a consequence of EBRD projects.



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Table 5: Corporate commercialisation measures, current status of study population

Company	Company Incorporated	IFRS	Independent Board Members	Publicly Listed	Annual Report	Comments/Other commercialisation actions
AB Lietuvos Energija	✓	✓		✓	✓	Supervisory and management boards comprised of company officials Other actions/conditions <ul style="list-style-type: none"> <li>– Company managed by board not state</li> <li>– ISO 14001 certification</li> <li>– Carbon reduction; increased energy efficiency</li> <li>– Signed EPC contract without financing</li> </ul>
Chisinau Airport	✓ <sup>17</sup>				✓	Annual report contains limited financial data and corporate governance information The concession company Avia Invest has a board of directors. Other actions/conditions <ul style="list-style-type: none"> <li>– Adoption of an airport master plan</li> <li>– Airport debt restructured to increase budgetary independence from State</li> </ul>
Constanta Port	✓				✓	One of the board members represents SC Fondul Proprietatea which is a privately managed joint stock company. Other actions/conditions <ul style="list-style-type: none"> <li>– Increased investment in business by repurposing dividends to State for reinvestment in company</li> <li>– Facilitation of concession contracts</li> <li>– Improvements in business modelling and financial planning</li> </ul>
KEGOC	✓	✓	✓		✓	Subsidiaries to be sold through stock exchange, bidding or electronic auction by Samruk Kazyna (holding company) Other actions/conditions <ul style="list-style-type: none"> <li>– Migration from company being managed by State to state-owned wealth fund</li> <li>– Adoption of EBRD procurement standards by holding company Samruk Kazyna</li> <li>– FIDIC based contract model adopted</li> <li>– Introduction of KPIs/Performance based contracting</li> <li>– International tenders under EBRD compliant procedures to build substations</li> <li>– Increased energy efficiency and environmental improvement</li> </ul>
KTZ	✓	✓	✓		✓	Subsidiaries to be sold through stock exchange, bidding or electronic auction by Samruk Kazyna (holding company) Other actions/conditions <ul style="list-style-type: none"> <li>– Migration from company being managed by State to state-owned wealth fund</li> <li>– Lease infrastructure to private companies</li> <li>– Anticorruption programme</li> <li>– Corporate governance assessments by PwC</li> <li>– Introducing advance and differential pricing in passenger tariffs</li> <li>– KTZ judged to be most effective company owned by Samruk-Kazyna according to KZ Presidential Administration study</li> </ul>
PKP	✓	✓	✓	✓	✓	Other actions/conditions <ul style="list-style-type: none"> <li>– Comply with Warsaw Stock Exchange standards</li> <li>– PKP Energetyka sells energy commercially</li> <li>– PKP Cargo privatised</li> </ul>
Tallinn Airport <sup>18</sup>	✓	✓			✓	Board appointed by Ministries. All shares belong to the Ministry of Economic Affairs and Communications Other actions/conditions <ul style="list-style-type: none"> <li>– Improved cash flow (not verified)</li> </ul>
TSA	✓					Other actions/conditions <ul style="list-style-type: none"> <li>– Creation of a business plan</li> <li>– JSC created in 2009</li> <li>– Appointed a commercial aviation adviser</li> <li>– Less Government interference with day-to-day management</li> <li>– Airport and airline scheduled to be separated in 2014</li> </ul>

Aggregate results from the data include:

- All companies are incorporated.
- The majority of companies produce an annual report and comply with International Financial Reporting Standards.
- A minority of companies are publicly listed and have independent board members.

Each of the companies has undertaken actions to act as more modern, commercial corporations. The extent and the impact of the actions vary from company to company ranging from minor, simple actions such as improved cash flow (Tallinn Airport) to more extensive reforms such as commercial energy sales and Warsaw Stock Exchange corporate governance compliance (PKP). Thus, the projects tended to be successful but the ambition of the commercialisation varied from project to project.

## Commercialisations in the privatised SOEs

The Bank in pursuit of successful privatisation sought to increase the corporatisation and commercialisation of its SOE clients. The following list outlines some commercialisation measures achieved in the privatised or partially privatised companies with the support of the Bank or as an outgrowth of its relationship with the Bank.

### **BOT Mining and Energy (Belchatow II)**

- BOT is now part of a much more commercialised entity, PGE
- Adoption of risk management and internal control/accounting systems
- Improved pricing models and strategy

### **ENEA**

- Improved holding company-subsidary relationship and decision making
- Follow Warsaw Stock Exchange Corporate Governance guidelines
- Increased number of independent board members
- Introduced Audit and Remuneration Committee of the Supervisory Board
- Audited twice per year by KPMG
- Increased energy efficiency and carbon reduction

### **ESM**

- Undertook a professional environmental audit

### **Slovenske Elektrarne**

- Debt simplification leading to access to commercial finance
- Appointed commercial privatisation advisor

### **ZSE**

- Improved corporate governance including board observer
- Corporate restructuring and reorganisation

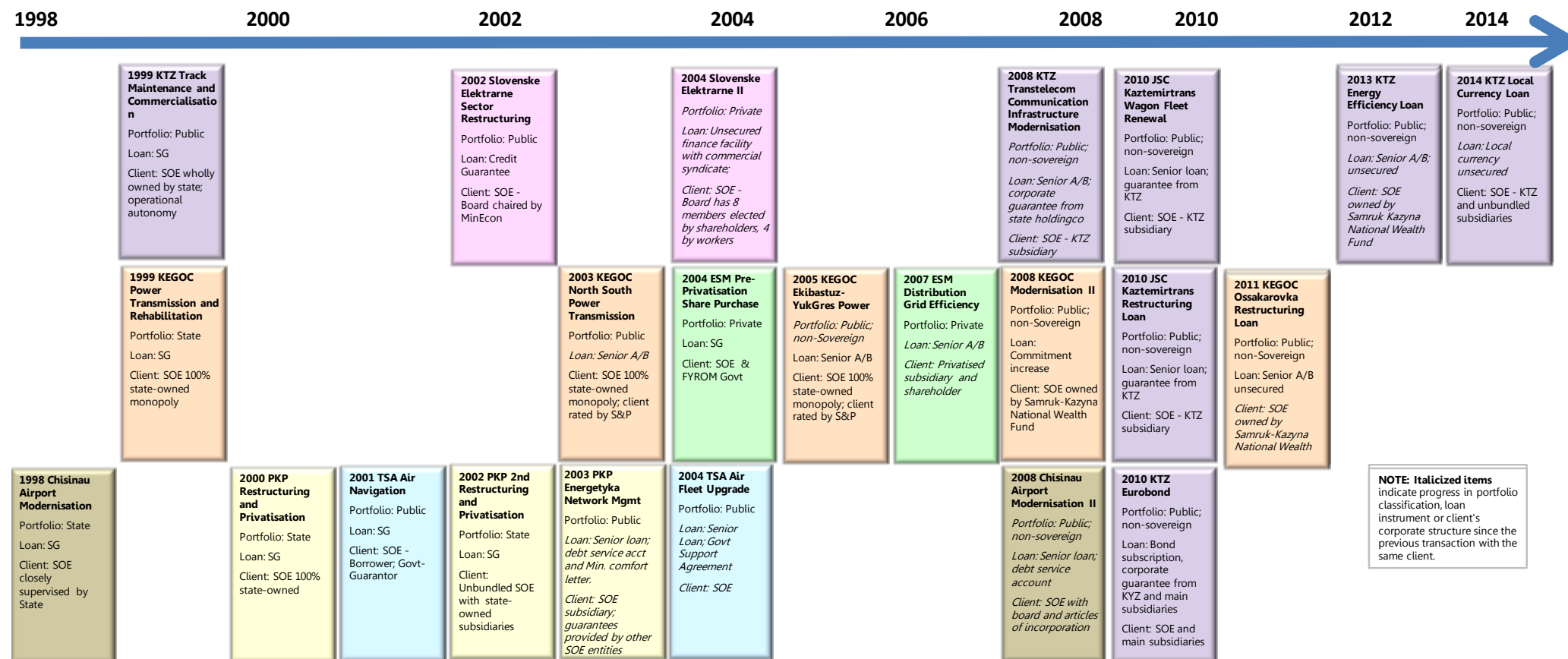
## Loan commercialisation

Most of the SOE clients in the study population have had multiple transactions with EBRD. A modernisation or restructuring loan might precede an equity investment or a pre-privatisation loan, or perhaps an expansion loan would follow a privatisation. The Bank when engaged in multiple transactions with a client strives for increased transition impact in subsequent project and increased commercialisation with state-owned enterprises. Relationships with state-owned enterprises usually begin with sovereign guaranteed loans similar in nature and structure to state sector sovereign or public loans.

EBRD strives to advance to commercial loans with state-owned enterprises. In Figure 3, EvD plots the basic loan information – Portfolio Classification, Loan Instrument and Client – for the SOEs from the study population with multiple projects along a timeline. The purpose is to recognise if the client was able to progress in successive transactions. Information that is bolded and appears in red indicates that this transaction is more commercial than the previous transaction.

For example, the first transaction with KTZ, the Track Maintenance and Commercialisation project, was classified as a Public project and was sovereign guaranteed. KTZ was 100% state-owned. The next project, KTZ Transtelecom Communication Infrastructure Modernisation project was classified public, non-sovereign and featured a Senior A/B loan with a corporate guarantee by the state-owned holding company. KTZ unbundled Transtelecom to a subsidiary company. The two most recent KTZ loans, Energy Efficiency and Local Currency, are both corporate unsecured loans, one of which is in local currency.

Figure 3: Timeline of loan commercialisation among study population companies



Aggregate results from the data include:

- Each SOE achieved some progress in loan commercialisation
- Each SOE at some point was able to engage in a subsequent debt transaction without a sovereign guarantee although a corporate guarantee, government comfort letter or some other measure might have been required.
- Unsecured loans have been made to ESM, KEGOC, KTZ and Slovenske Elektrarne
- Except TSA, the portfolio classification for each client was public, non-sovereign or private for each of the SOEs in later transactions.
- The status of the client progressed – privatisation, unbundling, management by board instead of the state, etc. – in all cases except TSA which changed after the completion of the project.

## Commercial/external finance

In December 2013, EBRD added Annual Mobilised Investment (AMI) to its Corporate Scorecard as a key Bank objective. Annual mobilised investment is defined as the volume of commitments from entities other than the Bank made available to the client due to EBRD's direct involvement in mobilising external financing during a calendar year.<sup>19</sup> EBRD's ability to attract outside investment to SOEs, particularly from commercial institutions, denotes a level of commercialisation on the part of the enterprise and may indicate progress toward greater private sector participation.

EvD researched the finance that the Bank was able to attract through syndication or co-financing and parallel financing. Table 6 portrays the total non-EBRD finance committed to the project which includes syndicated and other external finance exclusive of the SOE's own contributions. EvD also noted whether the project was able to attract commercial finance and disaggregated the total finance into syndicated and other external finance which is co-finance and/or parallel finance.

Table 6: External finance in the study population in millions of Euros<sup>20</sup>

Project	Syndicated funds	External finance <sup>21</sup>	Total <sup>22</sup>	*Commercial investors
AB Lietuvos (Lietuvos Elektrine CCGT)	0	251 <sup>23</sup>	251	✓
Belchatow II	35	794 <sup>24</sup>	829	✓
Chisinau Airport Modernisation II	0	20	0	
Constantza Port Development	0	0	0	
ENEA Privatisation	0	466	466	✓
ESM Preprivatisation Share Purchase	0	0	0	
KEGOC Ekibastuz-YukGres	32	153	185	✓
KEGOC North-South Power Transmission	22	19	41	✓
KTZ Eurobond	0	499 <sup>25</sup>	499	✓
KTZ Transtelecom	43	0	43	✓
PKP Energetyka Network Management	0	0	0	
Slovenske Elektrarne II	0	320	320	✓
Slovenske Elektrarne Sector Restructuring	0	148	148	✓
Tallinn Airport Loan	0	0	0	
TSA Air Fleet Upgrade	0	0	0	
ZSE Electricity Distribution Privatisation	0	264	264	✓
<b>Total</b>	<b>132</b>	<b>2914</b>	<b>3046</b>	

\* Co-financing+parallel financing

Source: DTM Bankin

Analysis of the data reveals the following.

- Ten of sixteen projects were able to attract commercial finance in addition to the EBRD finance.
- Eleven of sixteen projects were able to attract some external finance in addition to the EBRD finance.
- The Bank was able to syndicate lending in five of sixteen projects.
- There were no co-financiers for the PKP Energetyka Management project but EBRD was able to facilitate co-investment in the PKP Cargo privatisation.
- EBRD attracted 3.046 billion Euros in external finance or 104% percent of the Bank's own

investment in these projects

All of the companies in the study population have been able to either borrow or receive investment from private sector entities. The privatised companies naturally received private investment. Regarding the companies that are still state-owned, examples of continued attraction of external private finance include the following.

- KEGOC: Loans from multiple commercial banks
- KTZ: Loans from multiple commercial banks
- Lietuvos Energija: Loans from SEB Bank
- Tallinn Airport: Loans from SEB and Nordea Bank
- Constanta Port: Sold terminal to Nidera, a private agribusiness company

- Chisinau Airport: Concession to Komaks, a Russian consortium, to operate the airport and invest up to \$244 million
- TSA: Loans from local Tajik banks (details not disclosed).

The Kazakh and Polish SOEs from the case studies – KEGOC, KTZ, ENEA, PGE (buyer of Belchatow/BOT), and PKP – all have investment grade corporate credit ratings of BB+ or better. The challenge for EBRD is to continue to attract external finance as a participant to further commercialise the SOE without crowding out private sector players. (The topic of market distortion is discussed in Section 6.1.6.)

## 3.5 Legal and regulatory contributions

Focussing attention on the study population, EvD noted specific contributions to the legal and regulatory environment in concert with EBRD projects. Legal and regulatory reform often plays a significant role beyond the decision to invest by aiming to bring greater impact at a sectorial level. Examples of EBRD contributing to an improved legal and regulatory environment include the following.

- Chisinau Airport: Introduction of transparent discount policies by the Airport that do not discriminate against private operators
- Constanta Port Development: EBRD contributed to

an important change of law took place thanks to EBRD to allow SOEs to use part of their profits to make investments instead of paying dividends to the shareholders – the state.

- KEGOC: EBRD-sponsored technical cooperation is a critical component of Kazakhstan's tariff reform as specifically cited by the Prime Minister of Kazakhstan in his 23 February 2015 address to the EBRD Board of Directors. Tariff reform results heretofore have been limited.
- KEGOC/KTZ: EBRD has been working with Samruk-Kazyna on company law to assure better corporate governance.
- Lietuvos Energija: EBRD was involved in policy dialogue to implement independent regulation of electricity to consumers.
- PKP: The 1997 railway transport law reflected the Bank's advice and launched a progressive restructuring programme.
- TSA: The Government issued a decree to transfer the CAD of the Ministry of Transport to an independent and autonomous Civil Aviation Authority and followed the recommendation of ICAO in issuing licences to foreign airlines

EBRD was also cited by representatives of the Government of Poland for being supportive of its compliance with EU directives. The AB Lietuvos Energija and ESM Pre-Privatisation projects also involved facilitating compliance with EU regulations.



