Worksheet G
VI. State-owned enterprises

***Note**: Not all countries have or are considering establishing SOEs, so this issue area may be irrelevant for the purposes of this process.*

Background: The performance of state-owned enterprises (SOEs) can be an important component in a country's strategy to harness resources for development. Well-run SOEs can help producing countries in several ways: they can secure resource revenues in addition to taxes, nurture local content and improve the country's regulatory capacity. However, building effective SOEs is no easy task. All too often, SOEs become obstacles to private investment, drains on public coffers, inefficient managers of public resources, or sources of corruption and patronage that prevent countries from maximizing returns on natural resources. The corruption case involving Brazil's national oil company, Petrobras, did incredible damage to the reputation of the ruling party when almost one-third of its cabinet was named in the scandal.[169]

Because SOEs also tend to attract a great deal of popular attention, it is important that political parties develop informed positions on whether they should exist and how they are governed. After commissioning extensive research, in 2010 the ANC in South Africa decided to take a position that limited further government ownership of the mining sector because of concerns over costs and investor incentives. The party justified the controversial position by framing it as a means to achieve broader development objectives.[170]

Costs and trade-offs

*When developing policy stances related to **whether to have a state-owned enterprise** it is particularly important to consider:*

- The country's expectations of national ownership, the potential economic opportunities and risks associated with establishing an SOE (both in and outside of the country) and the government's access to capital
- The skill level of the potential workforce for the SOE and the cost of company learning
- The risks of capture or corruption

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[169] For more information see <http://www.bbc.com/news/world-latin-america-39574355>.

[170] See the South Africa case study in Chapter 2.

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*When developing policy stances related to **the governance structure of an SOE** it is particularly important to consider:*

- How public shareholders might improve access to capital and accountability
- If there are skilled professionals willing and capable of serving on a board of directors and the best process for selecting them

*When developing policy stances related to **the role of the SOEs (commercial and non-commercial)** it is particularly important to consider:*

- What other institutions govern the sector and how the roles and requisite workforce skills might overlap (i.e., would concentration of skills in ministries or regulatory agencies be more effective)
- Whether there is or could be a conflict of interest or an increased chance of corruption if the SOE takes on non-commercial roles

*When developing policy stances related to **the amount of revenues retained by the SOE** it is particularly important to consider:*

- The costs and benefits of the SOE having fiscal and governance independence and the realistic revenue needs of the company
- How big the SOE is with respect to the national budget, and how predictable national budget transfers are currently
- The risks associated with off-budget spending and quasi-fiscal activities

For more information on these policy issues, please refer to Precept 6 in the Charter Benchmarking Framework and the NRGI primers on state participation and state-owned enterprises and commodity trading.[171]

[171] The State Participation and State-Owned Enterprises primer is available at <https://resourcegovernance.org/analysis-tools/publications/primer-state-participation-and-state-owned-enterprises>; and the Commodity Trading primer is available at <https://resourcegovernance.org/analysis-tools/publications/primer-commodity-trading>.

Guiding questions	Current orientation
• Does the party already have a stance (formal or informal, public or internal) on the role of SOEs in the resource sector and how it should be governed? If so, what is that stance?	
• Does the party already have a stance (formal or informal, public or internal) on state participation outside of the resource sector? If so, what is that stance?	
• What do the party base and its core constituencies think about state participation generally or the existing SOE(s) specifically? What does the wider population think?	
Guiding questions	**Current framework**
• What is the legal and regulatory framework governing SOEs? Is it adequately enforced?[172]	
• What is the SOEs funding mechanism? Is the information about finances publicly disclosed? Does the SOE have the financial and technical capacity to fulfil its role?[173]	
• Does the SOE have strong corporate governance structures that limit political interference and conflicts of interest, and ensure proper oversight? Are its decision-making and operations transparent and accountable?[174]	
• How does the country perform in the 'State-Owned Enterprises' subcomponent of the Resource Governance Index? What underlying rules and practice indicators does the country perform poorly on and why?[175]	
• If the country is an EITI member, what were the findings and recommendations around the 'State Participation' requirement in the most recent EITI report?[176]	
Policy options	**Stances**
What should the government do to more clearly define the SOE's role and establish a working funding mechanism for the company? • Should the SOE's commercial role be more clearly defined to reflect the company's actual financial and technical capacity? • Should the SOE's non-commercial roles be more clearly defined? What should be done to limit conflicts of interest? • What should the government do to ensure that the SOE has a workable funding mechanism?	*Example stance:* The party believes that for a natural resource SOE to be effective, it must have clearly defined roles and responsibilities. We therefore commit to clarifying the SOE's commercial and non-commercial roles and how they relate to other industries.

[172] Information on the current framework may be available in the RGI data under questions 1.4a-1.4b.

[173] Information on the current framework may be available in the RGI data under questions 1.4.1a and 1.4.2a-b.

[174] Information on the current framework may be available in the RGI data under questions 1.4.31-c, 1.4.5a-e, 1.4.9a-e, and 1.4.10a-b.

[175] For detailed answers to these questions, refer to the downloadable RGI Data explorer available at <http://www.resourcegovernanceindex.org/about/data-and-source-documents> (subcomponent 1.4). For a quick snapshot of the subcomponent and indicator scores, see the country profile at <http://www.resourcegovernanceindex.org/country-profiles> (select your country, scroll down to the Full Scores section, and click + to expand the relevant scores).

[176] Find the most recent report and other information on country progress on the EITI website at <https://eiti.org/countries>.

Policy options	Stances
What should the government do to ensure that the SOE's corporate governance systems limit political interference in the company's technical decisions, while ensuring effective oversight? • Should the government more clearly establish the identity and role of state shareholders in the SOE? • Are reforms needed to ensure the SOE board is more empowered, professional and independent? • Should the SOE invest more in staff integrity and capacity?	*Example stance:* The party believes that natural resource SOEs should adhere to the highest standards of corporate governance. We therefore commit to ensuring that the role and identity of state shareholders is clearly established and that the SOE has a strong and independent board.
What should the government do to ensure SOE decision-making and operations are transparent and accountable? • Should the SOE disclose more operational and payment data? • Should the SOE subject itself to more rigorous and/or more frequent independent financial audits and publish the results? • Should the legislature do more to oversee SOE performance, without unduly constraining its decision-making?	*Example stance:* The party believes that natural resource SOEs should operate transparently and accountably. We therefore commit to ensuring that the SOE publishes operational and payment data and is subjected to regular audits.