

# **Establishing a Government Ownership Strategy for State- Owned Enterprises & Legal Entities**

Reforms for the Greek Economy

Yannis Eustathopoulos

April 2015

- **Current situation**
- **Description of main actions**
- **Methodology**
- **Responsible Authority**
- **Implementation Timeline**
- **Quantification**

# CURRENT SITUATION

# Current situation

- Significant number of State-Owned Enterprises (SOEs) & Legal Entities (LEs).
- Some positive developments concerning financial monitoring:
  - ✓ GAO' s financial monitoring mechanism (Article 3 of Law 4111/2013).
- Lack of a comprehensive government ownership strategy in order to:
  - Increase operational efficiency.
  - Enhance transparency and accountability.
  - Make management more committed to specific and measurable goals.
  - Enable evaluation of performances against agreed and measurable targets.
  - Improve overall contribution to economic, social and territorial cohesion in line with EU policies, shared values (TFEU) and best practices concerning Services of General Interest (SGIs).

# DESCRIPTION OF THE REFORM

# In need of a strategy

- Establishing and implementing a clear strategy for SOEs and LEs coordinating governmental bodies, stating clearly their rationale and establishing how the government evaluates their performances and investment planning in line with:
  - Social expectations
  - Medium-Term Fiscal Strategy
  - Programme for Economic Reconstruction of the Greek government.
- Reorganisation/restructuring of SOEs/LEs in a restrictive fiscal environment and in line with social needs and expectations:
  - Restructuring of each SOE/LE individually to raise efficiency.
  - Reorganisation of subsidies between SOEs/LEs according to social need and priorities.

# Multidimensional reform

- **Structural and Economic**

=> Public Sector => Services and Infrastructures => Role as regards private sector and growth.

- **Fiscal**

=> Subsidies to SOEs/LEs.

- **Social**

=> Services of General (Economic) Interest (SGIs/SGEIS)

# Main elements of the Reform

1. Implementation of a fully operational horizontal government framework enabling a comprehensive, effective, coordinated and coherent policy for SOEs and LEs.
2. Introduction of formal Performance Agreements (PAs) between supervising Ministries and SOEs/LEs.
3. Implementation of a comprehensive multidimensional restructuring strategy for SOEs and LES according to the economic and social development priorities of the Greek government.



# 1. Effective policy-making and policy implementation concerning SOEs & LEs

- **FINANCIAL SUPERVISION:**

- ✓ The government may take fully advantage of the already operational GAO financial monitoring mechanism for SOEs and LEs (Article 3 of Law 4111/2013).
- ✓ Close cooperation with services of the General Accounting Office (GAO) responsible for the supervision of SOEs and Legal Entities.
- ✓ Option of expanding the scope of financial monitoring to smaller SOEs and LEs.

- **POLICY-MAKING LEVEL:**

- ✓ Fully operational horizontal government framework for coordinating the various supervising ministries and achieving an effective and coherent SOE/LE strategy taking into account fiscal, economic and social priorities in the short, medium and long-term.
- ✓ Already operational Government Council of Economic Policy (Article 16 of Law 4320/2015).



Fragmented vertical policy (supervising Ministries) with poor visibility, evaluation of performances and strategic vision.

Comprehensive horizontal strategy for SOEs/LEs with new rules, instruments, goals and obligations.

## 2. Introduction of Performance Agreements (PAs) between supervising Ministries and SOEs/LEs:

- These Agreements will:
  - ✓ clearly state SOEs and LEs' mission and objectives
  - ✓ provide incentives for the achievement of targets
  - ✓ define adequate criteria for their evaluation.
- Implementation of PAs will allow benchmarking between comparable SOEs/LEs and contribute to accountability and transparency.
- Option of using strategic and business plans of SOEs (Articles 5 and 6 of Law 3429/2005) in order to upgrade these tools to binding Performance Agreements.

## 2. Introduction of Performance Agreements (PAs) between supervising Ministries and SOEs/LEs:

- Association of SOEs' stakeholders to procedures concerning the elaboration of PAs in order to ensure that targets are adapted to social needs and expectations.
- Evaluation of PAs realized by a third party organisation in order to guarantee impartiality of procedures and reliability of the final outcome.
  - Implication of Public Universities in order to minimize the cost of evaluation while enhancing the scientific character of these procedures.
- Ranking of SOEs and LEs based on a composite individual score of SOEs/LEs can be considered in order to provide further incentives to management through strong public awareness of evaluation procedures and performances.