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## 4. Sectorial indicators

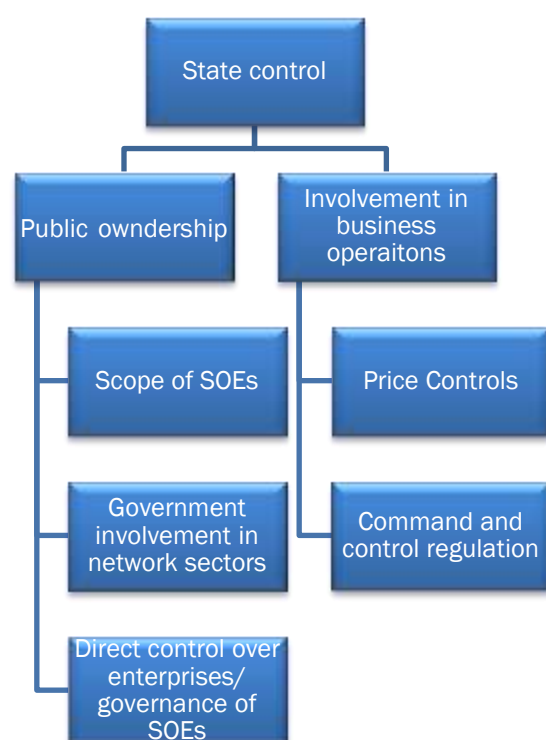
### Summary

Measuring the marketplace impact of one project based on a sixteen project study population is difficult. EvD engaged in outside research to assess sector progress at a macro level to help correlate the efforts at the transaction level with the advancements in the marketplace. In Section 4, the study looks at state control, privatisation transition, sector transition, sector regulation and infrastructure quality. Results of the assessment include an overall decrease in state control, and increased private ownership since 2000 but which has stagnated since 2008. Also, there is still significant progress to be achieved in fully independent regulation of electricity and full separation of railway infrastructure from operations.

### 4.1 State control

The OECD, one of the leaders in assessing the performance of state-owned enterprises, measures 'state control' in business and enterprise affairs. State control is one of three components of the Product Market Regulation Index which assesses and grades regulatory environment for business on a 0-6 scale with 0 having minimal state control and 6 having maximum state control. The elements comprising state control may be found in Figure 4. One of the two main components of state control is public ownership of enterprises with two major elements being the scope of SOEs and the government's direct control over enterprises/governance of SOEs.

Figure 4: Elements of state control in business



Source: OECD

For this study, EvD gathered state control indicator data for all countries of operation which are rated by OECD. Not all EBRD's countries of operations are rated. The state control indicator figures are available in Table 7.

Table 7: OECD state control indicators, EBRD countries of operations

	1993	2003	2008	2013
Estonia	..	..	1.81	1.61
Czech Republic	3.28	2.58	2.11	1.95
Latvia			..	2.02
Hungary	3.40	2.47	2.03	2.05
Lithuania			..	2.18
Cyprus			..	2.26
Slovak Republic	..	3.04	2.32	2.31
Slovenia	..	..	2.74	2.50
Croatia			..	2.53
Romania			..	2.78
Poland	2.97	3.57	3.32	3.06
Russian Federation			3.84	3.41
Turkey	4.42	4.15	3.66	3.44

Source: OECD

Analysis of the state control indicators reveals the following.

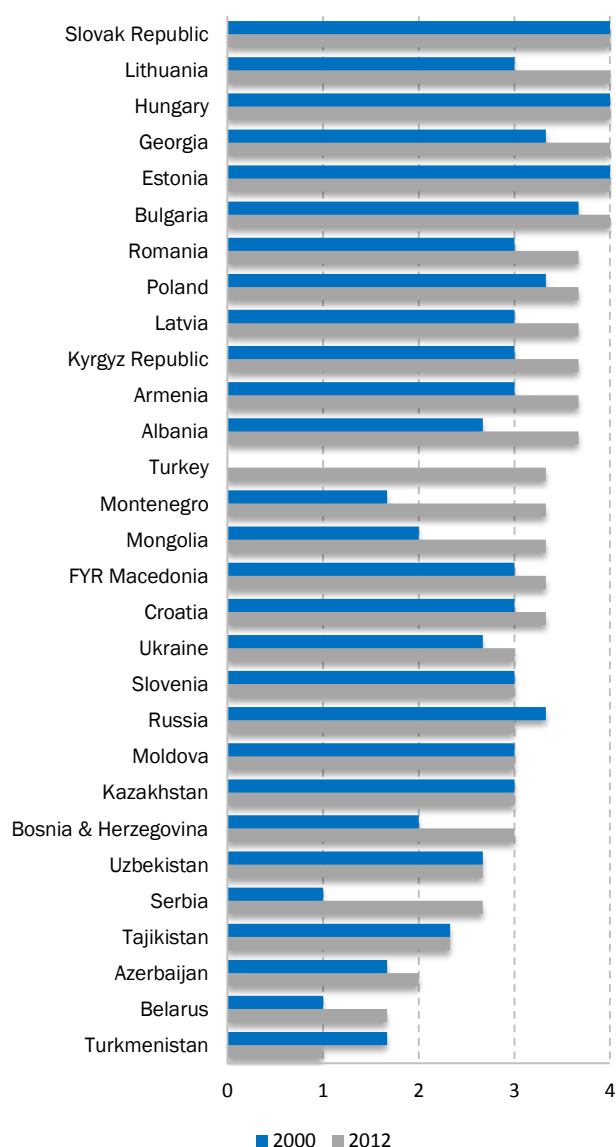
- All of the countries of operations were judged to have decreasing state control except for Hungary which had a slight regression in 2013.
- The smaller, more advanced transition states tended to demonstrate less state control.
- The three states with the largest dimension of state control, Turkey, Russia and Poland, are the three largest economies and three of EBRD's largest countries of operations. The country with the fourth largest dimension of state control, Romania is another large country as well as a significant EBRD client.

One may conclude from the analysis that the trend is toward less state control in EBRD countries of operation yet significant opportunity for reform remains; particularly in some of the larger client countries. The data concurs with feedback from bankers and OCE representatives garnered during interviews. Their viewpoint was the Bank was able to have greater impact in smaller countries with smaller SOEs. The smaller clients were more reliant on EBRD's finance and knowledge to privatise and/or commercialise. For example, EBRD was able to assert significant leverage using a milestone strategy with the ESM Pre Privatisation Share project. Loan instalments were not released until project milestones were met. Asserting this type of strategy and leverage on a Kazakh, Polish, Turkish, or Russian state-owned enterprise not privatising and capable of self-funding is much more difficult.

## 4.2 Privatisation transition

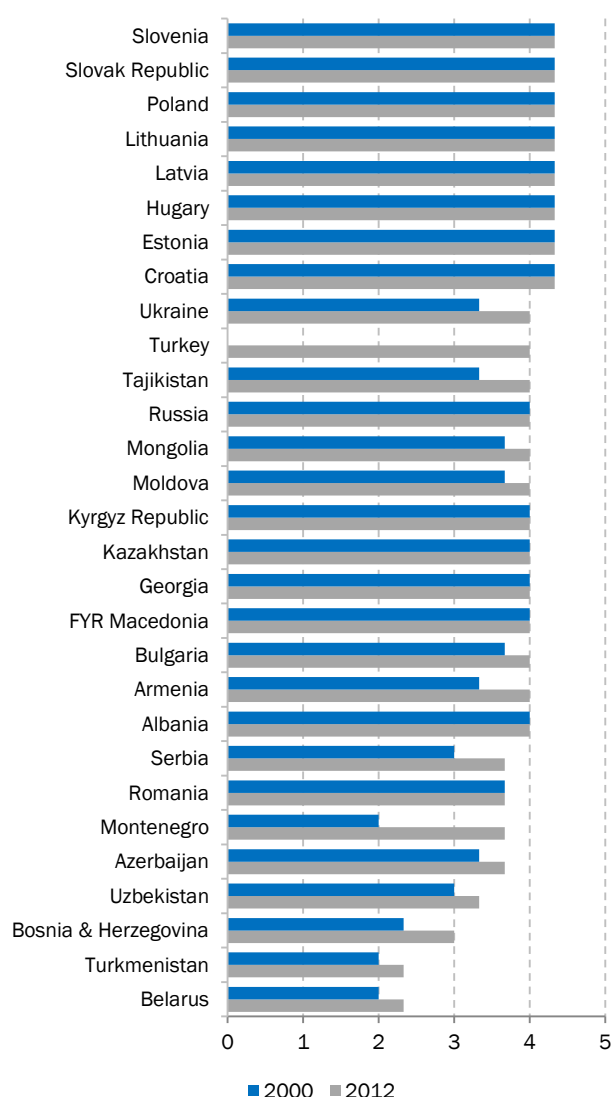
From its inception, the EBRD has strived to move public enterprises toward privatisation, and utilises level of privatisation as a measure of transition. In its transition indicators, OCE employs a 1-4 scale to rate large and small scale privatisations in EBRD countries of operations in order to understand if there is little private ownership of enterprises or there is significant private ownership with modern corporate governance.<sup>26</sup> EvD analysed these indicators from the period 2000 to 2012 to coincide with the study period, 2012 was the last year of data available. The data are displayed for 2000 and 2012.

Figure 5: Large scale privatisation transition indicator 2000, 2012



Source: OCE

Figure 6: Small scale privatisation transition indicator 2000, 2012



Source: OCE

EvD offers the following observations.

- No country has been judged to have any regression in large scale privatisation except Russia and Turkmenistan; no regression related to small scale privatisation.
- Of the twenty-nine rated countries of operation, six were rated 4.0 or better for large scale privatisation in 2012. A 4.0 rating indicates, “More than 50 per cent of state-owned enterprise and farm assets in private ownership and significant progress with corporate governance of these enterprises.” Twenty-three were rated 3.0 or better. A 3.0 rating means, “More than 25 per cent of large-scale enterprise assets in private hands or in the process of being privatised (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance.”
- Of the twenty-nine rated countries of operation, twenty-one were rated 4.0 or better for small scale privatisation in 2012. A 4.0 rating indicates, “Complete privatisation of small companies with

tradable ownership rights.”

Not displayed in the charts, indicator data report there has been no increase in levels of privatisation between 2008 and 2012. Thus, progress toward privatisation in EBRD countries has plateaued since 2008. The plateau is likely because of two factors. First, the protracted lacklustre economic performance across Europe dampens interest and pricing in privatisations. Second, as noted from the figures, most of the small-scale privatisation in the more advanced transition economies has been completed as well as a healthy percentage of the large-scale privatisations. In short, the ‘easy’ privatisations are mostly completed.<sup>27</sup> Economic recovery and political, legal and regulatory reform will drive privatisation further than EBRD finance and knowledge.

Nonetheless, there is contributory value to the Bank’s participation in privatisations and promoting private sector participation. From 2000-2013, EBRD participated in at least 140 privatisation-related projects and might be considered a contributor toward privatisation progress via its finance and knowledge and its reputation as an anchor investor.<sup>28</sup>

### 4.3 Sector transition

OCE captures a series of sector transition indicators but two are particularly relevant to this study: independence of electricity regulator and separation of railway infrastructure from operations as displayed in Table 8.

Table 8: Sector transition indicator, electricity regulator & railway infrastructure

	<i>Independence of electricity regulator</i>	<i>Separation of railway infrastructure from operations</i>
Albania	partial	no
Armenia	partial	no
Azerbaijan	no	no
Belarus	no	no
Bosnia and Herzegovina	partial	partial
Bulgaria	full	full
Croatia	full	full
Estonia	full	full
FYR Macedonia	partial	full <sup>29</sup>
Georgia	partial	no
Hungary	full	full
Kazakhstan	partial	full
Kyrgyz Republic	partial	no
Latvia	full	full
Lithuania	full	partial
Moldova	partial	no
Mongolia	partial	no
Montenegro	partial	full
Poland	full	full
Romania	full	full
Russia	partial	partial
Serbia	partial	no
Slovak Republic	full	full
Slovenia	full	full
Tajikistan	no	no
Turkmenistan	no	no
Turkey	full	no
Ukraine	partial	no
Uzbekistan	no	partial

Source: OCE

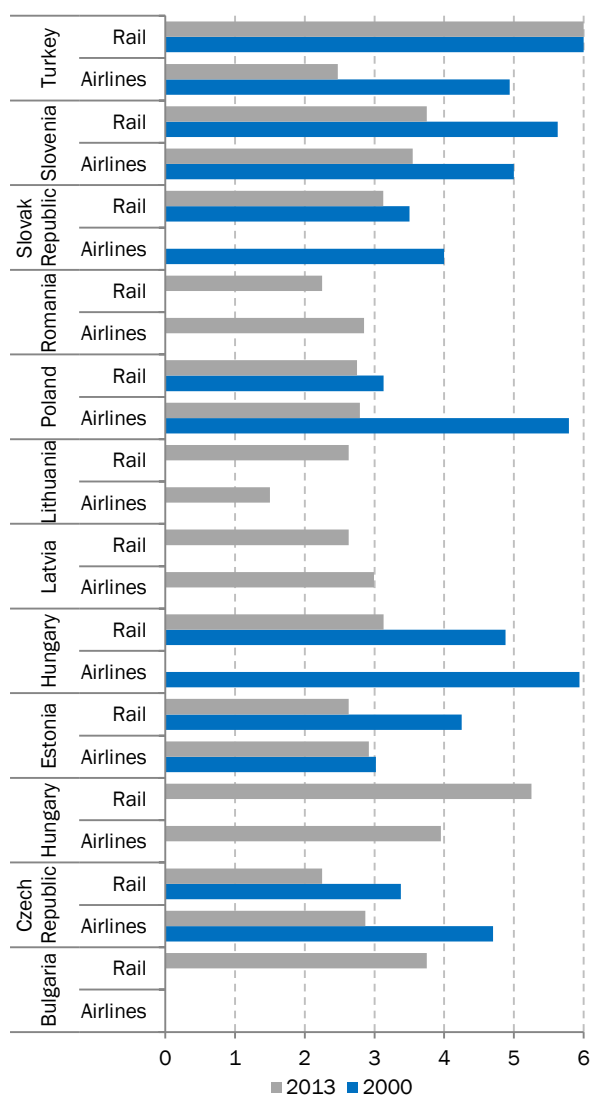
Analysis of the indicator data suggests the following.

- Kazakhstan and Poland are judged to have full separation of railway infrastructure from operations. Kazakhstan has a partially independent electricity regulator and Poland has a fully independent regulator.
- Of the countries in the study population, only the two Early Transition Countries, Moldova and Tajikistan have not separated railway infrastructure from operations. Tajikistan also has no independent electricity regulation.
- Slovakia privatised Slovenske Elektrarne and has a fully independent regulator. Even though ESM was privatised in FYR Macedonia, there is still only partial independence of electricity regulation. Whereas AB Lietuvos Energija is still state-owned as is its larger parent company but Lithuania has a fully independent electricity regulator.

### 4.4 Sectorial regulation

Part of OECD’s Product Market Regulation Index is a measure of sectorial regulation. Three of the sectors measured in the index are Airlines, Rail and Electricity. The indicators are based on ratings of entry barrier, public ownership, vertical integration and market structure on a 0-6 scale with 0 being the best and 6 being the worst. Figure 7 displays the 2000 and 2013 scores for the Airline and Rail Sectors in EBRD countries of operations rated by OECD. The non-OECD countries (Bulgaria, Croatia, Latvia, Lithuania and Romania) were only rated for 2013.

