6. State-owned enterprises, sustainable finance and resilience

State-owned enterprises (SOEs) account for a growing share of the global corporate landscape, and the trend is likely to continue. SOEs' commitment to sustainable development matters because of their sheer size, because they tend to be located in high-impact sectors and because SOEs enable the state to set the "tone at the top" in the business sector. This chapter analyses national approaches to environmental, social and governance concerns in the state-owned sector. Overall, SOEs' commitment to sustainability is higher than among other firms but the trend is far from uniform, with some sectors and geographic regions clearly lagging behind. The chapter further highlights some challenges arising from increasing state ownership, including a large state involvement in sectors that continue to rely on fossil fuels, and a generally higher risk of corruption and other irregular practices in SOEs than in other firms.

Finding proper balance between corporate and governmental approaches toward sustainability inevitably becomes more complex when governments themselves are enterprise owners. This issue has come to the forefront in recent years, reflecting the growing importance of state-owned enterprises (SOEs) in the global marketplace. According to OECD calculations, around a fourth of the largest global companies are entirely or largely owned by the state (OECD, 2019). Among the world's listed companies, public sector[1] ownership comprises of 14% of global market capitalisation (OECD, 2019), and in the OECD-plus area[2] alone their value exceeds 2.4 trillion USD (full or majority ownership) (OECD, 2017). In a number of emerging and post-transition economies the share of state-ownership across the globe is estimated to be even higher.

Taking into account the numerous government support measures to tackle the COVID-19 induced economic crisis, those numbers may be set to grow in the OECD area and beyond (Abate et al., 2020). Moreover, in OECD and other economies that may have relatively small SOE sectors, SOEs continue to exercise an impact that exceeds their share of the national productive economy. This is because they tend to be unusually large and concentrated in economic activities (e.g. infrastructure; network industries; finance) that are of disproportionate importance to the performance and productivity of the rest of the business sector (OECD, 2017).

Table 6.1. State-owned enterprises among the world's largest 500 companies

	2019	2000
World total	**132**	**34**
Asia total	**100**	**16**
China	90	8
India	4	1
Japan	2	5
Other Asia	4	2
Europe total	**20**	**15**
France	9	6
Russia	3	1
Germany	3	2
Italy	3	2
Other Europe	2	4
Rest of the world	**12**	**3**
Brazil	4	1
United States	3	1
Mexico	2	0
Middle East	3	1

Note. A broad definition of an SOE has been applied whereby any enterprise where the state is the beneficiary owner of more than 10% of the voting shares is considered an SOE.
Source: OECD calculations based on Fortune Global 500.

Where state ownership prevails the issue of sustainable finance is defined more broadly than in the private sector. Private investors may decide to define sustainability in terms of the risk-weighted returns on portfolios of assets, but the ultimate beneficiary owners of SOEs are the population at large. In this sense the state officials involved in the oversight of SOEs are arguably subject to obligations toward the public that are not unlike the fiduciary duties that a private company's board and management owe to their shareholders. They need to ensure that the financial and non-financial dispositions of their portfolio of SOEs serve not only long-term profit maximisation but also the fulfilment of widely held public policy priorities.

At the same time, the distinction (mentioned in earlier chapters) between political and corporate responsibilities still applies. First, SOEs are usually subject to ordinary company law. This implies limitations to how the state may dispose over their assets and free cash flow – especially where minority investors are invited into their shareholder structure. Second, if the financing of important public policy objectives are delegated to a corporation, great care must be taken to ensure fiscal transparency and accountability, competitive neutrality, and to sheltering governing bodies from undue interference. Third, SOEs have, or should have, corporate forms that are designed with a view to ensuring an efficient operation of commercial operations; where the state wishes to carry out purely public policy objectives (e.g. the provision of health, social and educational services) then other types of public agencies or policy measures are typically more suitable delivery vehicles. The remainder of the chapter focuses on SOEs that are mainly, or largely, concerned with the pursuit of commercial objectives.

6.1. The quest for environmental, social and governance (ESG) performance

From the perspective of an inclusive approach to sustainability in the state-owned sector, the ESG nexus also needs to be more broadly interpreted. For starters, it would hardly suffice for the state owner of a well-run SOE to apply ESG criteria to its investment as a means to maximising returns. In most cases other public (and political) priorities for environmental and social performance are integrated into its operational goals. For example, state-owned "green banks" like the UK Green Investment Bank (since privatised) are set up with the explicit mandate to further environmental goals through project level financing. In cases like these, high standards of governance rather than being a goal in themselves are – from the owners' perspective – an essential ingredient in companies' ability to deliver a satisfactory environmental, social as well as financial performance.

At the same time, the E, S and G dimensions remain closely interrelated. The extent to which SOEs are expected to incorporate societal and environmental concerns into their business models will depend on the state's various roles as policymaker, regulator, owner and shareholder. It is also worth noting that a recent OECD study finds that the effectiveness of a country's sustainable development practices in the SOE sector largely depends on institutional arrangements for SOE governance, legislative, regulatory or policy requirements and different incentive mechanisms for encouraging such practices (OECD, 2020 forthcoming). The issue of proper incentivisation of the corporate agents involved in the process is also increasingly recognised (OECD 2020d).

Clear distinction between each of these roles is necessary to ensure that the state does not exercise undue influence on the governing bodies of the company while also exercising proportionate influence on the company as its owner/shareholder. For this reason, explicit public policy objectives should be expressed in the form of policies or regulations[3]; in its role as owner the responsible ownership entity might formulate "owner's expectations" to be taken into consideration by the governing bodies of the company in view of managing and mitigating reputational and other risks.

The state might also exert its influence through its role as shareholder. These various roles should be carefully balanced, keeping in mind that this involves not only the governing bodies of SOEs themselves but also the state ownership function which normally monitors the companies in real time. SOEs are in most cases overseen by elected politicians and are normally more risk averse than the average private firm. Politicians are kept informed on a "no surprises" basis.

6.1.1. The governance challenge: Companies with a credible commitment to sustainable development

The goal setting and performance of SOEs depend both on the corporate governance of the enterprises themselves and, to an important degree, on the quality of public governance in their home jurisdiction.

Government officials entrusted with exercising the ownership of SOEs must be held accountable. They should act as active and informed enterprise owners, communicating objectives and owner expectations to the SOEs that are fully aligned with the public interest such as expressed through their nation's democratic choices.

There would also be expectations that SOEs themselves are held accountable and operate according to high standards of transparency and disclosure in areas relevant to ESG. This means striking a balance between intervention in the management of the SOE and hands-off ownership that can, in some cases, provide a smokescreen for inappropriate conduct amongst SOEs.