### 3. Implementation of a comprehensive restructuring strategy for SOEs according to fiscal, economic and social priorities

#### **STAGE 1:**

- In depth-reviews of SOEs and LEs, either at the sector level, either for specific large SOEs:
  - ✓ Missions of SOEs and LEs according to current economic and social conditions as well as in relation to international experience and trends.
  - ✓ Potential economies of scale and synergies between SOEs.
  - ✓ Opportunities for strategic partnerships with private investors.
  - ✓ Full investigation of issues associated with corruption and clientelism.
  - ✓ Proposals concerning the improvement of their social performances.
- The government may review proposals of all business/restructuring plans of SOEs/LES than have been elaborated until now:
  - ✓ Plans for SOEs (e.g. OASA)
  - ✓ Planet - Deloitte Report for LEs
  - ✓ Only if such plans are not available or satisfactory, selected in-depth reviews from international organizations or/and national research institutes will be commissioned.

# Implementation of a comprehensive restructuring strategy for SOEs and LEs

## STAGE 2:

### a) First option:

- ✓ Formulation and implementation of Restructuring Plans for SOEs and LEs if role, performances and services fully justify the continuation of their operation.
- ✓ Reforms will address both economic and social issues.

### b) Second option:

- ✓ Divestment / liquidation in case of SOEs and LEs with poor economic and social impact.
  - ✓ 21 entities have already been restructured in 2014.
- ✓ Merger of SOEs and LEs.
- ✓ Assignment of services to local governments (if relevant).

# MULTIDIMENSIONAL RESTRUCTURING PLANS (MRP)

# Actions for improving efficiency of SOEs and LEs and reducing substantially financial deficits in the medium-term

- Management of SOEs:
  - ✓ Introducing boards of directors with larger autonomy to make strategic decisions.
  - ✓ Introducing high-quality corporate control mechanisms (including internal auditing and ethics codes) and credible measures to fight corruption.
  - ✓ Promoting competitive and non-discriminatory public procurement.
  - ✓ Ensuring transparent and adequate compensation for public policy obligations.



# Actions for improving efficiency of SOEs and LEs and reducing substantially financial deficits in the medium-term

- Reduction of operating costs:
  - ✓ Ensuring transparency and disclosure around cost allocation.
  - ✓ Devising methods to calculate market-consistent rates of return on business activities.
  - ✓ Reduction of costs associated with factors of production.
  - ✓ Restructuring of organisational structures with the merger and co-location of offices.
  - ✓ Renegotiation and reduction of rents.
  - ✓ Renegotiation and reduction of raw materials supply and expenditures for repairs and maintenances.
  - ✓ Minimizing transport costs.

# Actions for improving efficiency of SOEs and LEs and reducing substantially financial deficits in the medium-term

- Increase of revenues:
  - ✓ Expanding the customer base for existing products or services.
  - ✓ Diversification of products or services.
  - ✓ Improvement of the quality/price ratio of services and products.
  - ✓ Exploration of new market and business opportunities.
  - ✓ Maximization of incomes from rents.
  - ✓ Optimization of stocks and waste material management.
  - ✓ Commercial use of SOEs' real property for raising revenues.

=> (Reduction of operating costs/increase of revenues) + (financial monitoring) + (mergers/liquidation) are based on previous actions concerning SOEs.

# Measures for improving contribution of SOEs and LEs to economic, social and territorial cohesion

- Shared values of the European Union in respect of services of general economic interest concerning *“a high level of quality, safety and affordability, equal treatment and the promotion of universal access and of user rights”* (Protocol 26 TFEU):
  - ✓ Introduction of compulsory and transparent procedures for the consultation of individual and collective users concerning strategic decisions of SOEs and LEs.
  - ✓ Implication of external stakeholders to the evaluation procedures associated with performance agreements.
    - ✓ Evidence that such implication (consultation – evaluation) can prevent or expose cases of corruption, clientelism and inefficient management.
  - ✓ Providing adequate resources for financing long-term investment plans in infrastructures.
  - ✓ Improvement of the quality and safety of services.
  - ✓ Adaptation of SOEs and LEs’ missions and activities to new social needs and priorities (e.g. strong commitment to policies against climate change).
  - ✓ Enhancing accountability of SOEs’ board and employees towards the government and citizens.