Figure 7: OECD sectorial regulation indicator, airline and rail sectors, 2000 and 2013



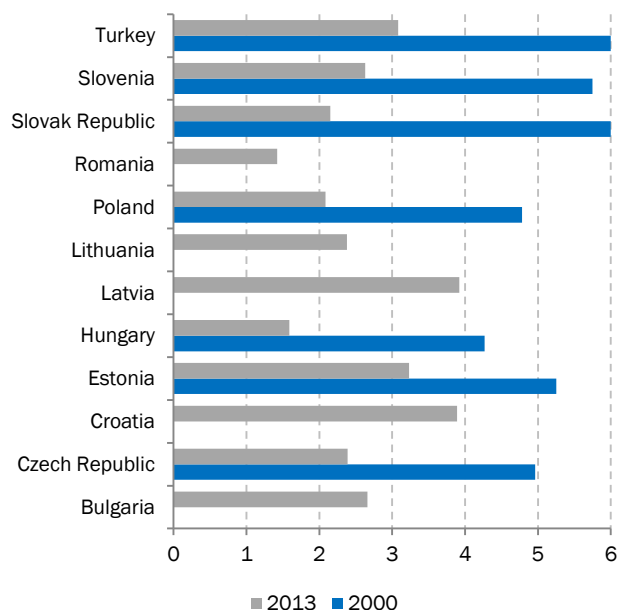
Source : OECD

Useful data observations include:

- All countries showed improvement in both sectors between 2000 and 2013 with the exception of the Turkish rail sector.
- Average indicator rating improved from 4.40 to 3.35 for **rail** from 2000 to 2013
- Poland's improvement, from 3.13 to 2.75 in rail sectorial regulation between 2000 and 2013 is small but better than the 2013 average of the group of 3.35
- Average indicator rating improved from 4.77 to 2.16 for **airline** from 2000 to 2013
- Slovakia and Hungary have ratings of 0.0 for airlines in 2013 but this stems from the lack of a national carrier.
- Estonia, with Tallinn Airport and Estonia Air still majority state owned, saw minimal improvement from 3.02 to 2.93 and is below the group average of 2.16 in 2013.

Figure 8 displays the 2000 and 2013 scores for the Electricity sector in EBRD countries of operation.

Figure 8: OECD sectorial regulation indicator, electricity sector, 2000 and 2013



Source : OECD

Analysis of the indicator data finds:

- There was significant improvement from 2000-2013 in the electricity sector in all countries with data for both 2010 and 2013.
- Average indicator rating dropped from 5.29 to 2.62.
- Both Poland (4.78 to 2.08) and Slovakia (5.75 to 2.63), two countries with projects in the study population, had some of the most marked improvement.

Also, Romania's indicator performance was relatively strong. Several bankers indicated to EvD that Romania had made significant progress in this area.

## 4.5 Sector quality

The [Global Competitiveness Index](#) compiled by the World Economic Forum rates countries national competitiveness. Three of the components of the index are quality of air transport structure, rail infrastructure and electricity supply.<sup>30</sup> The quality is rated on a 1-7 scale with 1 being worse than most other countries and 7 being at the highest international standard. The earliest year available for these indicators was 2008, the most recent 2014. EvD noted the ratings for sectors relevant to the study population and observed progress from 2008-2014 where possible.

### Rail Infrastructure

Kazakhstan's (KTZ) quality of rail infrastructure was ranked 34<sup>th</sup> in the world with a rating of 3.6. By 2014, Kazakhstan rose to 28<sup>th</sup> place with a rating of 4.2. Poland (PKP) was ranked 61<sup>st</sup> in 2008 with a rating of 2.6. Poland improved its rating to 55<sup>th</sup> with a rating of 2.9 in 2014.

## Airport Infrastructure

Moldova (Chisinau Airport) was 93<sup>rd</sup> among countries with a rating of 2.9 in 2008. Moldova's rating rose to 3.7 in 2014 but its relative ranking dropped to 102<sup>nd</sup>. Estonia (Tallinn Airport) dropped to a rating of 3.8 and a ranking of 98<sup>th</sup> in 2014 from a 5.1 rating and a ranking of 51<sup>st</sup>. Estonia was above the mean in 2008 and below the mean in 2014. In 2008, the quality of Tajikistan's (TSA) air transport infrastructure ranked 112<sup>th</sup> in the world with a 3.5 rating. By 2014, Tajikistan had risen to the 91<sup>st</sup> place with a rating of 4.0.

## Electricity Supply

Poland (Belchatow, ENEA) ranked 54<sup>th</sup> in the world for quality of electricity supply in 2008 with a rating of 5.2. In 2014, Poland was 46<sup>th</sup> with a rating of 5.5. The 2008 numbers for Kazakhstan were 4.3 and 81<sup>st</sup> and then

slightly elevating to 4.7 and 78<sup>th</sup>. Slovakia (Slovenske Elektrarne) rated 6.0 for 27<sup>th</sup> in the world in 2008 but fell to 32<sup>nd</sup> despite a small rating increase to 6.2. Lithuania (AB Lietuvos) achieved a 5.5 rating for the 39<sup>th</sup> spot in 2008 and stayed relatively close with a rating of 5.6 in 2014 which accounted for a ranking of 41<sup>st</sup>. Finally, in 2008, Macedonia (ESM) was 77<sup>th</sup> with a 4.4 rating, and in 2014, was rated 4.9 for the 66<sup>th</sup> position.

Overall, despite a significant presence of state-owned enterprises in the Power & Energy and Transport sectors, some progress toward key indicators of transition has been achieved. Nonetheless, with sixteen countries not having achieved full independence of the energy regulator and seventeen countries not yet achieving full separation of railway infrastructure, significant work remains to be done.



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## 5. Case studies in Kazakhstan & Poland

### Summary

Case studies present findings from EvD's research including field missions in Kazakhstan and Poland. The studies present a brief overview of the respective sectors, electricity and rail, EBRD project history, current status of the sector, and remaining challenges. The section concludes with an overall analysis identifying larger findings. Highlights include:

- Growing interest but both countries in relatively early stages of renewables development
- Limited interest in privatising electricity transmission companies; partial privatisation of electricity generation and distribution with a long, cautious approach to full privatisation
- EBRD's efforts in corporate governance where applicable have generated results
- A greater interest in effective regulation than independent regulation

### 5.1 Case Study Kazakhstan

The core of the Kazakhstan case study pertains to the Bank's projects in the transport and power industries from 2000 to date, and in particular to the Kazakhstan Electricity Grid Operation Company (KEGOC) and Kazakhstan Railways (Kazakhstan Temir Zholy – KTZ). Both SOEs are owned since 2008 by the Samruk-Kazyna National Welfare Fund JSC, the Kazakh state holding company for SOEs.

Despite acceptance of EBRD's proposed legal and regulatory recommendations over the years, practical application of said recommendations by the SOEs and/or national authorities has been challenging. The Bank has maintained active engagement despite limited results in the past because of the prevailing opinion that modernising the approach to economic regulation across infrastructure sectors (tariffs in particular) will be a key contributor to broader economic development and diversification in Kazakhstan. A total of €1.5 million was pledged in July 2013 for technical assistance to natural monopolies across various sectors of the economy to review previous recommendations to develop a more transparent and efficient tariff policy, adopt legal and regulatory frameworks and methodology for tariff estimation, and apply such tariffs in infrastructure sectors where monopolies operate.

#### Power sector - electricity

##### Sector history and overview

- The majority of Kazakhstan's generating capacity is in the northeast of the country while the southeast is the main power consumer.
- Kazakhstan also lacks sufficient generating capacity in the west and relies on Russian imports to overcome deficits. Kazakhstan's electricity sector is unable to regulate its generating

frequency and needs to import electricity not only to offset supply gaps and regulate frequency. Kazakhstan is also a significant exporter of energy to Russia, Kyrgyzstan and Uzbekistan. The bi-directional nature of electrical power trade reflects both variations in seasonal energy supply/demand as well as the legacy of a Soviet-era grid that was built without respect to modern-day national boundaries.

- In the mid-1990s, the Government embarked on power sector reforms. More than 50% of the power generation capacity was auctioned off to private investors. Most of the 21 regional distribution companies remained in state hands.
- The transmission system operator became the state-owned Joint Stock Company Kazakhstan Electricity Grid Operating Company (KEGOC) in July 1997. KEGOC owns the country's high voltage transmission lines and substations and is responsible for the operation of the HV grid, the scheduling and dispatch of power generation plants, and the management of load flows.<sup>31</sup>
- A problem is relatively high transmission and distribution losses. It is estimated that at least 15% of all energy produced is lost due to technical defects.
- In 2009, price caps were introduced. Most end-user tariffs remain regulated; thus, in practice wholesale tariffs are constrained despite their deregulated pricing. Generators can apply to AREM for an increased cap to meet their requirements for specific investment projects. The Government has declared that after 2015 there will be a shift back to the competitive (deregulated) pricing in the electricity market.
- The legislation for a capacity market mechanism was approved and due to come to force in 2016. The formalisation of prices caps and long-term non-tradable capacity rights increase the role of the state. Hence, the legislation may represent a backward step in terms of decentralising the planning of new generation capacity.
- The sector regulator is not fully independent currently, as its head is appointed by the government.

##### KEGOC and EBRD project history

- A total of five loan agreements have been signed between KEGOC and the EBRD for the total amount of €344 million.
- EBRD's projects with KEGOC have concentrated on construction, modernisation and rehabilitation of electricity transmission lines. There is a strong need to deliver electricity from generation facilities across Kazakhstan's vast territory and to reduce energy loss.

Table 9: List of EBRD's investments with KEGOC

Project name	Signing date	Total value (million)	EBRD loan (million)	Guarantee
KEGOC Power Transmission and Rehabilitation Project (Phase I)	03 Dec 1999	\$256	45 (€ 41)	Sovereign guarantee
Construction of 500kV Second Transmission Line of Kazakhstan North-South Transit	16 Mar 2004	\$81	\$35 (€ 32)	Bid security fully repaid in 2011
	24 Nov 2005	\$238	\$49 (€45)	Bid security fully repaid in 2011
KEGOC Modernisation Loan II	05 Jun 2008	€228	€149	Unsecured
KEGOC Ossakarovka Restructuring Loan	21 May 2011	\$167	US\$ 84 (€77)	Unsecured

- From an overall technical and operational perspective, the EBRD projects have been successful in improving and augmenting KEGOC's transmission capacity and reducing losses.
- The project documentation and discussions with KEGOC management support strong transfer of skills from EBRD to KEGOC especially in the area of procurement.
- More recent projects aimed to reform KEGOC and the power sector. The two EBRD loans signed in 2004 and 2005 were to optimise KEGOC's cash-flows and balance sheet. In 2011 the EBRD signed a non-sovereign loan for US\$166 million to support the rehabilitation of the Ossakarovka transmission line not only to ensure reliability of electricity supply to the City of Astana and the Akmola region but also to refinance two loans from the Development Bank of Kazakhstan.

#### Current status

- Government controlled end-user regulation
- One state-owned electricity transmission company; electricity distribution is dominated by state-owned companies; generation is a mixture of state and private companies
- Private sector companies, including foreign-owned companies, are increasing market share especially in electricity generation; EBRD is investing in private companies, CAEPCO and AES
- There is movement toward private minority ownership through Samruk-Kazyna's privatisation program
- Improving technical capability related to energy loss and transmission capacity
- Nascent stages of renewables development

#### Remaining challenges

- Regulatory reform to develop independent and effective regulation especially pricing
- Continued support for improved corporate governance
- Modernisation is needed to provide service to remote, less populated parts of Kazakhstan, reduce energy loss, and increase capacity
- Privatising the industry sufficiently to enable greater market entry and growth of private companies especially in distribution
- Increasing awareness, profitability, and grid access for sustainable energy.

## Rail

### Sector history and overview

- High economic dependence on large, land-based transport networks as well as one of the world's most sizable networks.
- Kazakhstan Temir Zholy (KTZ) or Kazakh Railways was incorporated as a joint stock company in 2002. KTZ is a vertically integrated national railway transportation operator, owns and operates the main railway network throughout the country, and maintains a dominant position in both freight and passenger rail services. KTZ is the largest employer in the country with about 155,131 employees.
- KTZ's core railway businesses have been largely unbundled and ancillary services have been divested, but institutional restructuring is still ongoing. Railway labour productivity is relatively high but it is still lower than at the beginning of transition.
- Being one of the least densely populated countries in the world and covering a vast area, passenger rail is not profitable and ticket pricing is controlled by the Government.
- With reform perhaps slower than anticipated, KTZ recognised market forces and competition from Russian competitors and embarked on the Transport Infrastructure Development Programme 2010-2014 ("TIDP"), elements of which include separation, commercialisation and, eventually, partial privatisation of KTZ Group and its key operating subsidiaries. Achievements include:
  - Infrastructure tariff unification
  - Partial deregulation of freight operations
  - Buy-back of railway infrastructure from third parties (municipalities)
  - Initiating changes to the legal framework adopted in 2013 to fulfil the pre-conditions for establishing an infrastructure subsidiary (KTZ Infrastructure)
  - Improved corporate governance standards for some KTZ subsidiaries in preparation for partial privatisation, particularly Kaztemirtrans (KTT) and Transtelecom.

- To complement the TIDP, in the end of 2013 the Government adopted an Infrastructure Development Plan for 2014-2020. It is a US\$ 24 billion large-scale plan aimed at developing the transport infrastructure to integrate Kazakhstan in the global transport system. Special focus is on constructing logistics infrastructure to attract transit traffic between China and Europe.
- KTZ seeks to become a large, multimodal logistics operator encompassing rail and road.
- KTZ has two subsidiaries, Kaztemirtrans (cargo,

freight forwarding, provision/servicing of cars, etc.) and JSC Transtelecom (telecom, networks, services, etc.) which may eventually be privatised.

#### KTZ and EBRD project history

A total of eight projects have been signed between the EBRD and KTZ (and subsidiaries). The total value of EBRD's investments in KTZ is €733 million. The projects initially focused on refurbishment and modernisation, and have progressed to loans oriented toward restructuring, improving the balance sheet, and energy efficiency.

Table 10: List of EBRD's investments with KTZ and its subsidiaries

Project name	Signing date	Total value (US\$ million)	EBRD loan (US\$ million)	Guarantee
KTZ Track Maintenance and Commercialisation Project	03 Dec 1999	\$90	\$65 (€60)	Sovereign
KTZ Transtelecom Communication Infrastructure Modernisation	15 Sep 2008	\$129	\$53 (€48)	KTZ
JSC Kaztemirtrans Wagon Fleet Renewal	29 Mar 2010	\$79	\$50 (€46)	KTZ
KTZ Eurobond issue	29 Sep 2010	\$665	\$105 (€97)	KTZ
JSC Kaztemirtrans Restructuring Loan	1 Dec 2010	\$245	\$195 (€250)	KTZ
KTZ Energy Efficiency Loan	19 Dec 2013	\$60	\$39 (€36)	Unsecured
Project Sakura	12 Jun 2014	CHF 370	CHF 50 (€48)	JSC Kaztemirtrans and JSC Locomotive
KTZ Local Currency Loan	18 Sep 2014	KTZ 30,000	KTZ 30,000 (€148)	N/A

Source: DTM as of May 2015

One of the central features of the KTZ projects has been improvements in procurement and corporate governance. Along with EBRD's own technical assistance, the EU and USAID endeavoured to facilitate KTZ's corporatization and privatisation. Progress toward corporatization as evidenced in Section 4 has been consistent, toward privatization less so. In 2014, when Samruk-Kazyna embarked on a privatisation programme per Government decision, 49% of KTT is being offered for sale to private investors. The EBRD is currently advising Samruk-Kazyna on the privatisation.

