

Corporate governance

REFORMING THE STATE-OWNED ENTERPRISES SECTOR

- ▶ State-owned enterprises (SOEs) are an important element of Greece's economy, often operating in sectors on which private businesses and the general public depend.
- ▶ Greek SOEs tend to underperform, have in some cases triggered significant fiscal losses, and have in the past been perceived as a source of political patronage.
- ▶ One solution is to privatise a large number of SOEs and associated efforts are ongoing in the context of the reform programmes with official creditors.
- ▶ However, this does not substitute for governance reform. Whether or not SOEs are to remain in public ownership, raising their efficiency is crucial for improving public finances.

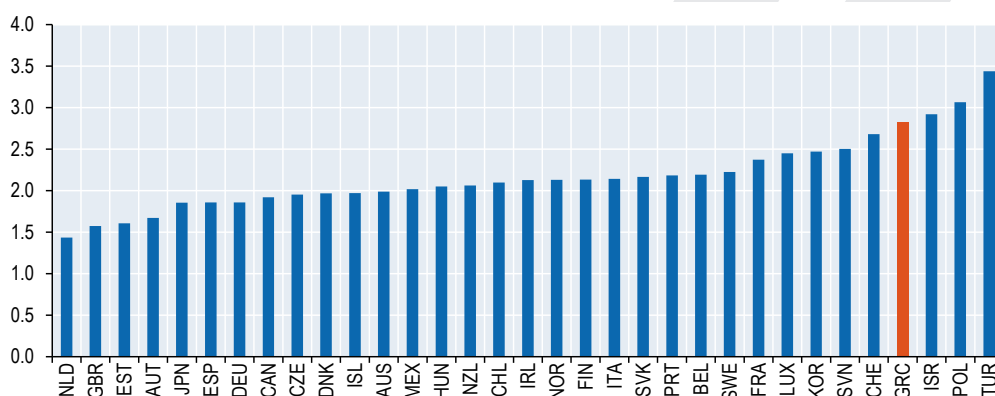
What's the issue?

The state continues to exercise considerable influence on the Greek economy. According to the OECD's Product Market Regulation indicator, Greece has one of the highest degrees of state control in the productive sectors across OECD countries (see Figure). This is not solely a consequence of direct state ownership – the share of SOEs (owned by the central government) in dependent employment is estimated at around 2.5%, which is just above the OECD average. Extensive government regulation adds to the potential distortions and interacts with the SOE ownership issue insofar as the market regulators are in many cases inadequately separated from those exercising ownership over SOEs.

Beyond share ownership, the state's portfolio comprises of assets in real estate and infrastructure (rights). The state's assets are estimated to be worth well over 50 billion euros. Their privatisation, restructuring or liquidation has been identified as a key element of debt reduction. Up until 2015, privatisation progressed slowly and produced revenues significantly below expectations. Only three privatisations of major SOEs were completed (ports, airports and the national lottery). Explanations include depressed asset prices amid financial weakness, weak operational performance in a number of SOEs, and perhaps most notably, strong opposition from politicians and the general public. Following agreements reached

The degree of state control over the economy is amongst the highest in the OECD

Index from 0 (no control) to 6 (full control), 2013



Note: The index does not take into account any reforms made after 1 January 2013.
 Source: OECD Product Market Regulation database, www.oecd.org/eco/pmr.

during the July 2015 Euro Summit Meeting, the Hellenic Republic Asset Development Fund (HRADF) is now responsible for a “significantly scaled up” privatisation programme. Most of HRADF’s recent successes relate to the sale of real estate and the auctioning of concessions contracts toward the utilisation of public infrastructure. The Greek authorities have also agreed with official creditors to partly privatise the electricity transmission system operator ADMIE as part of the process of separating it from the Public Power Corporation.

The ownership of the SOEs not slated for privatisation is still exercised mostly by line ministries. This conflicts with OECD best practices and recent trends across most of Europe toward a centralisation of ownership within a specialised agency or ministry. Other countries have found greater centralisation useful to enhance the professionalism of the ownership function, avoid confusion between the state’s roles as enterprise owner and regulator, and prevent day-to-day political intervention in individual SOEs. Further concern about the autonomy and professionalism of SOEs arise from the fact that the majority of board members are direct ministerial representatives. Moreover, all senior management are appointed by the government, subject to parliamentary approval. This is not consistent with the OECD Guidelines on Corporate Governance of State-Owned Enterprises, and has occasionally given rise to allegations of politicisation of SOEs.

Why is this important for Greece?

Although SOEs do not represent a very high proportion of economic activity in Greece they are active in sectors on which large parts of the economy and the general public depend (e.g. electricity, transportation, other utilities and, to a certain extent, telecommunication). Prior to the current crisis, SOEs were also often tasked with implementing strategic investment projects for the state or delivering public services.

Ensuring that SOEs perform efficiently is crucial for resource efficiency and sound management of public finances. As mentioned above, the onus has in recent years been on a rapid privatisation of state-owned assets, but going forward SOE reform will move back to the centre stage. The Greek state will remain the owner of significant corporate assets and the current institutional structures for exercising this ownership is not in line with international best practice. Unless this issue is addressed, SOEs will remain a source of fiscal waste and misallocation of resources.

The case for reform is further strengthened if Greece decides to pursue its privatisation programme. Well-governed SOEs fetch higher privatisation revenues, thus blunting allegations of conducting a “fire sale” of public assets that have been voiced in the past.

What should policy makers do?

- ▶ Put in place mechanisms to promptly deal with cases in which line ministries do not respect state policies on SOE governance and reporting.
- ▶ Develop a government ownership strategy stating clearly the rationales for state ownership of enterprises and establishing how, and according to which standards and guiding principles, the state exercises its ownership rights.
- ▶ Categorise SOEs according to their degrees of commercial orientation.
- ▶ Develop company specific commercial and non-commercial objectives for individual SOEs and establish mechanisms to monitor their implementation.
- ▶ Equip SOE boards with a larger number of qualified independent directors selected through transparent and competitive nomination processes.
- ▶ Avoid having acting politicians serve on SOE boards.



Further reading

OECD (2015), *OECD Guidelines on the Corporate Governance of State-Owned Enterprises*, OECD Publishing. http://www.oecd-ilibrary.org/governance/oecd-guidelines-on-corporate-governance-of-state-owned-enterprises-2015_9789264244160-en

OECD (2014), *The Size and Sectoral Distribution of SOEs in OECD and Partner Countries*, OECD Publishing. <http://www.oecd.org/daf/ca/size-sectoral-distribution-soes-oecd-partner-countries.htm>

OECD (2010), *Accountability and Transparency: A Guide for State Ownership*, OECD Publishing. http://www.oecd-ilibrary.org/governance/accountability-and-transparency-a-guide-for-state-ownership_9789264056640-en