Box 6.1. OECD Guidelines on Corporate Governance of State-Owned Enterprises

I. Rationales for state ownership

The state exercises the ownership of SOEs in the interest of the general public. It should carefully evaluate and disclose the objectives that justify state ownership and subject these to a recurrent review.

II. The state's role as an owner

The state should act as an informed and active owner, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with a high degree of professionalism and effectiveness.

III. State-owned enterprises in the marketplace

Consistent with the rationale for state ownership, the legal and regulatory framework for SOEs should ensure a level playing field and fair competition in the marketplace when SOEs undertake economic activities.

IV. Equitable treatment of shareholders and other investors

Where SOEs are listed or otherwise include non-state investors among their owners, the state and the enterprises should recognise the rights of all shareholders and ensure shareholders' equitable treatment and access to corporate information.

V. Stakeholder relations and responsible business

The state ownership policy should fully recognise SOEs' responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders. It should make clear any expectations that the state has in respect of responsible business conduct by SOEs.

VI. Disclosure and transparency

SOEs should observe high standards of transparency and be subject to the same high quality accounting, disclosure, compliance and auditing standards as listed companies.

VII. The responsibilities of the boards of directors of state-owned enterprises

The boards of SOEs should have the necessary authority, competencies and objectivity to carry out their functions of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

The OECD has issued recommendations in this respect through the OECD Guidelines on Corporate Governance of State-Owned Enterprises ("SOE Guidelines"), which were developed in 2005 and last revised in 2015 (Box 1). Implementation of the SOE Guidelines can help governments align their sustainable development priorities while ensuring that internationally accepted good standards of corporate governance related to state ownership entities and separation of functions are respected.

6.1.2. Key elements of national governance frameworks: Transparency and risk management

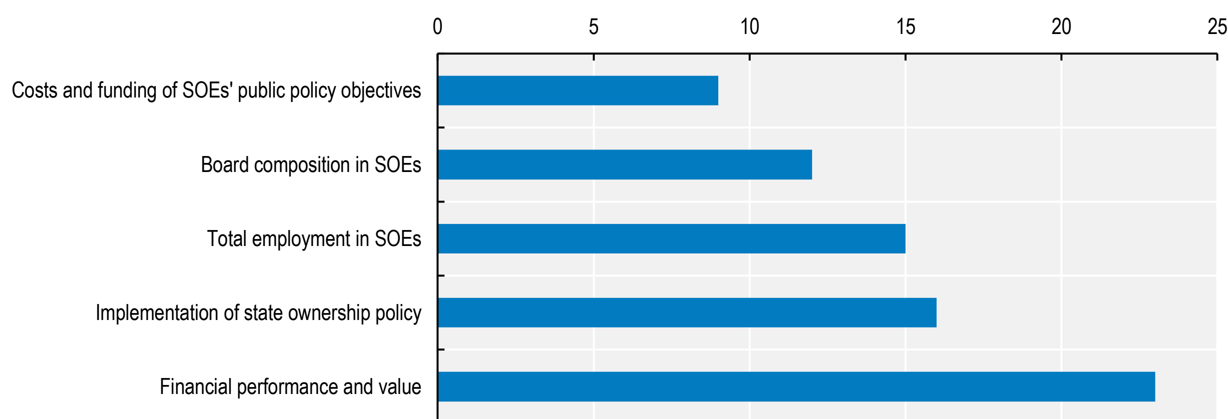
By way of illustration, transparency and risk management figure prominently among the elements of corporate governance that investors monitor, and consequently are included in most ESG ratings. In addition to being important to safeguard the sustainability of the equity invested in the SOEs, these aspects of corporate governance also have important ramifications for sustainable finance. A government commitment to public policy goals is only truly credible when the public is availed of the necessary information to monitor it. And risk management is integral to both the corporate compliance function and to the board's and management's duties to monitor corporate behaviour and safeguard corporate reputation.

Transparency and disclosure

At the level of the individual SOEs, reporting on financial and other performance does not differ radically from general corporate practices. Most state-owned enterprises are incorporated joint stock or limited liability companies and hence subject to general accountancy and audit rules. The SOE Guidelines recommend that SOEs implement IFRS reporting or equivalent national accounting standards, and according to recent evidence a growing number of jurisdictions implement this recommendation (OECD, 2018).

Where SOEs do differ is with respect to the disclosure and transparency commitments of their state owners. The SOE Guidelines recommend that the ownership entity develop aggregate reporting that covers all SOEs, making it a key disclosure tool directed to the general public. To facilitate transparency and disclosure, around 65% of the 52 countries surveyed in a recent study produce, and make available online, some form of aggregate reporting on SOEs (OECD, 2018). Most of them include all, or the majority of, SOEs in the reports (Figure 6.1). However, only 17% of the countries include information on the costs related to SOEs' public policy objectives and the related funding provided from the state budget.

Figure 6.1. Types of information included in aggregate ownership reporting (number of countries)



Note: Data is based on a sample of 52 countries
Source: OECD (2018) and OECD (forthcoming)

The implications of Figure 6.1 for ESG in the state-owned sector are important. While most governments engage in some form of aggregate reporting, less than half provide detailed financial data and important ESG relevant indicators such as board composition and public policy objectives are covered only by a small minority of such reports. As mentioned elsewhere in this report, ESG ratings are uncertain in part because of lack of comparable data and a dearth of reporting by state enterprise owners can only aggravate this problem. Governments might argue against this that the SOEs themselves disclose detailed information, but OECD experience shows that such data are often incomplete or inconsistent across companies. The reliability of available information can be raised – and the cost for market participants of obtaining information can be lowered – when states engage in proper aggregate reporting consistent with OECD's recommendations.

An important additional consideration arises when SOEs act as investors – as is the case where the state owns financial institutions or investment vehicles that may, or may not, be incorporated. In this case the state should normally be expected to act as a responsible "ESG investor". However, it will then face the same information and methodological constraints as the ones of private investors identified elsewhere in this report.

Risk management

The SOE Guidelines indicate that financial and operational risks should be understood, managed, and when appropriate, communicated. A key responsibility of boards of directors relates to the management and, where needed, mitigation of these risks to ensure the sustainability and resilience of SOEs. Around two-thirds of the 32 participating countries in a 2016 survey apply SOE-specific risk rules that either complement or supersede rules applicable only to private companies. The most common practice among these countries is including risk-specific guidance within the broader legal, regulatory and policy framework for SOE governance (i.e. SOE governance laws, SOE codes of corporate governance, state enterprise ownership policies or guidelines, or other SOE strategic planning documents) (OECD, 2016).