EBRD has also added value through an anticorruption programme with KTZ to enhance risk management and tackle procurement issues. Measures following EBRD's recommendations include a code of business ethics, whistleblowing, and conflict of interest provisions. TC consultants provided their final recommendations including a Corporate Code of Conduct which were fully accepted by KTZ. The new anti-corruption procedures, including a hot line, are in operation. However, as mentioned in the consultant's report, monitoring measures should be in place as well as addressing procurement rules directly with Samruk-Kazyna, the parent holding company. Integrity and anti-corruption training have become more routine in KTZ. Sustainability will require continuing effort.

#### Current status

- Large rail freight volume
- Open access to rail infrastructure
- Passenger rail losing money. Cross-subsidisation from other KTZ companies is necessary
- Additional investment in rail infrastructure is needed
- A price regulator was established but is still not

fully independent and the regulatory framework is of limited effectiveness

- Railways are profitable and have been able to issue international bonds. There is limited private sector participation (e.g. provision of wagons) from domestic freight operators, but there is significant presence of foreign (mainly Russian) operators
- KTZ foresees a long-term possibility of being an infrastructure provider with private companies active throughout the sector. (KTZ Transtelecom and Kaztemirtrans are designated for partial privatisation.)
- KTZ found to be most effective Samruk-Kazyna state-owned enterprise per Presidential Administration study

#### EBRD private sector investments

- There are private sector companies operating in freight rail including EBRD investees Eastcomtrans and Olzha<sup>32</sup>. There are thirteen private rail freight operators in Kazakhstan. Eastcomtrans with the support of EBRD is now the second largest rail freight carrier in Kazakhstan.
- While KEGOC remains the sole electricity transmission company, CAEPCO and AES are Bank clients and private companies operating in electricity distribution and generation.<sup>33</sup>

#### Remaining challenges

- Expanding geographically and investing in infrastructure while competing against larger Russian and Chinese companies
- Develop internationally competitive logistics capabilities at KTZ without quashing private freight forwarding and rail logistics companies
- Establishing market pricing and/or profitability for passenger rail

- Continue privatisation process with KTZ Transtelecom and other appropriate subsidiaries.

## 5.2 Case Study Poland

This case study deals with the Bank's approach to three SOEs in Poland. Results of the projects were examined in light of the Bank's country strategy for Poland and the operational objectives established for the sectors of energy and railway in which the SOEs operate. EBRD plays a different role in Poland than Kazakhstan as Poland is bound to conform to EU laws and directives. Nonetheless, EBRD maintains significant policy dialogue regarding privatisation, green investment, environmental standards and other issues relevant to SOEs.

### Power sector - electricity

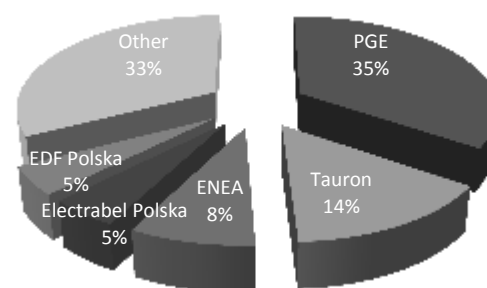
#### Sector history and overview

- Most of Polish electricity is generated from fossil fuels, especially coal. Poland is Europe's second largest producer of coal after Germany. In 2013, 81% of Poland's total installed capacity came from thermal power and coal.
- Since 1997, energy companies have been subject to the Energy Law, which created an independent regulatory authority (Urząd Regulacji Energetyki or URE) to control pricing and other practices. Poland has attained independent market regulation of energy tariffs except for households.

Following the consolidation in 2006 of Polish state-owned generation and distribution companies into four groups, Polska Grupa Energetyczna (PGE), Tauron and ENEA, have been the leaders on the Polish energy market despite the introduction of foreign competition.<sup>34</sup> As illustrated in

Figure 9, PGE is leading the power generation market with a 34.6% share of total installed capacity followed by Tauron and ENEA.

Figure 8: Market share of power generation utilities (%) in Poland, 2013



Source: GlobalData

- In 2009, Poland adopted an energy policy with an aim to improve energy efficiency, environmental standards and supply security; introduce nuclear energy; develop competition in energy markets; and stimulate demand for renewable energy over the next two decades.
- The share of renewable energy in electricity production is increasing. In 2012, renewable sources (with an estimated installed capacity of 4.4GW) represented 12.5% of the total installed capacity in Poland compared to 8.2% in 2010. As of the end of 2013, the total installed capacity of renewable energy sources increased to 5.5GW. However the positive growth may be in jeopardy due to uncertainty regarding the regulation of renewable energy.

#### BOT and project history

- In 2005, the Bank made a €175 million loan to BOT Elektrownia Belchatow S.A. (EBSA) to finance a new single 858MW power unit. The loan was part of EBSA's modernisation and environmental investment programme totalling €1.6 billion.
- EBRD's active policy dialogue with EBSA on the implementation of EU directives appears to have played a role in originating the project. A €250 thousand technical cooperation grant was associated with the project to upgrade EBSA's electricity trading/pricing and risk management capabilities.
- The plant was absorbed by the largest state-controlled power group, PGE.

#### ENEA and project history

- In 2008, the Bank participated in the privatisation of ENEA through an investment of PLN 340 million (approximately €100 million in 2008) in the company's initial public offering (IPO) and listing on the Warsaw Stock Exchange. The projected amount of the IPO was scaled-down from PLN 3 to PLN 2 billion and the Bank paid PLN 170 million to acquire 11 million shares at PLN 15.4 for a stake of 2.5% in ENEA. The Bank agreed to a lock-up period of 12 months.
- EBRD's participation in the IPO of ENEA led to significant corporate governance changes allowing the company to comply with Warsaw Stock Exchange corporate requirements. The Bank's nomination of an independent board member in

ENEA also improved the efficiency of supervisory board meetings. Likewise, the requirement by the Bank for PKP Cargo to create a special supervisory committee contributed to reducing political influence from management's decision-making process.

- Swedish power company Vattenfall, the anticipated eventual purchaser of ENEA, was the major investor in the IPO subscribing nearly 18 % of ENEA. The Polish State Treasury retained a 76 % stake after the IPO. Vattenfall sold its shares and did not move forward with the purchase of ENEA.
- In 2013, the Bank made a full exit from ENEA which remains controlled by the state with 51% of the shares.

#### EBRD private sector investments

- The Integrated Approach to Renewables finances numerous wind and biomass projects sponsored by a variety of private companies, examples of private electricity distribution and generation projects include Patnow II (Electricity generation), and Dalkia Polska (Heating/generation systems). The Bank invests in Polenergia, Poland's first private, vertically integrated energy company.

#### Current status

- Independent regulation except for households
- One state-owned electricity transmission company; electricity generation and distribution is dominated by majority state-owned companies
- The state-owned companies compete commercially versus one another
- Private sector companies, including subsidiaries of foreign companies, have a minority but important percentage of the marketplace.
- Compliance with EU standards and movement toward EU norms.
- Renewables are on the rise.

#### Remaining challenges

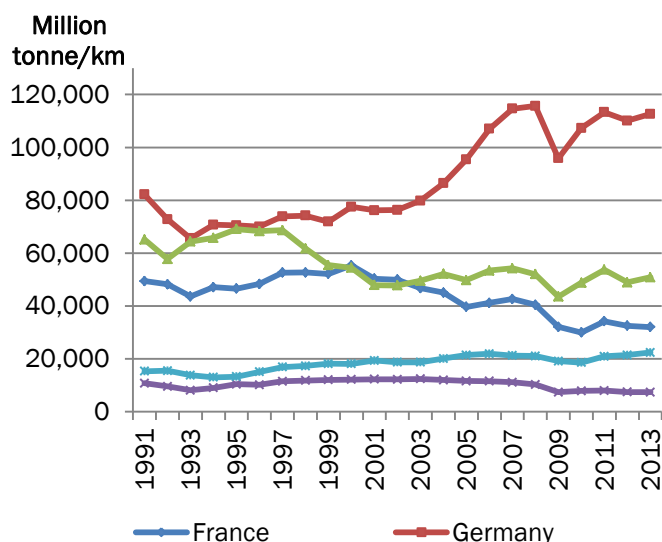
- Restructuring and modernisation is required especially in light of recent government declarations regarding the potential closure of certain coal companies.
- The main companies operating in the sector remain subject to high public ownership and further consolidation without additional foreseeable progress towards privatisation.

## Rail

### Sector history and overview

The Polish railway market is one of the largest in Europe. As illustrated in Figure 9 below, Poland's rail freight volume remains on average above other European countries with developed rail sectors such as France, United Kingdom and Spain.

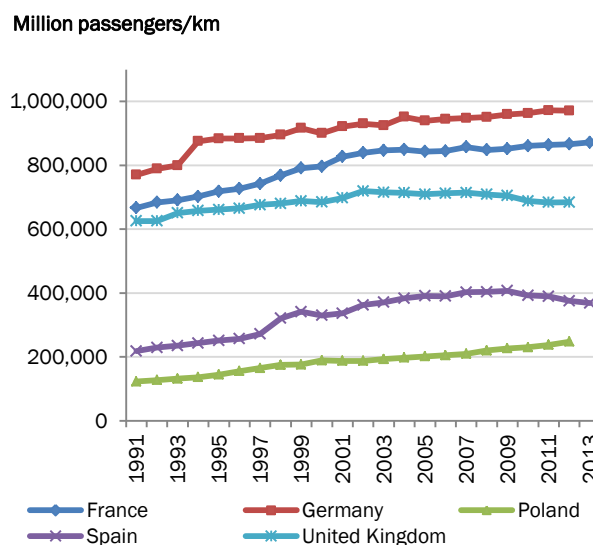
Figure 9: Rail freight in million-tonnes



Source: OECD.Stat

As illustrated in Figure 10, rail passenger transport in Poland has gradually lost around 35 % of passenger-km due mainly to poor service and low quality of infrastructure. Polish rail infrastructure is underutilised for passengers compared to other European countries. PKP's passenger rail subsidiary is not profitable.

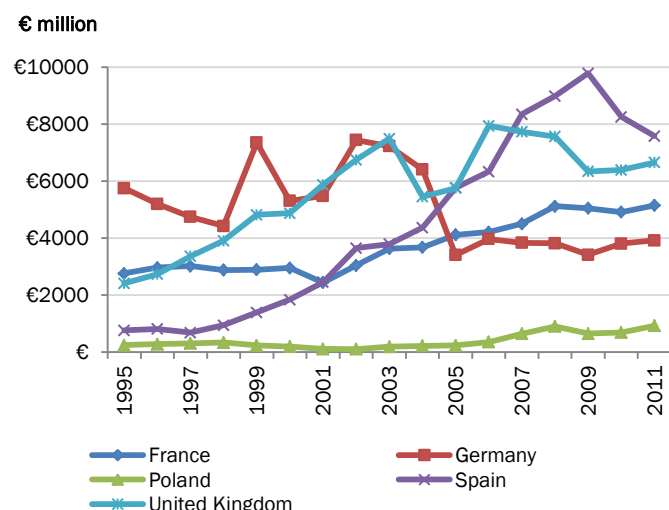
Figure 10: Rail in million passengers/km



Source: OECD.Stat

As illustrated in Figure 11, investment in rail infrastructure in Poland is low compared to other European countries. Between 2007 and 2012, EU structural and cohesion funds (€17 billion) provided most of the funding of rail projects and Poland was one of the major recipients together. EU financing is currently focusing on modernising tracks and rolling stocks mainly in suburban and urban areas.

Figure 11: Rail infrastructure investment in euros



Source: OECD.Stat

According to the Transport Development Strategy 2020 published at the beginning of 2013, passenger traffic is expected to increase by 27-35% until 2020 and by 58-86% in 2030, and therefore the rail sector strategy should focus on improving the quality of services and infrastructure.<sup>35</sup>

## PKP and project history

- In 1999 and 2002 two loans were made of €100 million and €130 million to PKP S.A, the holding company, in order to support PKP's implementation of the railway restructuring law and labour restructuring efforts.
- The Bank's policy advice was reflected in a new railway transport law that provided the basis for the separation of rail infrastructure from the licensing of train operators. This may arguably have been the first step of a process, which resulted in two consecutive investments with PKP S.A., one investment with PKP Energetyka and in the eventual privatisation of PKP Cargo.
- In February 2004, EBRD made a €15 million loan to PKP Energetyka (PKPE), the electricity supplier to the Polish national railway company. This project financed cost-saving investments in energy supply and electric network maintenance as part of the cost efficiency programme of PKPE.
- In October 2013, EBRD participated in PKP Cargo's IPO and share listing on the Warsaw Stock Exchange. The Bank acquired shares sold by PKP S.A. as part of PKP Cargo's partial privatisation. In February 2015, the Bank exited PKP Cargo in an accelerated bookbuild offering.

Table 11: List of EBRD's investments with PKP group

Project name	Signing date	Total value (million)	EBRD loan (million)	Guarantee
PKP Restructuring & Privatisation Project	11-Dec-00	€230	€100	Sovereign
PKP Second Railway Restructuring & Privatisation Project	19-Mar-02	€130	€130	Sovereign
PKP Energetyka Network Management Project	29-Mar-04	€12	€11	Non-Sovereign
PKP Cargo (former Project Tamarind)	23-Oct-13	PLN 1.423	PLN 155 (€37)	Non-Sovereign

Source: DTM as of May 2015

## EBRD private sector investments

- Outside of PKP, EBRD invested in Axtone, a rail technology company headquartered in Poland.

## Current status

- Large rail freight volume
- Passenger rail losing money. Cross-subsidisation from other PKP companies is necessary.
- Rail infrastructure is underutilised and in need of upgrading. Investment in rail infrastructure is low relative to other EU states.
- PKP has a long-term strategy of being an infrastructure provider with private companies active throughout the sector. (PKP Energetyka is designated for privatisation.)
- There are private sector companies operating in freight and passenger rail in Poland including subsidiaries of Deutsche Bahn.

## Remaining challenges

- Modernisation of the rolling stock and passenger coaches to increase use of rail services by passengers
- Consolidate the role of the railway transport within an integrated Polish transport system
- Increase railway competitiveness compared to the other modes of transports, in terms of safety and comfort.
- Continue privatisation process with PKP Energetyka and other appropriate subsidiaries.

## 5.3 Case Study Analysis

### Greater interest in “effective” regulation rather than independent regulation

In Kazakhstan, electricity tariffs are not independently regulated. In EvD's discussions with stakeholders in Kazakhstan, effective rather than independent regulation was emphasised. Thus, EBRD has been steadfast in its

efforts to work toward better regulation. In Poland today, there is independent regulation of electricity tariffs with the exception of household customers. When EvD spoke with the Energy Regulatory Office, the management spoke of eventual independent regulation for households but offered no timetable because they were of the belief that the existing setup was most effective given existing conditions.