# RESPONSIBLE AUTHORITIES

- Ministry of Finance / GAO.
- Ministries supervising SOEs/Legal Entities.
- Government Council of Economic Policy.

# Other involved organizations/ technical assistance required

- European Commission
- OECD
- Potential consultation with the European Centre of Employers and Enterprises providing Public Services (CEEP).
- European Parliament “Intergroup on Public Services”.

# IMPLEMENTATION TIMELINE

Exemple

Year	Action
2015	<ul style="list-style-type: none"> <li>- <b>Close monitoring of the execution of SOEs / LEs budget in order to achieve the objectives of the 2015 National State Budget.</b></li> <li>- Implementation of a fully operational horizontal government framework enabling a comprehensive, effective, coordinated and coherent policy for SOEs and LEs (Q2)</li> <li>- <b>Definition of the Performance Agreement methodology (Q2).</b></li> <li>- Approval of Performance Agreements between supervising Ministries and SOEs/LEs in relation with the preparation of their 2016 budget (Q3).</li> <li>- <b>Initiation of selected in-depth reviews of SOEs/ legal entities in collaboration with partners and organizations involved in technical assistance (Q2).</b></li> <li>- Conclusion of the a) first set of in-depth reviews of SOEs/LEs and b) public consultation procedures (Q3 – Q4).</li> <li>- <b>Implementation of MRPs for the first set of SOEs/LEs according to the conclusions and proposals of the in-depth reviews and public consultations (Q4).</b></li> <li>- Implementation of decisions concerning potential mergers of SOEs/legal entities or divestment / liquidation (Q4).</li> </ul>
2016	<ul style="list-style-type: none"> <li>- <b>First evaluation of Performance Agreements (Q3).</b></li> <li>- Implementation of Restructuring Plans for SOEs/Legal Entities (first set).</li> <li>- <b>Completion of potential mergers and divestment/liquidation decisions.</b></li> </ul>
2017	<ul style="list-style-type: none"> <li>- <b>Second evaluation of Performance Agreements (Q3)</b></li> <li>- Implementation of Restructuring Plans for SOEs/Legal Entities (second set)</li> </ul>



# QUANTIFICATION

Exemple

Actions	Reduction of government subsidies resulting from the improvement of SOEs' financial performances
<ul style="list-style-type: none"> <li>- Strict monitoring of SOEs financial performances.</li> <li>- Restructuring plans of SOEs (reduction of operating costs, increase of revenues).</li> <li>- Divestment - Merging of SOEs (potential).</li> </ul>	<p>2015*: 155m</p> <p>2016: 28 m (-10% comparing to 2015)</p> <p>2017: 37m (- 15% comparing to 2016)</p> <p>Total reduction until 2017: 220 m</p>

**\*Achievement of the 2015 State Budget objectives concerning SOEs.**

**According to the 2015 State Budget, “other expenditures” of SOEs (i.e. excluding wages, investments and debt service) for 2015 were estimated at EUR 872m.**

Actions	Reduction of government subsidies resulting from the improvement of LEs' financial performances
<ul style="list-style-type: none"> <li>- Strict monitoring of Legal Entities financial performances.</li> <li>- Restructuring plans of Legal Entities (reduction of operating costs, increase of revenues).</li> <li>- Divestment - Merging of Legal Entities (potential).</li> </ul>	<p>2015*: 115m</p> <p>2016: 30m (-5% comparing to 2015)</p> <p>2017: 30m (- 5% comparing to 2016)</p> <p>Total reduction until 2017: 175m</p>

**\*Achievement of the 2015 State Budget objectives concerning Legal Entities.**

**According to the 2015 State Budget, “other expenditures” of Legal Entities (i.e. excluding wages, investments and debt service) for 2015 were estimated at EUR 998m.**