Significant progress has also been made in terms of establishing regulations or code recommendations on internal control and risk management systems. More than 70% of the respondents in the same survey reported that they undertake some forms of review of SOEs' internal risk management systems. Countries may employ more than one method for undertaking such reviews. The most common means for ownership entities' review of SOEs' risk management systems included: assessments via reviews of SOEs' activity reports; reviews undertaken by the ownership function; via participation in or engagement with the board; and/or via the Annual General Meeting.

6.1.3. The environmental and social dimensions

The OECD has a host of instruments that promote social and environmental values in SOEs, tackling relevant responsibilities at the level of the state and SOEs. They supplement and reinforce each other, hence providing guidance which enables countries to pursue corporate governance aligned with international standards for social and environmental issues.

The SOE Guidelines assign the state an important role with respect to sustainability and systemic stability in SOEs. Since their revision in 2015 they incorporate a chapter on 'Stakeholder relations and responsible business'. This asks governments to ensure that the state ownership policy fully recognises SOEs' responsibilities towards stakeholders, and that they make their expectations about responsible business conduct clear to SOEs. The SOE Guidelines also encourage boards to observe high standards of responsible business, a key element of sustainability. They promote reporting by SOEs on their relations with stakeholders, including labour and affected communities. The OECD Guidelines for Multinational Enterprises (the "MNE Guidelines" referenced in other chapters in this report) provide recommendations addressed by governments to businesses on responsible business conduct. They apply to all entities within the enterprise in all sectors, whether of private, state or mixed ownership.

Box 6.2. OECD recommendations on social and environmental responsibilities in SOEs

Recommendation:

SOEs should observe high standards of responsible business conduct. Expectations established by the government in this regard should be publicly disclosed and mechanisms for their implementation be clearly established. (SOE Guidelines Chapter V item D)

Implementation guidance:

SOEs should observe high standards of responsible business conduct, including with regards to the environment, employees, public health and safety, and human rights. Their actions should be guided by relevant international standards, including: the OECD Guidelines for Multinational Enterprises, which have been adopted by all OECD member countries and reflect all four principles contained in the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights. […] SOE boards and management should ensure that [owners' expectations] are integrated into the corporate governance of SOEs, supported by incentives and subject to appropriate reporting and performance monitoring.

SOEs should not be required to engage in charitable acts or to provide public services that would more appropriately be carried out by the relevant public authorities. The state's expectations regarding the responsible business conduct of SOEs should be disclosed in a clear and transparent manner.

Source: OECD (2015), Guidelines on Corporate Governance of State-Owned Enterprises.

The MNE Guidelines and the SOE Guidelines both suggest that state ownership entities should give due regard to the content of the other when communicating their expectations for responsible business conduct to the SOEs under their purview. Adherents to the MNE Guidelines currently 48 countries, are required to set up a National Contact Point (NCP) for the Guidelines (for further reference to the instrument, see OECD, 2011). NCP are agencies established by adhering governments to promote and implement the Guidelines. The NCPs assist enterprises and their stakeholders to take appropriate measures to further the implementation of the Guidelines. They also provide a mediation and conciliation platform for resolving issues that may arise. Based on the Guidelines, the OECD has developed guidance on due diligence in a number of sectors, namely minerals, extractive industries, garment and footwear, agriculture and the financial sector.

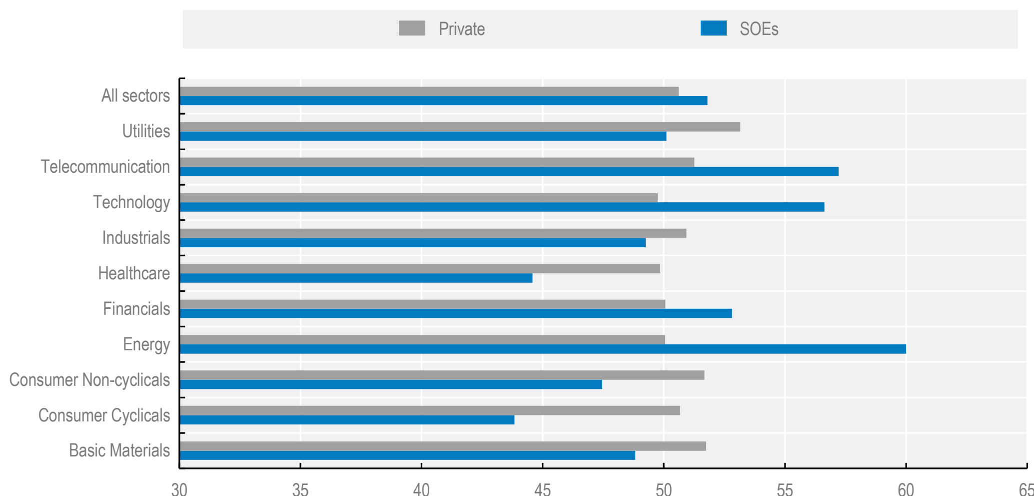
6.2. ESG performance by SOEs: a snapshot of the evidence

It follows from the previous section that the OECD consensus would have SOEs operate at least at par with best-practice private sector companies in terms of their commitment to sustainability. Two questions however arise: first, to what extent do governments across the globe share this aspiration and, second, do inherent institutional, corporate governance or other challenges make it difficult to reach this goal in practice.

To assess the differences among different categories of companies, ESG ratings have been collected based on Thompson-Factset's rating of around 6,600 listed companies. This index can be said to be, on the one hand, encompassing in the sense that it covers all important economies around the globe. However, it must be cautioned that it includes only companies traded in regulated markets and hence cannot automatically be assumed to be representative of the majority of SOEs that are closely held by the

state[4]. State ownership has been identified in 494 of the companies (with SOEs being defined broadly to include firms with more than 10% state ownership)[5]. A sectoral background of SOEs and private companies is provided in Figure 6.2.