### **Privatisation, increase in private ownership and unbundling projects are not viewed as ultimate goals by Governments especially among “national monopolies”, and political and economic constraints are stronger determinants in this area than SOE strategy and EBRD efforts**

One of the continued challenges across countries and sectors is continued expansion of private ownership. The previous discussion of privatisation (Section 3.3) not always being a project objective reflects the thinking and the empirical reality of SOE management. Full privatisation was viewed as an attractive perhaps even likely future prospect but by no means near-term or assured and not a panacea. During interviews in Kazakhstan and Poland, unbundling and privatisation were characterised as “means” to growth in the private sector and better competition and innovation not “ends” by regulators and state-owned enterprise managers. There were fears the market could be dominated by a single company, perhaps foreign owned, or an oligarch. In the case of the railroads, the passenger railroads for both KTZ and PKP were consistently loss-making entities. Privatising the passenger railroads would likely mean a decrease in routes and services to passengers.

Discussions with company representatives, government officials and EBRD bankers identified some SOEs as ‘natural monopolies’ due to strategic national interest, inability to earn a profit, and/or inability to generate private interest. Electricity transmission companies were mentioned as national monopolies. Industry representatives mentioned that ensuring equal access to the grid; sufficient resourcing to expand and improve the grid even in less profitable locations; and safeguards from larger, foreign companies controlling the grid mandated keeping the companies state-owned. In discussion with the Energy Regulatory Office in Poland, a fear was that if the four main Polish generation and distribution companies were further unbundled and privatised into smaller entities that they could be bought and controlled by foreign utilities. Recent reports indicate that the state-owned electricity companies may combine to create a more capable company. Control of electricity is seen as too important to cede to foreign companies. In Kazakhstan, one of the least densely populated countries in the world; a private company might not be as willing to extend the grid far from population or industrial centres. Private companies were seen to be less sensitive to social issues since SOEs often employ many people, and

an increase in private participation generally means a reduction in the number of employees.

Proponents of privatisation may posit that the aforementioned arguments do not form a business case to keep companies state-owned. Regardless, they may affect the political will to pursue privatisation.

Mentioned on several occasions in Poland was the availability of EU grants and structural funds to reform state-owned enterprises. The EU offers grants to state-owned enterprises to help them modernise and restructure to align with EU regulations and compete in the EU marketplace. Privatising would make Polish SOEs ineligible for these funds. By remaining partially privatised state-owned enterprises, the companies are able to access EU grants, EBRD and other IFI funding, commercial funding, and investment capital raised through stock offerings. The enterprises are profitable and pay dividends to shareholders including the state. Thus, the incentive to privatise is limited unless there is a clear path to higher profits, capital investment and more effective delivery of service.

### **Outlook is for greater private sector participation and capital in the rail sector**

Both KTZ and PKP spoke of increasing market share in freight rail being moved to the private sector, and greater outsourcing of maintenance and support services to private companies. Both companies spoke of eventually evolving to become infrastructure providers with subsidiaries and private companies providing all rail-related services in the medium-to-long term. They also emphasised open access to rail infrastructure. Both companies are considering the privatisation of subsidiaries especially those subsidiaries not core to rail services such as energy or telecom.

### **Impact of the Bank’s requirements on corporate governance**

EBRD’s participation in the IPO of ENEA led to significant corporate governance changes allowing the company to comply with Warsaw Stock Exchange corporate requirements. The Bank’s nomination of an independent board member in ENEA also improved the efficiency of supervisory board meetings, which allowed the development of a corporate strategy. Likewise, the requirement by the Bank for PKP Cargo to create a special supervisory committee contributed to reducing political influence from management’s decision-making process. In Kazakhstan, when KTZ needed to remake its image given significant corruption scandals, it asked the EBRD to assist it and to advise on the necessary changes in its corporate governance. Similarly, Samruk-Kazyna has asked the EBRD to advise while preparing the privatisation plan that included KTZ’s subsidiaries and preparing KEGOC’s IPO.

### **Future transition impact challenges**

In terms of planning future projects with SOEs, Banking team members often voiced opinions to EvD that the transition impact for subsequent transactions with SOEs was underrated in the current methodology. Bankers in Kazakhstan and Poland believed that proposed projects with insufficient transition impact ratings were unnecessarily downgraded by virtue of a SOE being the client. There was a strong belief that facilitating a SOE's ability to enter and successfully fulfil a commercial

transaction achieved tangible transition impact. The commercialisation process combined with corporate governance improvements, although not the large sectorial reforms often sought, brings significant change to the enterprise and may help lay the groundwork for larger transition impact at a later time. Subsequent transactions also increased the rationale for continuous involvement of OCE, procurement and other EBRD units which provide technical expertise.



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## 6. Conclusions

### 6.1 Evaluation question responses and findings

#### What is the rationale for the bank's involvement with state-owned enterprises?

EBRD maintains strong rationale for continued involvement with state-owned enterprises. Engagement with SOEs is referenced in the Article 11 of the Bank's founding agreement and continues to be referenced in strategic documents such as Medium-Term Directions and Capital Resources Review 4.

By and large, evaluation and assessment of the projects in the study population has indicated achievement of most objectives and overall success. The project results were frequently modernisation – enabling better service to the public, restructuring – enabling privatisation and commercial investment, and/or privatisation – enabling greater private ownership.

Analysis of the sectors shows marked improvement since 2000 in terms of infrastructure quality, state control, privatisation transition, etc. Yet significant room for additional improvement continues. Most recently, the EBRD President offered in his 15 April 2015 speech to the Carnegie Endowment for International Peace, “There is no point replacing a state monopoly with a private one if you don't have a strong and effective state to regulate service provision and quality. In such contexts, strengthening the public provider might have been a more appropriate intermediate step than pushing prematurely for private sector solutions.”

The two case study countries, Kazakhstan and Poland, have viewed EBRD as a partner in the modernisation and development of state-owned enterprises. In summary, EBRD transactions with state-owned enterprises are/have:

- Linked to EBRD's founding principles as well as current strategy
- Generally achieved project and enterprise-level objectives along with some sector-level improvements with remaining opportunity for additional enterprise and sector-level transition improvements.
- Recognised by SOEs and governments as a component in the development of SOEs.

Thus, there has been and continues to be rationale for transactions with SOEs.

#### What additionality has the bank provided in its interaction with SOEs?

Other IFIs invest in SOEs, which are often able to attract commercial investment particularly larger SOEs. EBRD's additionality stems from the terms provided, longer tenors and commercial lending without recourse to the sovereign which distinguishes EBRD from other IFIs. Conditionalities related to procurement, corporate governance, and reporting have proven additional and

often beneficial to the SOEs. In the study population projects, the Bank has mobilised more than €3 billion in external finance.

EBRD's attributes are particularly strong as it plays a distinct role among IFIs guiding the SOE from sovereign lending to non-sovereign lending to the SOE to commercial lending to the privatised enterprise. Market participants in Kazakhstan and Poland consistently referred to the value of EBRD's role as an anchor investor.

#### To what extent has the bank's involvement facilitated private ownership of these firms or growth in private participation and capital?

At the study population level, EBRD did facilitate or contribute to private ownership or an increase in private participation or capital in some manner where purposefully stated. EBRD contributed to two privatisations and four partial privatisations among the study population SOEs. EBRD is an advisor to the Government of Kazakhstan for the Samruk-Kazyna privatisation programme. At the sector level, the privatisation transition indicators show marked progress since 2000. From 2000-2013, EBRD participated in at least 140 privatisation-related projects. Private sector participation projects in the study population supported greater use of concessions, increased access to the electricity grid, and licensing of foreign airlines. Finally, EBRD is investing in the private sector companies in the Kazakh and Polish energy and rail sectors alongside its investments with SOEs.

EBRD's role is primarily as a facilitator rather than as a causal agent or a catalyst. For it to be successful in advancing transition in SOEs there must be an appropriate environment and political will. The Kazakh case study exemplifies a deliberate approach toward full privatisation of KEGOC and KTZ despite a long term relationship with EBRD, multiple transactions, and extensive technical cooperation and policy dialogue. In Poland, after initial interest in fully privatising ENEA with EBRD's participation and scheduling ENERGA for full privatisation, concerns over energy security and competition have waylaid plans for privatisation.

#### To what extent has the Bank's involvement facilitated more modern and corporatized firms?

Regarding the study population, state-owned enterprises as a cohort were generally able to attract external finance including commercial finance and progress from sovereign guaranteed loans to more commercial loans on later transactions; although some may question whether commercial lenders assume an implicit if not explicit guarantee from the sovereign when lending to SOEs. All of the study population companies are now incorporated and nearly all publish annual reports. Most employ IFRS. The large case study Kazakh and Polish SOEs all have corporate credit ratings of BB+ or better.

Representatives from the procurement department and OCE specifically cited that EBRD's transfer of knowledge, particularly in smaller, less advanced SOEs, was as vital as technical cooperation and policy dialogue in attaining

commercialisation. KEGOC, KTZ, ENEA and PKP directly informed EvD of the Bank's contribution to their respective commercialisations. Samruk-Kazyna's international procurement procedures are based on EBRD's procedures.

On the other hand, progress toward public listing and independent board members is mixed. There is uneven development in the separation of railway infrastructure from operations throughout the region. In short, transactions with EBRD tends to inject some additional commercialisation into SOEs but there is a limit to the commercialisation based on the commercial level and capacity of the SOE, EBRD resources available, and readiness of the larger environment.

### **To what extent has the marketplace benefitted from the Bank's involvement?**

Concerning the study population, EBRD's involvement has contributed to private investment, private sector participation, and participation of commercial financiers in the relevant marketplaces. Furthermore, the Bank has consistently invested in private sector companies alongside the state-owned enterprises when opportunities were available. Specifically through technical cooperation and policy dialogue, the Bank has contributed to legal and regulatory reform. Looking at sectorial indicators at the marketplace level from 2000-2013, overall levels of privatisation, state control, infrastructure quality and sectorial regulation have improved where the Bank has been active. EBRD staff members opined the Bank's effect on the marketplace is more pronounced in smaller markets where there is less capital available to the SOE and the SOE is more reliant on EBRD's expertise.

However, there are still challenges remaining with independent regulation and separating railway infrastructure and operations. In Kazakhstan, despite intense effort by EBRD and strong policy dialogue by resident staff, achieving independent regulation and tariff reform have proven difficult. In Poland, privatisation in electricity generation and distribution has frozen and may even regress via consolidation. The Bank's ability to impact the marketplace or sector level directly via projects with state-owned enterprises is limited. On the other hand, EBRD staff emphasised that the commercialisation process, particularly improved corporate governance, brought higher level benefits such as better reporting to the public and financial community.

In summary, the Bank often improves the marketplace through an improved SOE, other private sector investment in the sector, policy dialogue, intermittent legal and regulatory reforms, and skills transfer. However, its ability to affect the marketplace is highly constrained by the environment, such as market size and development level, the regulatory framework, and the political will of the sovereign.

### **Has the Bank's willingness to engage SOEs enabled these firms to remain state-owned, prolonged existing market distortions or otherwise forestalled the emergence of other private sector players?**

The Bank's willingness to engage state-owned firms has generally *not* enabled these enterprises to remain state-owned, prolonged existing market distortions or otherwise forestalled the emergence of other private sector players with a caveat. The power and energy and transport sectors commonly maintain state-owned actors. In a sector like Telecommunications which often transitions from a completely public model to a completely private model relatively quickly, the conclusion could be different.

A summary of contributing factors include the following.

- EBRD has been active in balance sheet restructuring and unbundling projects which help prepare companies for privatisation and increase the possibility.
- In the area of commercial finance, the relationship with EBRD did not appear to dissuade SOEs from seeking or utilising commercial finance as all the companies in the population received some form of commercial investment, and even prepaid EBRD loans with financing from commercial lenders.
- Regarding private investment, EBRD did invest in the private sector where there was opportunity. The Bank invested in private companies in the rail and energy sectors in the case study countries alongside the SOE projects. In the rail sector, amount of freight carried by private companies is increasing. In the energy sector, EBRD is at the forefront of investing in private projects in renewable energy.
- The Bank's efforts improved legal and regulatory frameworks increases the likelihood of private entrants into the marketplace. This was mentioned by the representatives of CAEPCO in Kazakhstan.

However, while no specific examples of marketplace distortion were noted, EBRD staff questioned the value of projects with state-owned airlines since private capital was often available and the transition impact was limited. Further, EBRD must be continuously aware not to contribute to marketplace distortion. EvD spoke with KTZ and the officials from the KazAPO, the Kazakh rail freight association, regarding KTZ's plans to develop a unified multimodal logistics company combining rail, ports, trucking and free trade zones. KTZ emphasised the necessity of creating this company in order to compete with larger Russian competitors otherwise Kazakh logistics would be overrun. The KazAPO officials were fearful that the creation of this large KTZ logistics company would crush the smaller Kazakh companies in logistics and freight forwarding. Thus, the Bank faces difficult choices in future transactions with KTZ.

## 6.2 Findings

### **EBRD's projects have a contributory effect to the advancement of state-owned enterprises but not a broader transitional effect.**

"When assessing attribution, you want to determine if the program caused the observed outcomes. When assessing contribution, you want to determine if the program contributed to or helped to cause the observed outcomes."<sup>36</sup> Attribution implies causality. Contribution implies correlation. Privatisation or major reform is difficult to attribute to EBRD. As discussed, factors such as government interest, status as a natural monopoly, political and economic conditions, market readiness, etc. are greater determinants in the path of an SOE than the finance, assistance and policy dialogue provided by the Bank. Nonetheless, there is a correlation between improvements in the SOEs and efforts by EBRD. Individual projects have been evaluated and rated generally to have been successful and achieved some level of transition impact. There is a relevant Theory of Change with some evidence where the Bank has contributed to better procurement processes, corporate governance, debt structure, energy efficiency, etc. The Kazakh Prime Minister spoke of EBRD's role as a partner in the reform on Samruk-Kazyna, the sovereign wealth fund. Players in Poland's capital markets cited EBRD's impact on privatisations. In the study population, EBRD played a role in helping SOEs comply with EU regulations. Clearly, SOEs need to modernise and improve in order to survive in a changing world and to deliver the necessary services to the populace and likely will eventually reform regardless of the Bank's interventions. While some improvements would have occurred regardless of EBRD's involvement, EBRD projects have had a contributory effect to the speed, quality, efficiency and visibility of those improvements. In conclusion, EBRD's ability to instigate or initiate change is limited but in the appropriate environment, EBRD can serve as a facilitator and enhancer of change in SOEs.

### **EBRD has a special role in working with state-owned enterprises in its countries of operation.**

EBRD's founding agreement expresses the intent to work with state-owned enterprises as do current Bank strategic documents and those in the intervening years. The other IFIs in EBRD's region work with state-owned enterprises but do not maintain the same commitment to modernising and commercialising the larger enterprise as EBRD does. EBRD's focus on developing the private sector builds a relationship with both the SOE and then the newly privatised company. The EBRD brand was seen to provide a level of trust and the promise of transparency through corporate governance, procurement, etc. thus enabling confidence for possible investors. This notion was supported by conversations with other IFIs in Kazakhstan and Poland. Furthermore, the SOEs in Kazakhstan and Poland consistently spoke of the importance of EBRD's role as an anchor investor to attract commercial investment. This view was supported

in interviews with EvD staff. EvD's reputation and expertise provide trust and confidence to the enterprise, investors and government. As one banker expressed, EBRD's procurement process, contracts, KPIs, reporting, ESAPs, technical cooperation and knowledge transfer are 'tools for commercialisation.' While the special role is acknowledged, it does not overcome the aforementioned limitations on EBRD's capability to influence change.

