

Forfás publishes Review of the Role of State Owned Enterprises

(Friday, 30 July 2010) The role of state owned enterprises should be reviewed in terms of supporting wider economic growth and cannot be solely guided by how much revenue they could raise in the event of privatisation, according to a new report from Forfás, Ireland's policy advisory board for enterprise and science. State owned enterprises (SOEs) play an important part in the Irish economy, employing over 41,000 people directly and representing 5.8 per cent of GDP. They can play a key role in supporting economic recovery. The time is right to examine the rationale for State involvement in specific markets in order to determine what the goals of state owned enterprises should be, collectively and individually.

Commenting on the publication of *The Role of State Owned Enterprises*, Martin Shanahan, Chief Executive of Forfás said, "The forthcoming review of State assets and liabilities presents an excellent opportunity to clearly define the role of state owned enterprise. These enterprises have played, and continue to play, an extremely important role in Ireland's economic development. The majority of state owned enterprises are engaged in the provision of essential infrastructure and related services which are vital to the competitiveness of the economy, including energy, transport and telecommunications. It is critical that their roles are reviewed in terms of supporting wider economic growth through the provision of high quality and cost competitive infrastructure."

The report identifies requirements necessary to ensure that state owned enterprises are providing high quality competitively priced infrastructure to Irish enterprise and are maximising their potential to support economic recovery and opportunities for enterprise and innovation. These include:

- **Developing a national policy on the role of state owned enterprises.** An ownership policy should be put in place that defines the overall objectives of state ownership and the corporate governance of SOEs. The state as a shareholder should have a strategic approach to SOEs rather than approaching issues on a case by case basis.
- **Evaluating the mission and goals of state owned enterprises.** In the absence of regular reviews, there are risks that SOEs can drift from their founding goals or that individual SOE goals may not reflect current national economic development needs. Particular attention is required for SOEs engaging in diversification strategies, SOEs buying emerging private sector competitors or SOEs who are increasingly offering similar products and services as markets converge.
- **Implementing clearer governance structures.** State owned enterprises are often required to pursue multiple and sometimes conflicting objectives e.g. to provide loss-making public policy services while operating commercially. International evidence suggests that establishing a single, competently resourced unit, dedicated to SOE supervision could improve the State's ability to exercise ownership efficiently and monitor companies under its ownership. Forfás suggests that this should be considered. Additionally, separating policy, regulatory and shareholder functions would ensure greater transparency and more conscious decision making where conflicts exist.
- **Implementing stronger corporate governance frameworks.** This includes developing clearer mandates and improving monitoring by shareholders. From an enterprise development perspective, additional non-financial indicators that measure the quality and

costs of services provided to enterprise relative to trading partners and competitors are important.

- **Developing clear criteria to guide the potential sale of state owned assets.** If privatisation is to improve the quality of infrastructure, services and the performance of firms over the longer term, it needs to be complemented by policies that promote competition and effective regulation of the industry in question. It is essential not to sell natural monopoly assets (such as electricity transmission lines, gas pipelines etc.) or assets to dominant competitors. If it is deemed appropriate to privatise an SOE, there is a strong case for divesting State assets when conditions in financial markets are favourable. If the State is to sell any SOEs, it is important that direct costs, such as investment banking and legal fees etc, and indirect costs, such as underpricing of shares or preferential allocation of shares to employees, are minimised to ensure taxpayers benefit fully from any decision to privatise.
- **Developing contestability in markets.** SOEs should not enjoy a competitive advantage simply because of their State ownership. There may be potential to develop greater contestability in some markets currently dominated by SOEs. It is also necessary to provide greater transparency on subsidies provided and the costs of meeting public policy goals.
- **Developing clearer policy towards internationalisation.** Internationalisation of SOEs can enhance the performance of firms through access to technical expertise, market knowledge and resources offering the potential to increase export earnings, profitability and ultimately dividends for the State. It is important that the board and management of SOEs can enjoy the freedom to pursue relevant commercial opportunities abroad provided that they fulfil their mandate domestically and that the proposed activity is clearly within their mandate. There is potential to clarify Irish policy in terms of the international activities of SOEs.

The report, *The Role of State Owned Enterprises*, is available to download from the Forfás website, www.forfas.ie

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Note to Editors:

Forfás has not undertaken a review of individual state owned enterprises.