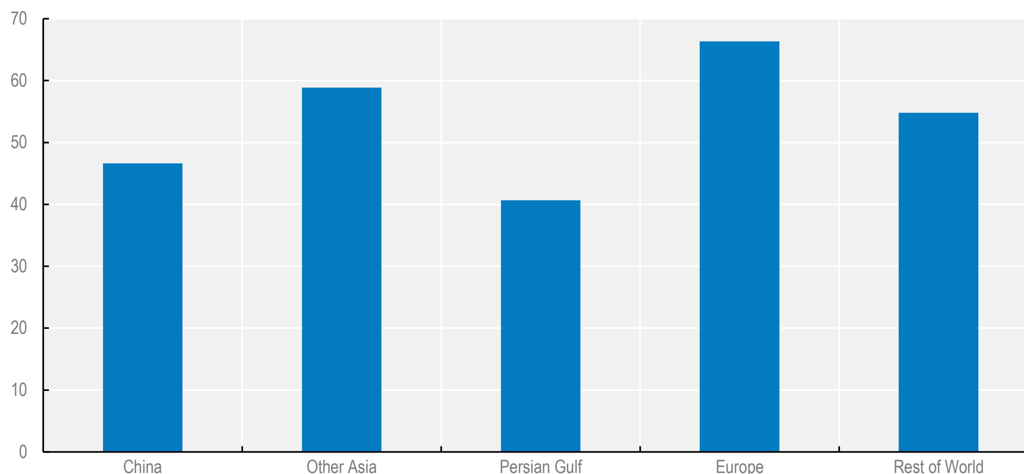
Figure 6.2. Average ESG ratings by main sectors



Source: Author calculations based on Thompson-Reuters.

It follows from the figure that SOEs do indeed, on average, have higher ESG ratings than private firms. However, the overall difference is not very big, and there are major underlying sectoral variations. In sectors such as energy, telecommunication, (other) technology and to some extent finance, SOEs have clearly higher ESG ratings than private firms. Conversely, in most of the traditional industries and the service sector SOEs tend to score worse than their private sector counterparts. A perhaps tempting interpretation could be that SOEs that are active in sectors generally perceived to operate in the "public interest" are subject to greater scrutiny and a higher level of reputation risk and therefore strive to raise their commitment to good governance and sustainability. It is, however, also likely that part of the explanation is national difference, since SOEs have different sectoral distributions across countries.

Figure 6.3. Average ESG ratings for SOEs, by geographic region



Source: Author calculations based on Thompson-Reuters.

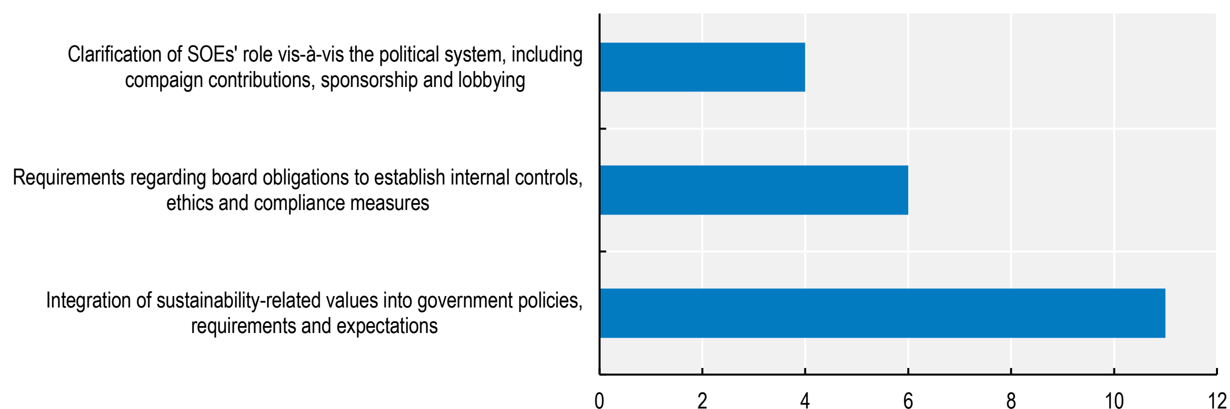
To further examine the point about national difference, Figure 6.3 provides an overview of average ESG ratings of SOEs located in five regions of the world[6]. It occurs that SOEs owned by European governments score significantly higher than any others, followed by "other Asia" (which encompasses two Asian OECD member countries, Singapore and a handful of other economies in South and South East Asia). One interpretation would be that countries that are signatory to OECD good practices in areas such as SOE governance and responsible business conduct have indeed taken steps to implement these practices in the companies that they own[7]. A supplementary reason might be that these countries are mostly high-income economies and have relatively small portfolios of SOEs. Where remaining state ownership of a few companies are perhaps "a matter of policy choice" the authorities can be expected to implement high standards of governance and sustainability in those companies.

6.3. Integrating sustainability considerations into state ownership policy

OECD countries' efforts to enhance corporate governance and state ownership practices in the state-owned sector (the "G" component of ESG) is well documented[8]. Recent OECD research moreover sheds light on governments' efforts to raise standards of sustainable development in the companies they control. According to the 2020 OECD report on "Implementing the OECD Guidelines on Corporate Governance of State-Owned Enterprises," two-thirds of the 28 countries surveyed have made material progress in recent years in national practices concerning the integration of sustainability-related values into government policies, requirements and expectations with regard to the SOE sector (OECD, 2020). Some examples of national practices in this regard are provided below.

It is also notable that one fifth of the countries surveyed have newly put in place SOE board obligations to establish ethics and compliance programmes or measures. This demonstrates the importance given to RBC as a core business issue in recent years and indicates that the increasing pressure for accountability and transparency of corporate behaviour is supporting innovations and improvements in practices by SOEs.

Figure 6.4. How countries have promoted responsible business in the SOE sector, 2013-18



Note: The data is based on a sample of 28 countries. It indicates the material policy changes made by governments on responsible business in the SOE sector.
Source: OECD (2020)

In particular, many OECD Member countries seem to think that SOEs can – and should – play a leading role in their sector to motivate virtuous behaviour from all market participants. An increasing number of these governments are incorporating sustainable development goals into their ownership policies to allow for public disclosure of expectations for sustainability and establishing mechanisms for their implementation. In addition, as a regulator, the state can further encourage positive behaviour by playing

a leading role itself in terms of social and environmental responsibility. In these cases, ensuring co-ordination between general sustainability policy and SOE-specific objectives and creating a level-playing field among private players are important to ensure efficiency. A few examples of national practices (without prejudice to whether they can be considered "best practice") are the following:

- Finland's ownership policy ["Government Resolution on State Ownership Policy of 13 May 2016"] clearly expects companies to set an example in value leadership and corporate social responsibility as part of the company values and requires that they "contribute to the long-term development and renewal of society".
- In 2018, the Korean government designated "public institutions as a driving force for achieving social values" and included them as one of 100 major national tasks of the government's five-year administrative plan. The government has defined a set of indicators to monitor the performance of SOEs and new public institutions with respect to human rights, ethical management, occupational safety, environment conservation and social integration.
- In Switzerland, the Federal Council published in 2015 an official position paper on corporate social responsibility ["*RSE - Position et Plan d'Action du Conseil Fédéral*"]. It states that the Swiss Confederation should act as a role model in particular when performing ownership rights over state owned companies.
- In New Zealand, the SOE Act requires every SOE to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so. SOEs are expected to formulate and report on CSR objectives on an equal footing with financial objectives.