### **Engaging with SOEs can help the private sector**

A near universal response from interviewees was investing in public enterprises often helps develop the private sector.<sup>37</sup> Another banker stated that EBRD 'cannot influence the sector when working with the private sector only. There is only demonstration effect. There is little transformation effect.' EBRD's SOE projects often entail:

- Legal and regulatory reform designed to facilitate entrance to and regulation of the private sector
- Unbundling of SOEs which may lead to privatisation or greater private sector participation
- Pre-privatisation and restructuring investments which are precursors to privatisation
- Setting standards for corporate governance at the public enterprise which set an example for private enterprise

EBRD staff also indicated that as important as the outcomes of projects were the direct engagement of the Government through policy dialogue, as a result of the SOE projects, to gain better understanding of the needs of the market; and establishing EBRD's presence to develop private business. Transactions with SOEs build awareness of EBRD and indicate good relationships with the government which can be particularly important in sectors such as Power and Energy and Transport. The amount of reform or transition impact achieved based on the size of the Bank's investment or intensity of resources may be disproportionate to intentions and objectives at project origination but the transactions in the sample and case studies were observed to be 'net positive' interactions for the private sector more often than not.

### **Repeat transactions can be an effective tool to work with SOEs**

Multiple or repeat transactions can be an effective tool for advancing SOEs assuming a strong understanding of opportunities and challenges is derived from previous transactions. "Short of an integrated approach, repeated transactions with the same client provide an opportunity for an incremental or cumulative approach to setting and advancing business and transition objectives. Not least, repeat transactions can reflect both recognition of and a pragmatic approach to the fact that complex reforms and institutional changes, often subject to regulatory and legal factors, can easily require more than the duration of a single project."<sup>38</sup>

Clearly, there must be understanding of the Bank's limited ability to initiate large-scale change overall, and specifically through repeat transactions in order to ensure common and reasonable objectives. Repeat transactions

enable EBRD to establish a long-term relationship, elongate leverage as a lender or investor, and continue work on transition subsequent to the conclusion of a financial transaction. Even if no restructuring or regulatory reform occurs, continued investment can facilitate greater environmental and social performance, improved corporate governance, and TC and policy dialogue toward increased investment in renewables and energy efficiency. The SOE's repeated engagement in the negotiation, contracting, procurement, covenant and reporting processes in accordance with EBRD rules is an important part of EBRD's commercialisation process. Successive or repeat transactions enable a continuity of engagement with state-owned enterprises which not only continues policy dialogue with the RO staff and banking teams but affords additional opportunity to reforms not accomplished in previous projects and facilitates interaction with OCE, ESD, procurement, OGC, etc. Furthermore, the Bank gains knowledge of the enterprise, sector and business environment and is prepared to exploit opportunities if political and economic conditions change.

Repeat transactions were commonly cited by interviewees as EBRD's most effective tool for leverage to induce progress in SOEs. In cases of individual transactions, after disbursement, the Bank has little leverage to compel the enterprise to reform. However, if the SOE has a successor project or desires a successor project, the Bank is able to assert more leverage or at least remain active in policy dialogue to advance the public company.

## 6.3 Recommendations

### **Continue multiple or successive transactions with SOEs even if privatisation is not a near-term option.**

Since multiple engagements with an SOE not only bring greater opportunity for reform but additional leverage, it is worthwhile to continue to pursue additional projects where appropriate. There is an implicit understanding that EBRD will likely have more impact on the SOE than the Government since EBRD's main point of contact in its SOE projects is the enterprise not the government, and a commercially oriented SOE, especially if independently managed, is able to adapt and change. Reforming the government is a longer and more difficult process. The SOE provides an inroad to the government.

Multiple transactions enable extended policy dialogue as well as continued opportunities to support privatisation at the appropriate juncture. A recommendation from EBRD staff was the development of long-term relationships with the SOEs but shorter timelines for individual project operational objectives as SOE management, governments and conditions can change frequently; namely, to break down larger efforts into smaller, discrete tasks.

Some of the challenges of pursuing multiple transactions mentioned by banking team members included attaining sufficient transition impact ratings in follow-on projects and obtaining expertise from non-banking experts from OCE, OGC, and procurement without an active project is difficult. Perhaps a multiyear plan or strategy, whether a

formal Bank document or a working paper, which analyses the client's path financially and operationally and sets out a strategy for achieving TI objectives while maximising revenue opportunities might enable the Bank to identify resources and gain consensus on the potential transition impact.

### **Utilise conditions prior to disbursement whenever possible**

Conditions prior to disbursement are generally a preferred practice but they are especially important with SOEs because of the likelihood of prepayment and/or company management could be changed by the government, subject to government interference, stricken by ineffective bureaucrats or beholden to political conflict. While leverage over an SOE, especially a large one is limited, leverage is highest prior to disbursement. Covenants provided some leverage but their effectiveness is limited when dealing with a sovereign entity. In the event a project is curtailed by prepayment, default, political change, etc., establishing conditions prior to disbursement improve the prospects of achieving progress toward better commercial practice and reforms leading to transition impact. Conditions prior to disbursement also strengthen repeat transactions by making subsequent financing conditional upon achievement of objectives identified in previous transactions where relevant. The phrase "wherever possible" is employed because there may be cases when CPD are not advised such as making disbursements conditional upon long-term transition objectives beyond the SOE's control that could jeopardise successful project implementation and potentially expose the SOE to significant financial penalties, or with an SOE engaged in a complex and lengthy public procurement process under the Bank's procurement policy.

### **Highlight transactions with state-owned enterprises in the corporate transaction databases.**

The Bank will not be able to comprehend the full effect of transactions with state-owned enterprises without understanding the full scope and volume of the transactions. Marking transactions as SOE projects would expedite analysis.

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## Annex 1 – Elaboration of study population selection methodology

The study approach initially included Russian transactions which constitute the largest country segment of EBRD's SOE portfolio. In light of the current situation and to deliver the study under the current work programme, operations in the Russian Federation are no longer included in the scope of this study or in the project study population.

Identifying a subset of SOE projects for evaluation was difficult. There is no EBRD definition of a SOE based on model of incorporation, percentage of government ownership, etc. or a SOE flag in EBRD's databases. Most interactions with SOEs are considered state sector transactions. However, some transactions with corporatized entities, privatisation-related transactions or foreign state-owned investors are classified as private sector transactions.

EvD elected to only include completed projects in order to follow the results chain as far as possible to outcomes and beyond to impact. EvD looked at all EBRD completed transactions classified as state sector transactions and discerned that transport, energy, and municipal/local authority services comprised the greatest percentage of relative disbursement among the sectors.<sup>39</sup> EvD elected not to consider municipal/local authority services because of the previous work done by EvD in 2014 related to Private Sector Participation in municipal and environmental infrastructure projects, and the fact that EvD's focus for this study is to work with corporatized organisations functioning on behalf of or at the direction of the State.<sup>40</sup> Thus, transport and power and energy were the two selected sectors. Both state and private transactions in these two sectors are included.

EvD sought to analyse a sample with the following characteristics:

- Commercial transaction projects with majority state-owned enterprises that were corporatized organisations functioning on behalf or at the direction of the State
- Diversity in project size and country.
- Both state and private transactions; debt and equity projects
- Completed projects
- Transactions since 2000 in order to provide insights more relevant to the current situation
- Manageable sample size to enable multiple types of analysis

In order to identify the relevant transactions and apply consistent rules, EvD selected all projects from the data warehouse with the following criteria.

- Banking Team: Power and Energy or Transport
- Sector: Energy or Transport, Storage
- Op Sovereign Risk Name Current: Non-Sovereign
- Op Signing Date: 2000 or later
- Portfolio Class: State or Private
- Op Life Cycle Name: Completed
- Op Status Name: Complete

Once a list of candidate projects was created, EvD reviewed Board documents' and project summaries' description of the Client to verify the Client is a state-owned entity. In order to ensure that the sample was consistent and reflected enterprises operating competitively, EvD reviewed the candidate project list and eliminated projects with the following characteristics.

- Majority privately held or previously privatised enterprises
- Municipal companies or loans
- Sovereign loans
- Special purpose vehicles designed to undertake the project
- Ministries acting as enterprises
- Finance facilities

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## Annex 2 – Parties interviewed

### Poland (November 2014)

#### *Clients and other stakeholders*

- ENEA
- PGE
- PKPE
- Energy Regulatory Office
- Ministry of Economy-Department of Energy
- Ministry of Environment

#### *IFIs and donors*

- EIB
- EBRD
- EBRD RO Warsaw

#### *Other*

- CAEPCO - Central-Asian Electric Power Corporation

### Kazakhstan (December 2014)

- ANEK - Kazakhstan Freight Forwarders Association
- KAZAPO - Association of carriers and wagon (containers) operators of Kazakhstan
- OLZHA
- Eastcomtrans
- CAEPCO - Central-Asian Electric Power Corporation
- CAPEC - Central-Asian Power Energy Company
- KEC International Ltd (KEGOC contractor)
- CREM - Committee for Regulation of Monopolies and Competition Protection
- Ernst & Young
- AES
- Samruk-Green Energy
- KEGOC - Electricity Grid Operating Company
- Ministry of Energy
- KTZ - Kazakhstan Temir Zholy
- Samruk-Kazyna
- Ministry of Investments and Development

#### *IFIs and donors*

- World Bank Group
- Asian Development Bank

#### *EBRD ROs*

- RO Almaty
- RO Moscow
- RO Almaty
- RO Astana

### EBRD HQ

- Banking Vice Presidency
- OCE-Project and Sector Assessment IE
- Power & Energy
- Procurement Department
- Counsellor, Banking Vice Presidency
- Financial Law Unit
- ESD - Gender Team
- Transport
- Power & Energy
- Transport
- OCE-Project and Sector Assessment IE

## Annex 3 – Sources

Table 12: EBRD related documents, Strategies and Policies

Year	Date	Title
1992	20-Nov-92	The Portfolio Ratio
1998	24-Sep-98	Strategy for Poland
2002	14-March-02	Strategy for Poland
2004	18-May-04	Strategy for Poland
2004	17-Mar-04	A Revised Approach and Action Plan for Early Transition Countries
2006	23-May-06	Strategy for Poland
2010	14-Jul-10	Strategy for Poland: 2010-2013
2010	29-Mar-10	Capital Resources Review 4: 2011-2015
2013	Oct-13	Law in Transition Online: Turning Best practice into Policy
2013	20-Dec-13	Strategy for Poland
2014	09-Apr-14	Re-Energising Transition: Medium-Term Directions for the Bank
2014	19-Jun-14	Information Session: Portfolio Ratio Policy - Slide Presentation
2014	09-Oct-2014	Information Session: Poland: Integrated Approach to Polish Renewables

Table 13: EBRD projects related documentation by project in Sample

Inv OPID	Year	Title
14644	2001	Slovak Republic – Slovenske Elektrarne - Sector Restructuring Guarantee
25438	2005	Poland: BOT Elektrownia Bełchatów Project
26969	2003	Slovak Republic – ZSE Electricity Distribution Privatisation
27949	2002	Former Yugoslav Republic of Macedonia: ESM Pre-Privatisation Share Purchase
	2005	OCU 117 - CAR Standard Completion CAS2-2005-11-10 Implementation of an Environmental Management System
27969	1993	Estonia: Tallinn Airport Rehabilitation Project
	1996	Estonia: Tallinn Airport Rehabilitation Project
	2002	Estonia: Tallinn Airport Rehabilitation Project
28156	2004	Tajikistan: TSA Air Fleet Modernisation

<i>Inv OPID</i>	<i>Year</i>	<i>Title</i>
28275	2003	Kazakhstan: KEGOC North South Power Transmission Project
	2003	Minutes of the Board Meeting of 25 November 2003
	2006	Kazakhstan: KEGOC North-South Power Transmission Project
	2006	Minutes of the Board Meeting of 31 May 2006
29915 ( and related PKP group projects)	1999	Poland - PKP Restructuring and Privatisation Project
	1999	Poland - PKP Restructuring and Privatisation Project
	1999	Poland - PKP Restructuring and Privatisation Project
	1999	Early Warning Procedure - Poland: PKP Restructuring and Privatisation Project
	1999	Early Warning Procedure - PKP Restructuring and Privatisation Project
	2000	Report by the Chairman of the Financial and Operations Policies Committee on the Early Warning Procedure - Poland: PKP Restructuring and Privatisation Project
	2001	Poland - PKP Second Restructuring and Privatisation Project
	2001	Early Warning Procedure - Poland: PKP (Polish Railways): Second Restructuring and Privatisation Project
	2002	Report by the Chairman of the Financial and Operations Policies Committee on the Early Warning Procedure - Poland: PKP (Polish Railways) Second Restructuring and Privatisation Project
	2004	Poland: PKP Energetyka Network Management Project
	2004	Poland: PKP Energetyka Network Management Project
34012	2004	Romania: Constanta Port Development and Commercialisation
35037	2004	Slovak Republic: Slovenske Elektrarne Sector Restructuring Loan II
35551	2005	Kazakhstan: KEGOC North-South Ekibastuz – YukGRES Power Transmission Project
	2005	Minutes of the Board Meeting of 6 September 2005
37879	2008	Moldova: Chisinau Airport Modernisation Project II
39202	2008	Kazakhstan: KTZ Transtelecom Communication Infrastructure Modernisation
	2008	Kazakhstan: KTZ Transtelecom Communication Infrastructure Modernisation
	2008	Minutes of the Board Meeting of 22 July 2008
	2008	Kazakhstan: Shareholder Special Fund – Transtelecom Corporate Development Programme
39453	2008	Poland: Enea Privatisation Meeting of the Board of Directors 9 September 2008 Advisers' Questions
	2008	Poland: Enea Privatisation
	2008	Poland: Enea Privatisation – Equity Exit Note
	2008	Minutes of the Board Meeting of 9 September 2008

<i>Inv OPID</i>	<i>Year</i>	<i>Title</i>
40324	2009	Lithuania: Lietuvos Elektrine CCGT Project
41806	2010	Kazakhstan: KTZ Eurobond
	2010	Minutes of the Board Meeting of 14 September 2010
	2010	Kazakhstan: JSC Kaztemirtrans Restructuring Loan - Progress to date achieved by Kazakhstan Railways ("KTZ") in the railway sector reform process

**Table 14: EvD related evaluations**

<i>Year</i>	<i>Title</i>
2005	EvD: Expanded Monitoring Report Assessment – Slovenske Elektrarne Restructuring Loan (Slovak Republic) and OPL05-253 Expanded Monitoring Report, Slovenske Elektrarne Restructuring Loan II
2006	Operation Performance Evaluation Review – KEGOC Power Transmission and Rehabilitation Project (OPID 6274)
2007	EvD: Expanded Monitoring Report ESM Pre-Privatisation Share Purchase
2008	Evaluation Department: Operation Performance Evaluation Review (OPER) – ZSE Electricity Distribution (Slovak Republic)
2009	Expanded Monitoring Report, Constantza Port Administration
2010	Operation Performance Evaluation Review - BOT Elektrownia Bełchatów Project
2011	Expanded Monitoring Report Assessment, KEGOC: Ekibastuz-YukGres Power Transmission
2012	Expanded Monitoring Report Assessment, PKP Energetyka Network Management Project
2014	Operation Performance Evaluation Review -Chisinau Airport Modernisation Project II
2015	Operation Performance Assessment Review, KTZ Transtelecom