More detailed national information regarding France, Norway and Sweden are provided in boxes Box 6.3 and Box 6.4.

Box 6.3. France's Global strategy on corporate social responsibility

The strategy covers the entire SOE portfolio of the state as well all the administration that manages SOEs in general. It consists of several tiers, some of which are cross-cutting while other are more specific to certain sectors or enterprises. The global strategy is being finalised through a charter, with three main pillars:

1. **Integrating CSR in the SOEs' strategy, in particular in their purpose ("raison d'être")**. Concretely, SOEs are required to explicitly state their own objectives in terms of CSR and vis-à-vis stakeholders in their individual strategies.
2. **Improving gender equality.**
3. **Reducing greenhouse gas emissions**. This particular pillar consists in assessing SOEs' progress on reducing greenhouse gas emissions by establishing SOE's carbon footprint (globally and individually) and by setting a target to reduce emissions. The latter is done individually by SOEs which have to establish an action plan aimed at reaching their respective target

To date, the French state's ownership agency APE has observed a certain disparity between SOEs in terms of individual practices, with some relatively more advanced than their peers. This includes most notably the French Public Investment Bank, Bpifrance, which is finalising a "climate plan" to assess its carbon footprint and direct its actions towards sustainable finance, as well as EDF (the national electricity producer and distributor) which aims to double renewable energy production by 2030 and to triple energy storage capacity by 2035. Other examples include the railway company SNCF which has ordered 100 trains that consume 20% less energy than the current fleet, and the postal company (La Poste) which is increasingly using electric vehicles.

As the adaptation of environmental and social responsibility practices in SOEs gains momentum worldwide, it should be kept in mind that some of the most basic elements of good governance can also have direct impact on sustainability goals. Peru, for example, which is considered as one of the countries most vulnerable to climate change, is making high SOE governance standards a centrepiece of its efforts. When the central ownership unit was established, the need to tackle sustainability issues (including the SDGs) was explicitly cited as one of the reasons. Within the broader ownership framework, the ownership unitg provides: 1) impact analysis of SOEs' sustainability programmes; 2) a framework for project development to enhance the sustainability of SOEs; and 3) technical assistance to SOEs for developing their sustainability programmes.

Box 6.4. Recent changes to the state ownership policy in Norway and Sweden: A focus on value creation

Sustainability

The Norwegian state expects individual SOEs to have an agenda for sustainable value creation stating how the company plans to create value overtime. A similar expectation features in Sweden's new ownership policy (2019) according to which SOEs have to contribute (through their business models) to value creation in a way that promotes long-term sustainable development.

More concretely, the Norwegian government expects from companies that their respective sustainable value creation agendas are specified in terms of clear goals and strategies and that companies report on them. This presupposes that individual companies identify and address material opportunities and risks for their business and those affected by their activities. A similar case is made in Sweden where SOEs, in light of their respective industries and markets in which they operate, have to identify and minimise the risk of negative impact of their operations while also taking advantage of new business opportunities for sustainable value creation. Hence since 2013, boards of directors are officially responsible for setting strategic targets for sustainable business in their business models.

Responsible business conduct (RBC)

The new Norwegian state ownership policy introduces clear expectations in terms of Responsible Business Conduct. More specifically, SOEs are expected to lead the field on RBC, which entails, amongst other aspects, that companies identify main risk areas for stakeholders affected by their operations (including in the supply chain), and incorporate RBC into their goals and strategy and follow internationally agreed standards and principles such as the OECD Guidelines for Multinational Enterprises (MNE Guidelines). As companies differ in business, size and risk exposure, the RBC-related work needs to be adapted on an individual basis.

Additional specific expectations for SOEs include work to protect human rights and labour rights, to reduce their climate and environmental footprints, and prevent economic crime including corruption and money laundering. SOEs are expected to conduct due diligence for their RBC based on recognised methods. Similar expectations exist in Sweden where SOEs are expected to follow MNE Guidelines as well as the UN Guiding Principles on Business and Human Rights, amongst other standards.

6.4. But SOEs are not just a force for good: Challenges arising from state ownership

6.4.1. Managing costs, protecting the competitive environment

State-owned enterprises' commitment to sustainable development can, even where fully implemented, give rise to some policy challenges. A basic commitment to responsible business conduct (RBC) along the lines of private companies is unproblematic, as such strategies are commonly assumed to serve the goal of long-term corporate value creation. Some governments, however, have gone further and broadened the concept of RBC to encompass demands that their SOEs shall carry out a number of public policy function. Recent examples from Asia include SOEs being instructed to dedicate a percentage of their earnings to acts of corporate charity, or to carry out public services including education, housing and health for their employees or local communities (OECD, 2020 forthcoming). While the provision of such public functions is indeed important, mostly it is better carried out either by dedicated government agencies or sourced from private sector providers, and funded from public budget rather than imposed on the state-owned enterprises themselves.

The state may nevertheless decide to charge SOEs with certain public policy objectives that would not be expected from private firms in like circumstances – and the presence of such objectives may be integral to the rationale for state ownership. In the context of sustainable development, recent examples of such "non-commercial" objectives have included demands that SOEs invest in green technology to a greater extent than imposed by the markets; and, through their staffing decisions, play a stabilising role in labour markets during times of economic crisis. Some governments attach great value to the policy leverage arising from SOEs public policy objectives, and *inter alia* for this reason they actively support the relevant SOEs and shield them from competition and takeover.

This in turn gives rise to two twin policy challenges related to (i) the balancing of commercial and non-commercial objectives; and (ii) maintaining a level playing field in markets where SOEs and private firms coexist. According to the SOE Guidelines and previous studies conducted by the OECD[9], in order to ensure a balance between commercial and non-commercial priorities, an important challenge for policy makers is to ensure that SOEs receive an adequate and transparent compensation for the public policy priorities they are asked to undertake. They should neither be put at a competitive disadvantage nor have their competitive activities effectively subsidised by the State.

To maintain a level playing field (commonly referred to as "competitive neutrality") a high level of transparency is called for. Any obligations and responsibilities that an SOE is required to undertake in terms of public services beyond the generally accepted norm should be clearly mandated by laws or regulations. The SOE Guidelines recommend that such obligations and responsibilities be disclosed to the general public and related costs should be covered in a transparent manner. A number of governments have in the past chosen to compensate SOEs for their public policy roles not through carefully targeted subsidies, but rather through in-kind benefits (e.g. preferential access to land or inputs), preferential tax treatment, soft loans, favourable public procurement framework, and a general relaxation of any rate-of-return requirements imposed on the companies. This is not recommended since such measures have adverse effects on competition and generally do not reflect accurately the cost of the public policy objectives imposed on the SOEs.

Good practices in the Guidelines also call on SOEs to separate the accounts of commercial and non-commercial activities. OECD Member countries are increasingly adopting such practices. In the case of EU countries (as well as members of the EEA) the rules guiding the Single Market impose accounting separation to all undertakings (public or private) receiving public funds or benefiting from special or exclusive rights (the methods used to calculate costs are also subject to specific requirements). In the

OECD area more generally, such rules are commonly applied in certain sectors (e.g. the public utilities and energy sectors) where significant public service obligations are in place.

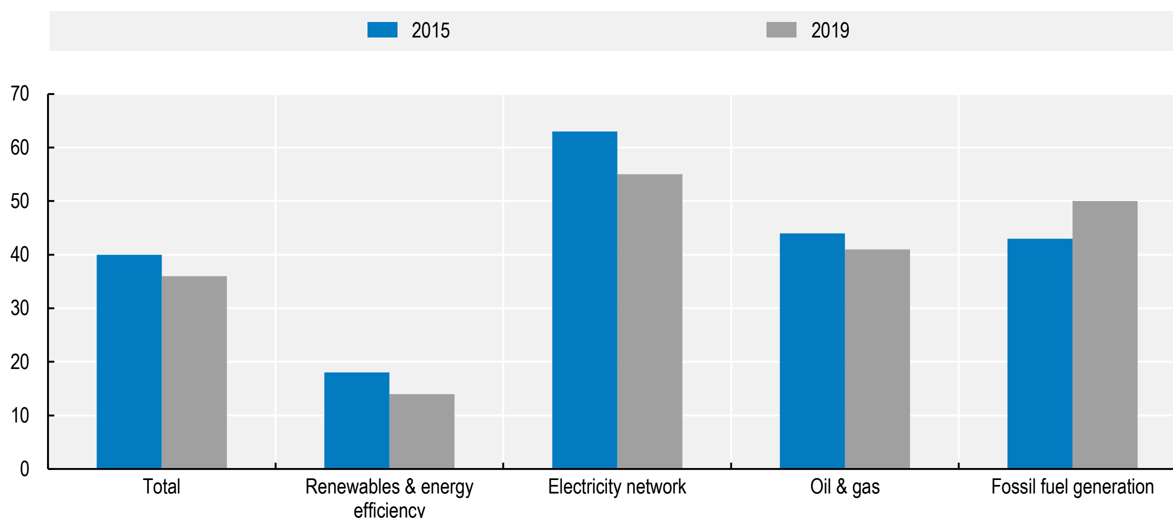
6.4.2. Ensuring coherence between policy and practice

As noted in above sections, ownership entities around the world are actively integrating environment, social and governance goals for their SOE portfolios. This goes hand in hand with broader international commitments and an increasing awareness that governments as enterprise owners should "lead by example." However, a challenge arises from a lack of coherence between stated public policy goals and the corporate objectives pursued by individual SOEs in a number of countries. The SOE Guidelines – as well as the OECD Best Practice Principles on the Governance of Regulators (OECD, 2014) – recommend a strict separation of the state's roles as enterprise owner and economic regulator, as well as the appointment of professional and autonomous boards of directors in each SOE to ensure that the companies act according to their corporate objectives rather than in response to ad-hoc political intervention.

The energy sector provides a useful illustration of this point. Although there has been considerable market liberalisation, state ownership remains prevalent in the energy sector with energy SOEs representing almost a quarter of the total equity value of the state-ownership portfolios of 39 OECD and partner countries; and 37% of the total equity value of publicly traded SOEs where the state remains a prominent shareholder (10 per cent or more).[10] (OECD, 2017)

These SOEs represent almost 40% of energy investments globally (IEA, 2020a) across all sub-sectors of the energy sector including the most polluting ones (Figure 6.5). As a result of their power generation capacity, SOEs are among the world's largest emitters of greenhouse gasses at both the country and global levels, owning over half of the world's coal power plants (Prag *et* al, 2018). In the aggregate, SOEs emit over 6.2 gigatonnes of carbon dioxide equivalent per year in energy sector in greenhouse gasses, which by some calculations (Benoit, 2019), represent more emissions than every country except China.

Figure 6.5. Share of government/SOE ownership in energy investment (percent, 2015-2019)



Source: IEA (2020a), Share of state-owned energy investments by economy type and sector, 2019, IEA, Paris https://www.iea.org/data-and-statistics/charts/share-of-state-owned-energy-investments-by-economy-type-and-sector-2019

At the same time, many SOEs are responsible for a growing share of investment in low-carbon alternatives, such as renewables power, and importantly, they are incentivised to expand these investments by their government owners as part of societal expectations to meet ambitious energy transition targets set according to international, multilateral or national commitments. These two policy realities often co-exist: one where the government is actively promoting a low carbon transition; and one where SOEs continue to invest in high carbon assets.

An example can be made of coal power plants. Globally, SOEs are on average investing in new coal plants at a higher rate than their non-state counterparts - as of 2017, more than half of all coal power plants planned and under construction were built by SOEs (Prag *et al.,* 2018). This trend raises two potential issues, the first relates to the economic and financial risk management of SOEs that are carrying out these investments, and the second relates to coherence of policy goals by governments acting as owners of enterprises.

Regarding economic and financial risk management of SOEs, investments currently in the pipeline will, if built and fully operated as planned, continue to be "locked in" to produce significant carbon dioxide emissions far into the future – especially as governments and other investors are increasingly moving away from these types of investments. Current SOE investors in coal face a risk of having their assets economically stranded.[11] According to Prag *et al.* (2018), by allowing these investments to go ahead, governments are potentially creating a future dilemma between placing SOE assets under financial risk or locking-in greenhouse gas emissions.

Arguably, a number of governments have not focused enough on "stranded asset risks" in their approach towards SOE portfolio management. Such an approach relates to company level financial returns that may drive private sector investors, rather than the broader economic returns that motivate government owners (Benoit, 2019). This is consistent with the approach that would (and should) be taken by the government agencies responsible for ownership. The challenge is to enshrine, on a whole-of-government basis, an approach toward enterprise ownership that focuses on maximising long term "value for society" and incorporates sound economic and financial management.