Table 15: Literature

<i>Date</i>	<i>Author</i>	<i>Title</i>
1999	International Finance Corporation	Discussion Paper Number 38: Time to Rethink Privatization in Transition Economies?
2001, April	Kate Bayliss, Research Fellow, PSIRU, University of Greenwich	Privatisation of electricity distribution: some economic, social and political perspectives
2003	OECD	Privatising State-owned Enterprises – An Overview of Policies and Practices in OECD Countries
2005	OECD	OECD Comparative Report on Corporate Governance of State-Owned Enterprises
2005, January	Paul Amos, The World Bank Group	Transport Papers - Reform, Commercialization and Private Sector Participation in Railways in Eastern Europe and Central Asia
2006	International Finance Corporation	IFC Corporate Governance Progression Matrix for State Owned Enterprises (SOEs)
2007	Asian Development Bank	Balanced Scorecard for State-Owned Enterprises. Driving Performance and Corporate Governance
2007	CMS Cameron Mc Kenna Dariusz Greszta Spółka Komandytowa	Corporate governance legislation assessment project 2007 assessment, <i>based on legislation in force on 1 November 2007</i>
2008	Asian Development Bank	State-Owned Enterprise Reform
2010	WSE Supervisory Board	Code of Best Practice for WSE Listed Companies, Appendix to Resolution No. 17/1249/2010 of the WSE Supervisory Board dated 19 May 2010
2011	Antonio Capobianco, Hans Christiansen, OECD	Competitive Neutrality and State-Owned Enterprises. Challenges and Policy Options
2013	OECD- Directorate for Financial and Enterprise Affairs Competition Committee	Recent Developments in Rail Transportation Services- Policy Roundtables
2013	Global Competition Review	The European Antitrust Review
2013	Christiansen, H. - OECD	Balancing Commercial and Non-Commercial Priorities of State-Owned Enterprises
2013	Kowalski, P. – OECD	State-Owned Enterprises: Trade Effects and Policy Implications
2013, July	European Economic and Social Committee	EESC calls for new analysis and reform of untapped public enterprises (Press release No 51/2013)
2013, August	Aleksander Gabryś	Energy sector in Poland –Overview and investment opportunities, Seminar on Poland in Singapore EY
2014	Business Monitor International	Poland-Power report Includes 10-year forecasts to 2023 Issn 1754-
2014	Globaldata	Poland Power Market Outlook To 2030, Update 2014 – Market Trends, Regulations, And Competitive Landscape
2014	Brooks Market	The Rail Market in Poland 2014
2014, July	Enerdata	Poland energy report
2014, September	Bartłomiej Kubicki-Societe Generale	Synopsis of PKP CARGO report dated 24 September 2014

## Annex 4 – Technical cooperation attached to the study population

Table 16: Snapshot of the TC commitments attached to the investments in the study population in the energy sector

Title	TCS ID	TC type	TC Title	TC description	Transition Impact related	TC € committed	Self-assessment rating
Slovenske Elektrarne - Sector Restructuring Loan, Slovak Republic, 14644	5442	Project Preparation	Power Supply Curves for the Period 2000-2020	The main objective of the project is to prepare for the Slovak power market, future supply and price curves at five-year intervals in order to decide if, in a more competitive energy market, future power plant can be economic. Some issues that must be considered are: 1) key factors in Slovak's liberalising energy market to develop a long term electricity price and supply forecasting strategy. 2) Main drivers behind electricity generation costs and supply capacity: trends in technology, environmental regulations.	Not specifically TI related	39,776	Successful
Belchatow II, Baltics/Poland, 25438	19279	Advisory Services	Belchatow - Liberalisation of Power Sector	The Consultant's objective was to ensure that the Company (BOT Górnictwo i Energetyka SA - as primary beneficiary, and BOT Elektrownia Belchatow SA as secondary beneficiary) is prepared to operate competitively in a liberalised market by: a) designing and recommending appropriate management structures to be responsible for trading of: electricity, emission rights and fuels. b) development and enhancement of relevant procedures, rules and control systems of operations as well as procedures for risk management. c) identifying other necessary improvements relating to management procedures, policies and systems in GK BOT GiE SA.	TC in the TI monitoring benchmarks: Increased efficiency and competency in a liberalised market	125,095	Successful
ESM Pre-privatisation Share Purchase, West Balkans, 27949	15603	Advisory Services	Elektrostopanstvo (ESM) - Implementation of an Environmental Management System	The main objective of the assignment is to establish ESM's current position with regard to the environment and to build on the existing environmental management efforts at ESM so as to achieve, within 2 years, a functioning and efficient ISO 14001 based Environmental Management System (EMS). A well designed and implemented EMS will enable ESM to identify the requirements to actively manage the Company's environmental issues and integrate these into the overall day to day management. The project consists of two main components: 1. Establishing an initial baseline audit and draw up implementation tasks and schedule 2. The Environmental Management System will be implemented, i.e. the consultant will work with the company to achieve the goals set in the schedule.	TC not in the Board document.	178,284	Highly Successful
KEGOC: North-South Power transmission, Kazakhstan, 28275	14320	Advisory Services	Kazakhstan: Network Infrastructure Regulatory Development Project	To provide the authorities with assistance in the adoption of a modern, transparent framework for the regulation of network infrastructure, together with assistance in the strengthening of the institutional powers and means to implement and administer such a framework.	Cross-sectorial TC managed by the Legal Transition Team. TC in TI benchmarks: Framework for markets (Law and policies that promote market functioning)	896,649	Partly Successful

<i>Title</i>	<i>TCS ID</i>	<i>TC type</i>	<i>TC Title</i>	<i>TC description</i>	<i>Transition Impact related</i>	<i>TC € committed</i>	<i>Self-assessment rating</i>
KEGOC: Ekibastuz-YukGres power transmission, Kazakhstan, 35551	Same as 28275	Same as 28275	Same as 28275	Same as 28275	Same as 28275	Same as 28275	Same as 28275

Table 17: Snapshot of the TC commitments attached to the investments in the study population in the transport sector

<i>Title</i>	<i>TC type</i>	<i>TC Title</i>	<i>TC description</i>	<i>Transition Impact related</i>	<i>TC € committed</i>	<i>Self-assessment rating</i>
TSA Air Fleet Upgrade Project, Central Asia 28156	Project Preparation	TSA Air Fleet Upgrade Project 13639	To prepare a business plan to investigate the feasibility of introducing two modern aircraft.	TC in the TI benchmarks: Institution building for TSA	49,700	Highly Successful
PKP Energetyka Network Management Project, Baltics/ Poland 29915	Project Preparation	PHARE Region: Framework Contract for Transport Consultancy Services 13379	The objectives of the assignment are: a) to provide the Bank with an update on the Project's due diligence; and b) to assist and advise the EBRD in the review of the procurement documents prepared for the Project and in the review of the procurement process.	Not specifically TI related	50,500	Successful
	Project Preparation	PKP Energetyka - Procurement Assistance 14848	The objective of the assignment is to provide assistance to the Bank in tender implementation up to the contract award for the remote control power supply system contract.	Not specifically TI related	28,863	Successful
	Project Preparation	Strategic Review of Second Phase of PKP Railways' Sector Restructuring and Supply of Energy to Railway Sector 14558	The objectives of the assignment are: a) to undertake brief review of the current operational and financial results of PKPE as a separate company within the PKP SA Holding structure; b) to review the impact on the current and future operations of sister companies within the holding company of PKPE's current operating and commercial policies and its strategic development plan; c) to review the current and future status of PKPE within the energy sector in Poland; d) to review the goals of the proposed second phase of railway restructuring in Poland with particular attention to the role and objectives of the Infrastructure Company; e) to assess the strengths and weaknesses of the alternative organisational models under consideration (PKPE as an independent company compared with PKPE either as an integral part of Infrastructure Company or controlled by Infrastructure Company); f) provide an independent recommendation on the preferred organisational solution.	Not specifically TI related	97,434	Successful

<i>Title</i>	<i>TC type</i>	<i>TC Title</i>	<i>TC description</i>	<i>Transition Impact related</i>	<i>TC € committed</i>	<i>Self-assessment rating</i>
Constantza Port Development, Romania 34012	Project Preparation	PHARE Region Framework : Constanta Port Due Diligence 14321	The main objectives of the assignment are to carry out due diligence of the Port primarily with the aim to encourage APMC to act more commercially and achieve higher cost recovery from its operations. This includes revenue enhancement measures including the possibility of rationalising the Port tariff structure and the private operator engagement. Furthermore, an appraisal of the barge terminal investment shall be carried out based on the above-mentioned JICA Feasibility Study supported by a critical re-assessment of the traffic forecast scenarios. Following main tasks of the ToR are mentioned below: a) prepare a financial projection of APMC; b) develop a strategy to optimise Port pricing; c) propose changes to promote commercialisation and higher autonomy and accountability of the Port; d) evaluate the barge terminal investment; and e) examine the issues related to effective engagement of private operators.	Not specifically TI related	144,734	Successful
	Advisory Services	Constanta Port: Detail Design and Procurement Assistance 14553	to assist Constanta Port Administration S.A. (CPA) in Romania with the detailed engineering design and the preparation of the tender documentation needed to select a contractor to build the barge terminal as well as to provide the necessary procurement assistance before and during the tender process.	Not specifically TI related	381,601	Successful
	Advisory Services	Regulatory Reform for Tariff of the System Operator 15027	The purpose of the assignment is to review the current and proposed regulatory framework with respect to SO. In doing so the Consultant will focus on two areas of work: • Review of the current tariff formula and specific provisions, if any, for dealing with regulation of the SO. • Recommendations for change, taking into account institutional, technical financial and legal constraints and the more recent Resolution of the Cabinet of Ministers (February 26, 2004 -#109) "On Pricing Mechanism Related to Electricity and Heat. Such recommendations will form the basis of the Bank's policy dialogue with Russian Authorities in the context of the proposed SO financing.	Related to TI benchmark: Institutions, laws, policies that promote market	48,250	Successful

<i>Title</i>	<i>TC type</i>	<i>TC Title</i>	<i>TC description</i>	<i>Transition Impact related</i>	<i>TC € committed</i>	<i>Self-assessment rating</i>
Chisinau Airport Modernisation Project II, Moldova 37879	Advisory Services	Regional: Air Transportation Senior Advisors 16518	To provide the Bank with the services of a civil aviation specialist to assist Bank staff in ensuring that all technical and regulatory aspects related to a variety of air transportation initiatives being considered for EBRD financing are sound. Furthermore, to provide the Bank with assistance with specific monitoring requirements of current Bank aviation investments.	Not specifically TI related	143,449	Successful
	Project Preparation	Chisinau International Airport: Environmental Audit/Analysis 22504	The environmental procedures of the Bank require, where on-going operations may be involved, an environmental audit be undertaken to determine the environmental status of the sites and whether any environmental risks and/or liabilities are associated with the sites. Where a capital expenditure or investment programme is involved, an environmental analysis will be undertaken to assess future environmental impacts of the proposed modernisation programme. The tasks to be performed will identify environmental issues of concern, assess the extent of environmental and health and safety risks and liabilities and propose corrective actions and environmental and energy-efficiency improvements.	Not specifically TI related	27,622	Highly Successful
	Advisory Services	Moldova: Chisinau Airport Modernisation Airport Project - Due Diligence Assistance 22323	As a critical part of the due diligence and structuring of the Project, EBRD requires an independent consultant to assist in the preparation and appraisal of the proposed investment programme. Chisinau Airport has presented a detailed list of proposed investments for financing under the Project. The scope of work of the independent consultant will include: i) reviewing the need for, and technical feasibility of, the investments; ii) reviewing traffic forecasts; iii) assessing affordability, economic and financial feasibility of the Project; iv) providing a recommendation to proceed with the investments; and v) reviewing likely potential for institutional reform.	Not specifically TI related	173,968	Highly Successful
	Project Implementation	Moldova: Chisinau Airport: Project Implementation & Supervision Services 24561	As a condition for EBRD financing, the Airport will be required to establish a Project Implementation Unit ("PIU") charged with the responsibility to manage, co-ordinate, supervise and monitor the implementation of the Project. or the rehabilitation of the airside facilities, the Airport is seeking to engage the services of external advisors to assist the PIU with project implementation and supervision services.	Not specifically TI related	794,070	Successful
	Advisory Services	Chisinau Airport: Assistance to Preparation of Master Plan 25237	As part of the transition impact objectives of the Project, and following recommendations by the International Civil Aviation Organisation (ICAO), the Airport will develop a Master Plan that will define a coherent development of the Airport's activities over the next 20-year period. This assignment aims to provide assistance to the Airport by an expert firm in the aviation sector at all stages of preparation of the Master Plan.	TC in TI benchmark: Demonstration effect of restructuring and new ways of financing activities - Adoption of a new Master Plan	161,683	N/A

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<i>Title</i>	<i>TC type</i>	<i>TC Title</i>	<i>TC description</i>	<i>Transition Impact related</i>	<i>TC € committed</i>	<i>Self-assessment rating</i>
KTZ Transtelecom Communication Infrastructure Modernisation, Kazakhstan 39202	Advisory Services	Kazakhstan: Transtelecom Corporate Development Programme 24346	Consultancy services to help prepare and adopt a Corporate Development Programme (CDP) for Transtelecom JSC. The CDP will include a five-year business plan; a privatisation strategy; and measures to improve its organisational and corporate governance structure to enhance its operational independence.	TC in TI benchmarks: 1) Corporate Enhancement - Preparation and Approval of the CDP; Adoption of a 5 year business plan 2) More widespread private ownership - Preparation and approval of the Privatisation Plan	494,504	Achieved

EvD has identified other technical assistance not specifically attached to EBRD's investments in the study population but was provided to KTZ and the Government of

Kazakhstan and related authorities to steer reforms in the railways sector.