The second issue relates to the policy goals of government owners, where the case for a policy reorientation is strong. The ability to change investment behaviour of SOEs depends heavily on their mandates. Unlike private firms, SOEs often have to mind more than the bottom line. Mandates to ensure energy security and affordability or to support employment in the sector could act as barriers to more climate-friendly investment decisions (Prag, et al., 2018). SOEs, and in many cases the policy makers that own them, are positioned to directly influence climate-relevant decisions in the power market which should act in favour of reducing and eventually eliminating coal power plants not increasing them. Unfortunately, the impact of the COVID-19 induced economic crisis may weaken the ability of many companies to invest in new capacity – which will depend heavily on the financial sustainability and strategic choices of these SOEs and their government owners. There is a risk that some state actors fall back on familiar levers for economic development (e.g. expansion of activities in sectors that rely on fossil fuels heavily, such as steel and other basic metal sectors), pushing up coal use and emissions. (IEA, 2020b)

Encouragingly, OECD research has demonstrated that SOE ownership may also have a positive effect on investment in the renewable electricity generation sector in OECD and G20 countries[12]. This effect could be due to a number of reasons, including government mandates to advance their decarbonisation strategies, preferential financing terms potentially available to SOEs, the existence of explicit or implicit state guarantees (which translate into lower costs of capital), and incumbency advantages in the market place. As many governments develop incentives to promote a low carbon transition they might consider how such incentives are applied to the SOE sector. While such schemes can be necessary, especially in the case of clear market failures, they should also not distort the competitive landscape nor hinder the entry of new market players that may also facilitate the low carbon transition. Applying the principles of competitive neutrality and good state ownership practices, as elaborated above, can help to address such concerns.

6.4.3. Fighting corruption in the state-owned sector

Integrity and anti-corruption safeguards are crucial for sustainable development and the long-term resilience of SOEs. If proper anti-corruption and integrity measures are in place, SOEs will less likely suffer from financial losses due to sanctions or misuse of funds, or from reputational damages[13]. Conversely, the acceptance of corruption practices in SOEs tends to weaken their corporate governance (the "G" of ESG, again) to the point where their contribution to sustainability and resilience becomes significantly impaired.

However, corruption continues to impede the successful performance of SOEs across the globe. Alleged corruption in some of the world's biggest SOEs has been investigated and prosecuted in a number of countries in recent years. The charges have included procurement-related passive bribery (38 persons were indicted in a scheme involving the French state-owned EDF in 2019), and active foreign bribery and related money-laundering offences (the Brazilian state-owned Banco do Brasil is under investigation for possible money-laundering scheme for bribery payments)[14]. The financial losses incurred by SOEs because of corruption-related sanctions have also grown considerably over the years. Mere allegations of corrupt conduct involving SOEs have had an immediate economic impact, with the announcements of probes leading to falls in share price of the SOEs involved.[15]

In response to these and other SOEs-related corruption scandals, many countries have recognised the need to take action by introducing various anti-corruption and integrity measures into the exercise of their state ownership. For example, Denmark, Sweden, Norway and Finland have included anti-corruption and integrity expectations into their ownership policies, along with those for sustainability and responsible business conduct. Other countries have included effective anti-corruption and integrity measures into the guidelines for their SOEs. For example, Chile's Corporate Governance Guidelines for the SOEs, developed by its ownership entity, inter alia cover internal and external audit, risk management, conflicts of interest, codes of conduct, and transparency. France, through its ownership entity, is providing ethics and integrity advice through a dedicated ethics advisor, under the supervision of the Ethics Committee. Similar advice is available in Canada.

Some countries have stepped up co-operation and coordination between their ownership entities and anti-corruption authorities in order to prevent corruption in SOEs. For example, Argentina has set up an "Integrity task-force" involving Argentina's co-ordination council of SOEs, the anticorruption agency and the state control body. Italy's Ministry of Economy and Finance and anti-corruption authority set up a dedicated working group to create guidelines for partly or wholly owned SOEs, at the central and local level, to properly address anti-corruption and integrity issues.

Individual SOEs are also putting anti-corruption and integrity measures in place more actively. By now, most of the large SOEs in OECD countries have adopted ethics codes or similar instruments, and have set up compliance programmes. Both the sanctions, as well as government requirements, have encouraged SOEs to build anti-corruption programmes, which would go beyond simple declarations and formalities. In France, large companies, including SOEs, are required by law to introduce eight key elements ensuring that anti-corruption and integrity measures are effective. Consequently, all nine of the French largest SOEs have adopted both the Code of Ethics and anti-corruption programmes and widely publicised their policy of zero tolerance to corruption.

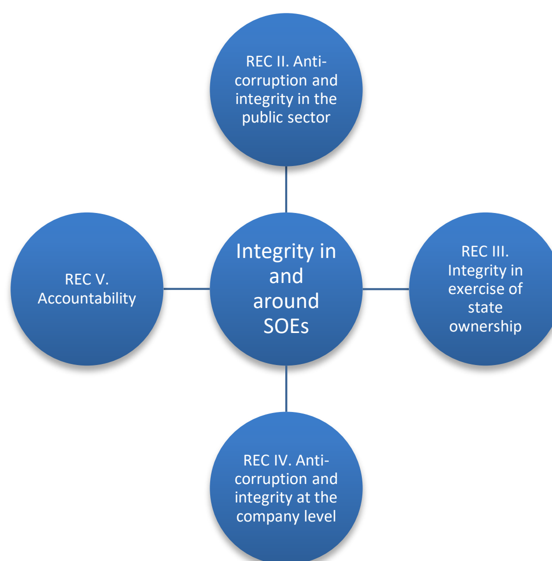
An OECD initiative against SOE corruption

The initiatives summarised above are contributing to stamping out corruption in the state-owned sector, but it is commonly agreed that more needs to be done. In this spirit, OECD countries made a joint high-level commitment by adopting the Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises (ACI Guidelines) in 2019. The ACI Guidelines are the first international instrument to offer states, in their role as owners of enterprises, support in promoting integrity and fighting corruption in enterprises they own.

They represent a widely held international consensus and underline the importance for action in this regard, making this instrument an important milestone. The ACI Guidelines complement various international commitments and standards on anti-corruption in the private sector and highlight the importance of levelling the playing field for all market actors – private and state-owned. They also clearly place responsibility for integrity of SOEs both with the state and SOEs management.