**Table 18: Stand-alone or other transactional relevant technical assistance provided in Kazakhstan in the railways sector**

<i>Inv Title</i>	<i>TC Title</i>	<i>Start/End date</i>	<i>Donor</i>	<i>TC committed</i>
KTZ Track Maintenance and Commercialisation Project (2920)	Kazakhstan railways restructuring project - assistance for preparation of the business plan	Mar-Aug 1997	United States	€ 81,522
	Kazakhstan Railways - tender preparation assistance	Apr 2000 – Mar 2001	United States	€ 155,280
	Assistance for Draft Railway Law	Feb-Aug 2000	Sweden	€ 184,279
	Kazakhstan Railways: Freight Tariffs, Infrastructure Access and Sector Regulation	Dec 2001 – Oct 2002	European Union	€ 500,000
Kazakhstan Temir Zholi	Project Identification and review of "Kazakhstan Temir Zholi"s anti-corruption measures	Feb-Mar 2009	EBRD SSF	€ 37,207
JSC Kaztemirtrans Fleet Wagon Renewal (40524)	Corporate Governance and Anti-corruption Measures for JSC National Company Kazakhstan Temir	Mar 2011 – Sep 2012	EBRD SSF	€ 450,000
Kaztemirtrans Restructuring Loan (41926)	Kazakhstan: Railway industry regulatory framework review and adoption of best practices	<i>On-hold</i>	EBRD SSF	€ 250,000
<b>Total</b>				<b>€ 1,658,288</b>

**Table 19: Stand-alone technical assistance provided in Kazakhstan**

<i>TC Title</i>	<i>Start/End date</i>	<i>Donor</i>	<i>TC committed</i>
Kazakhstan Infrastructure Regulation & Tariff Policy	Jul 2014 – Jun 2016	Kazakhstan & EBRD SSF	€ 1,500,000

The current project is €1.5 million for technical assistance on reforming the tariff policy and legislative and regulatory framework for natural monopolies in various sectors of the economy including energy and transport. This TC is reviewing previous recommendations and their implementation and aims to reform the existing system of tariff regulation for natural monopolies in the infrastructure sectors, adopt a modern and transparent and effective framework for regulation, and strengthen the institutional powers and means to exercise such regulation. The TC is focussing on the efficiency and incentives structure of the

tariff regulatory framework and decision-making process in selected sectors of economy. EBRD is supervising the TC and actively engaging its Management to provide the (consulting) expertise retained to implement the TC; the ability to assert sufficient quality control over the content and substance of advice provided; and, the ability to influence timing and follow-through with respect to practical implementation of the project output. The evaluation team does not have elements to verify the actual results but can report that the commitment and interest to reform is tangible.

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# Annex 5 - Management Comments

## Summary

Management would like to thank EvD for the study on the transactions designed to support State Owned Enterprises (SOEs). The analysis presented is well balanced, represents a fair assessment of the Bank's activities in support of SOEs, and it is generally supportive of the current model of engagement with state entities, including in highlighting a positive role of Bank's procurement approach and processes as one of the key instruments for the commercialisation of publicly owned enterprises.

Management agrees with the overall message of strengthening the private sector through strategic projects with SOEs including through repeat transactions. It also supports the study's observation on the importance of Bank's contribution on a more successful project management through procurement processes and contracting, as well as knowledge transfer and support to project implementation units.

Management's extensive comments provided to the draft study have been partly reflected by EvD in this final version of the study.

## Study Recommendations

**Recommendation 1:** Use multiple or successive transactions with SOEs where specific reforms are possible, even if privatisation is not a near-term option. Since multiple engagements with an SOE can bring greater opportunity for reform but additional leverage, it is worthwhile to continue to pursue additional projects where appropriate. There is an implicit understanding that EBRD will likely have more impact on the SOE than the sovereign government since EBRD's main point of contact in its SOE projects is the enterprise not the government, and a commercially oriented SOE, especially if independently managed, is able to adapt and change. Reforming the government is a longer and more difficult process. A recommendation from EBRD staff was the development of long-term relationships with the SOEs but shorter timelines for individual project operational objectives as SOE management, governments and conditions can change frequently; specifically to break down larger efforts into smaller, discrete tasks. Perhaps a multiyear plan or strategy, whether a formal Bank document or a working paper, which analyses the client's path financially and operationally and sets out a strategy for achieving TI objectives while maximising revenue opportunities might enable the Bank to identify resources and gain consensus on the potential transition impact.

*Management agrees with this recommendation:* Indeed, the past experience has confirmed that it is important the Bank continues its engagement through repeat transactions with SOEs, together with other instruments including policy reform dialogue, to leverage the reform

appetite of the government and achieve the desired long-term changes. Multi-year plans in tackling specific sectors/issues of reform, in particular through continued engagement with SOEs in key sectors, will be considered as part of and anchored in the country strategy, in its comprehensive diagnostics of the main challenges and government reform appetite, which form the basis for setting Bank's strategic priorities in the country.

**Recommendation 2:** Utilise conditions prior to disbursement whenever possible. Conditions prior to disbursement are especially important with SOEs because of the likelihood of prepayment and/or company management could be changed by the government, subject to government interference, stricken by ineffective bureaucrats or beholden to political conflict. While leverage over an SOE, especially a large one is limited, leverage is highest prior to disbursement. Conditions prior to disbursement also strengthen repeat transactions by making subsequent financing conditional upon achievement of objectives identified in previous transactions where relevant.

*Management partly agrees with this recommendation:* Management recognises the importance of utilising conditions precedent (CPs). It also notes that the Bank has more impact on the level of SOEs, its direct contact, than the sovereign government (as confirmed by the study and Recommendation 1). Management already utilises, and will continue to do so, CPs related to company level changes, whenever possible and as applicable, including on financial, corporate governance and environment practices. In addition, Management notes that from the Bank's experience, the leverage over the often sizeable and financially strong SOEs is achieved equally through CPS to disbursement and through legal covenants during the life of the loan/project implementation. Companies remain affected by a potential impact from a covenant breach on their credit ratings, auditors statements etc. throughout the life of the loan.

On the other hand, CPs may be difficult to be applied for long-term reforms, or in some circumstances/environments. Often the focus of the Bank's engagement with SOEs is on the long-term changes in the sector such as commercialization, energy efficiency, non-discriminatory access to networks, adequate regulatory environment and other support of the key market infrastructure used by all participants including private operators. Sector objectives are often ambitious and far-reaching and they might be outside of SOEs control and require in-depth lengthy engagement of multiple stakeholders. There might be no direct link between the physical project implementation/timing of the required disbursement and the Bank's wider sector objectives. Yet, continued engagement and relationship is important to increase the likelihood of success in inducing reforms. This is particularly true in difficult reform environments where the Bank often engages in repeat transactions to continue pressing for reforms. Making disbursements conditional upon long-term transition objectives which could be beyond SOE's control, would not only jeopardise successful project implementation but it could expose SOEs to significant

financial penalties, if it would not fulfil the contractual obligations due to lack of funds to continue project implementation. Lastly, front-loading CPs to disbursement might not work with complex and lengthy public procurement process under the Bank's procurement policy which the SOEs sign-up to.

**Recommendation 3:** Highlight transactions with state-owned enterprises in the corporate transaction databases. The Bank will not be able to comprehend the full effect of transactions with state-owned enterprises without understanding the full scope and volume of the transactions. Marking transactions as SOE projects would expedite analysis.

*Management agrees with this recommendation:* Management believes that depending on the specified definition, it is possible to create a customised list of SOEs for intended purpose based on the data parameters that already exist in the Bank's project information systems, such as "state"/"private" classification, and therefore, does not support the proposal to create an additional category for SOEs separately. This is because the key project data information collected and stored serve risk management, finance and legal management purposes and their consistency and quality is well controlled and maintained, with adequate support functions. Any addition of data categories with a narrow scope could increase risks to the overall project data integrity.

<sup>1</sup> Russia is the EBRD's largest country destination for transactions with state-owned enterprises. EvD's original approach included Russian projects with Russian Railways being a core case study component. After discussions with Management and the Board after the decision to suspend new investments in Russia, EvD agreed to exclude Russia from the scope of the study and modified its approach. At the appropriate juncture, an evaluation of transactions with Russian SOEs alongside the current study would depict a fuller view of the Bank's projects with SOEs.

<sup>2</sup> A comment from Richard Prebble: It is necessary to purchase power, to use transport. So reforming the SOE has a huge impact on the private sector. Indeed an improvement in cost efficiency by the power company or the railway can make private sector ventures more viable.

<sup>3</sup> Corporatisation: process of transforming state assets, government agencies or municipal organizations into corporations. Operations involving financing of sovereign government or guaranteed by sovereign government

<sup>4</sup> <http://www.ebrd.com/news/2013/ebrd-transition-report-2013-stuck-in-transition.html>

<sup>5</sup> After extensive discussions with Management, EvD agreed not to include transactions with Russia in the scope of this study because of current operational status. Russia is EBRD's most significant state-owned client country.

<sup>6</sup> After discussions with Management, EvD agreed to exclude Russia from the scope of this study in light of the current status of operations.

<sup>7</sup> <http://www.ebrd.com/who-we-are/history-of-the-ebrd.html>

<sup>8</sup> Article 11

<sup>9</sup> From <http://www.theoryofchange.org>

<sup>10</sup> Definitions of these terms are as in OECD-DAC. 2002. Glossary of Key Terms in Evaluation and Result-Based Management. OECD, Paris. Outputs are defined as "the products, capital goods and services which result from a development intervention." Outcome is defined as "the likely or achieved short-term and medium-term effects of an intervention's outputs." Impacts are defined as

"positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended."

<sup>11</sup> No objectives were reported for Tallinn Airport which predated TIMS and has no comparable TI objectives. The same applies to the first Slovenske Elektrarne Restructuring. The TI objectives for Belchatow II used different nomenclature than described in the TIMS methodology. Those objectives were counted under the corresponding nomenclature.

<sup>12</sup> The counterpoint might be that tis opinion is because there are no suitable investors or the Government does not wish to privatise the companies.

<sup>13</sup> **Fully verified:** No other financial institutions are willing to provide financing on the same or better conditions as the Bank. The terms and conditions are not attractive to other banks and the country risk is still high. The client accepts the Bank's influence on project design and functioning.

**Largely verified:** Some competition with market financiers, but the Bank's more demanding terms and conditions prevail. Aspects of project design and functioning may be significant for enhanced transition impact. Repeat financing to a second phase of a project may fall into this category. Source: EvD Operations Performance Assessment. Previously, these terms were known as "Verified in All Respects" and "Verified at Large".

<sup>14</sup> <http://intranet.ebrd.com/ebrdnet/depts/oce/taa/add.shtml>

<sup>15</sup>

<http://www.miga.org/investmentguarantees/index.cfm?stid=1797>

<sup>16</sup> The eight projects evaluated (previously selected by EvD and Management): ZSE Electricity Distribution Privatisation; Belchatow II; Slovenske Elektrarne - Sector Restructuring Loan; Slovenske Elektrarne Restructuring Loan II; KEGOC: North-South Power transmission evaluated with KEGOC: Ekibastuz-YukGres power transmission. Two projects, KEGOC: North-South Power transmission and KEGOC: Ekibastuz-YukGres power transmission, were evaluated at the same time under the same report- but the ratings are valid for both. Four projects were subject to a self-assessment without an accompanying assessment or validation from EvD. An EvD assessment is scheduled for two projects in 2015. And, for two older legacy projects no self-assessment or evaluation will take place.

<sup>17</sup> Chisinau Airport is concessioned to Avia Invest Ltd. Technically, it is not a joint stock corporation but operated by a private company.

<sup>18</sup> There is limited information available for Tallinn Airport. There are no current projects with the Client. There is no staff remaining at EBRD knowledgeable about the original project. There is limited reporting information available.

<sup>19</sup> EBRD Glossary

<sup>20</sup> Dollar figures converted to Euro at 2 March 2015 exchange rate.

<sup>21</sup> EXT is the External Finance values reported in DTM Banking in DTM Banking but does not include investment by the state-owned enterprise itself, the state-owned holding company, or the sovereign government.

<sup>22</sup> TOT is the sum of the Syndicated Finance and External Finance columns in the Table.

<sup>23</sup> Derived from Total External Finance from DTM Banking minus equity contribution from Lietuvos Elektrine or EUR 289 million minus 38 million

<sup>24</sup> Derived from Total External Finance from DTM Banking minus equity contribution from Elektrownia Belchatow II or EUR 1.655 million minus 862 million. Elektrownia Belchatow II contribution reported in PLN. Conversion used interbank exchange rate of 12 April 2010, Op Status Complete date as reported in DTM Banking.

<sup>25</sup> EBRD supporting bond issuance. External finance organisations listed as "institutional investors."

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<sup>26</sup> Explanation of the indicators and the methodology may be found

at:<http://www.ebrd.com/cs/Satellite?c=Content&cid=1395237866249&d=&pagename=EBRD%2FContent%2FContentLayout>

<sup>27</sup> A comment from the external reviewer, Richard Prebble, former New Zealand Minister of State-Owned Enterprise: „Power will continue to be difficult to privatise because power is necessary and affordability remains an issue. Railways are a 19<sup>th</sup> century technology and difficult to operate, and are therefore, difficult to privatise.

<sup>28</sup> There is no official count in the databases for privatisation. This number was determined by a title search in DTM Banking related to privatisation, privatization, private, etc.

<sup>29</sup> The phrase “yes” was used in the downloaded spreadsheet. EvD substituted “full” for consistency.

<sup>30</sup> Infrastructure is the second pillar of the World Economic Forum competitiveness measure. “Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor in determining the location of economic activity and the kinds of activities or sectors that can develop within a country. Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. In addition, the quality and extensiveness of infrastructure networks significantly impact economic growth and reduce income inequalities and poverty in a variety of ways. A well-developed transport and communications infrastructure network is a prerequisite for the access of less-developed communities to core economic activities and services.”

<sup>31</sup> The Kazakhstan Wholesale Electric Power Market (JSC KOREM) was appointed the system operator of the “Unified Power System” in the country and it is responsible for the smooth operation and reliability of the power grid, along with ensuring the compliance of the grid with government policies.

<sup>32</sup> In December 2014 the EBRD signed the Eastcomtrans Loan. The EBRD signed three loans with Olzha in June 2013, in March 2014 and in January 2015

<sup>33</sup> In November 2007 the EBRD signed the Pavlodar Energo (owned by CAEPCO) CHP Rehabilitation Project (OPID 38145); in March 2009 the EBRD participated as equity investor in CAEPCO (OPID 39914); in March 2013 the EBRD signed CAEPCO Energy Efficiency Project including also Pavlodar Energy Efficiency and SevkazEnergo Energy Efficiency (OPID 44571). In February 2011 the EBRD signed AES Soginsk CHP (OPID 40788). EBRD also provides lending to energy projects through KazSEFF and PolSEFF, finance facilities with Kazakh and Polish banks respectively.

<sup>34</sup> The current groups are PGE, TAURON, ENERGA and ENEA. ENERGA has around 13% of market share in the distribution market and around 3% in the generation segment. The market was opened up for foreign investment and European companies such as RWE, Vattenfall, Electrabel (GDF SUEZ group) and the EDF group entered the market.

<sup>35</sup> Ministry of Infrastructure and Development

<sup>36</sup> Coffee Break Seminar Presentation, Anne Almquist, CDC, American Evaluation Association, April 12, 2011.

<sup>37</sup> A comment from Richard Prebble: It is necessary to purchase power, to use transport. So reforming the SOE has a huge impact on the private sector. Indeed an improvement in cost efficiency by the power company or the railway can make private sector ventures more viable.

<sup>38</sup> EvD Paper, Cluster Review of Operation Performance Assessment Validation (OPAV) Findings: Repeat Project Transactions, June 2015

<sup>39</sup> Portfolio classification based on Portfolio Class in EBRD data warehouse: EBRD definition of state sector is the following: “The state sector includes national and local governments, their agencies, and enterprises owned or controlled by any of them. A

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loan or guarantee to, or equity investment in, a state-owned enterprise which is implementing a programme to achieve private ownership and control shall not be considered as made to the state sector. Loans to a financial intermediary for on-lending to the private sector shall not be considered as made to the state sector.”

<sup>40</sup> <http://www.ebrd.com/what-we-do/evaluation-latest-reports.html>