OECD countries have reaffirmed their commitment to implementing the ACI Guidelines by mandating the OECD to “develop, through an inclusive process, an implementation guide that helps Adherents implement the Recommendation” (OECD, 2019). The Implementation Guide will provide guidance to support state owners in implementing the provisions of the ACI Guidelines. It will cover all four pillars of the recommendations (Figure 4.6). Like the ACI Guidelines, the Implementation Guide will be a tool for the state as owner, but will provide insights that may be additionally useful for all entities engaging with SOEs and for SOEs. As the Guide is implemented , new good practices will emerge to offer responses to corruption in SOEs.

Figure 6.6. Main elements of the Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises



The COVID-19 pandemic has exposed new potential vulnerabilities of SOEs to corruption risks. Transport and logistics is already one of the sectors of the economy most impacted by COVID-19. This sector has also been found among the most susceptible to corruption (OECD, 2018b). As government support to SOEs grows, with large injections of funds through extra-ordinary expedited procedures, opportunities for graft and other forms of corruption will multiply. At the same time, as national budgets shrink, the public will watch the appropriation of state support even more closely. The state will need to demonstrate that the scarce funds have not been lost to corruption and other misappropriation. Similarly, SOEs will need to demonstrate that their anti-corruption and integrity measures function well to prevent any misconduct. This can be done, inter alia, by rigorous implementation of the ACI Guidelines and other related legal instruments of the OECD.

6.5. State ownership, sustainability and resilience after the COVID-19 crisis

Going forward, a key question is how the state owned sector may contribute to creating a more sustainable and resilient corporate sector. A growing number of companies could end up in state ownership in

consequence of the current crisis. A number of companies deemed “strategic” or systemically important have been rendered virtually insolvent and may have to rely on government – or government-supported – equity injections to survive. The pressure on balance sheets is further exacerbated by the fact that a number of countries had record-high levels of corporate indebtedness already prior to the crisis.

Table 6.2. Government support for the airline industry announced or implemented since the outbreak of the COVID-19 pandemic

Country	Target	Measures implemented/announced	Equity investment by state?
Company specific interventions			
Austria	Austrian Airlines	Loan guarantees	No
Belgium	Brussels Airlines	State loan	No
Finland	Finnair	Loan guarantees plus a rights issue to all shareholders underwritten by the state	Potentially
France[1] and the Netherlands	Air France-KLM	Mostly loan guarantees, plus a state loan	No
Germany	Condor	Loans by federal and regional government	No
	Lufthansa	Equity, loans and convertible debt	Yes
Hong Kong, China	Cathay Pacific Airways	A combination of share and warrant purchases and a bridge loan	Yes
Israel	El Al	Loan guarantee and stock issuance.	Yes
Italy	Alitalia	Nationalisation	Yes
Korea	Korean Air	Bond purchases	No
Latvia	Air Baltic	Recapitalisation	Yes
New Zealand	Air New Zealand	State loan convertible to equity	Potentially
Norway	Norwegian Air	Loan guarantees (conditional on a debt equity swap with the private creditors)	No
Portugal	TAP	Loan and capital injection	Yes
Singapore	Singapore Airlines	Equity and convertible debt issuance. The state acts as investor of last instance	Potentially
South Africa	South African Airways	Recapitalisation by the state owner	Yes
Sweden[2] and Denmark	Scandinavian Airlines SAS	Loans, loan guarantees, hybrid notes and stock issuance.	Yes
Switzerland	Swiss	Loan guarantees (sureties)	No
Industry-wide programmes[1]			
United Kingdom	Three airline companies	State loans	No
United States	Airline industry	Mix of grants, redeemable loans and warrants	Potentially

Notes. This table lists company-specific interventions. The countries included are OECD member countries and partner countries that have engaged actively with the OECD Working Party on State Ownership and Privatisation Practices.
[1] Not including certain narrowly targeted measures, such as deferral of tax payments in some jurisdictions.
[2] Additional support has been pledged by the government of the Netherlands.
[3] This is part of a broader industry-wide support programme.
Source: OECD calculations based on press sources between 1 March and 15 July 2020.

The effects of the crisis on state enterprise ownership will continue to evolve over the coming years. The most immediate effects have been seen in the air transportation sector, which is both one of the most directly affected sectors and also widely perceived by governments as systemically important due to the externalities that national flag-carriers are believed to confer on the rest of the business sector. Table 2 provides an overview of some of the recent measures to provide balance sheet support (whether equity, loans, guarantees and donations) to troubled air carriers.

To this point relatively few governments have taken equity stakes in previously private firms, but the likely outlook is for an increase over time. First, several rescue packages include convertible debt, which over the medium term could be transformed into voting shares. Second, the debt instruments and loan guarantees are redeemable, so unless the recipients achieve a financial turnaround after the crisis, the government creditors will at a later stage have to consider either debt forgiveness or a debt-equity swap that could then lead to state ownership of the companies.

In addition to the company specific measures reviewed in the table a majority of OECD countries have announced broader economy-wide programmes (or in some cases having a sectoral focus). These programmes are presented as aimed at staving off corporate failure as a the specific consequence of the COVID-19 crisis[16], but there is some evidence of national initiatives assisting firms that were in trouble prior to the crisis and/or targeting "strategic" concerns unrelated to COVID-19. The onus of these programmes is mostly on debt instruments such as loans and loan guarantees, but a number of governments have indicated that government share ownership is not excluded. Moreover, a few national initiatives announced so far – including notably Germany's Economic Stabilisation Fund – have as a specific goal to support companies through share purchases.

Again, most of the support measures are unlikely to lead to equity ownership by the state, but some of them will and it is hard to escape the conclusion that the world is headed for a growing government involvement in the corporate economy. The European Union has responded to this by imposing on EU member countries – which in the near term have been granted sweeping exemptions from the Union's Single Market rules – restrictions on longer-term share ownership by the state.[17] Where rescue operations involve equity investment exceeding 20% of a company's equity, the government must present an exit plan detailing how it will divest from the company over a five-year period.

6.5.1. The quest for "building back better": What role for the SOEs?

Equity support by the state to individual companies should normally come with a clearly defined exit plan detailing how and when the state plans to divest.[18] However, in some cases governments may conclude that a rescued company should remain part of the state's SOE portfolio. The post-COVID-19 corporate environment could have changed significantly, creating new rationales for state ownership. For instance, the outlook is for a growing concentration among fewer enterprises in a number of sectors, which might induce the government to stay involved as an owner to protect the integrity of the marketplace.

The crisis has further highlighted a situation where the quest for corporate profitability, for example via the reduction of corporate inventories associated with "just-in-time" supply management, left many firms with shortages of vital supplies when confronted with an unexpected surge in demand. Going forward this will lead to a stronger state involvement in corporate activities deemed to be of overriding societal importance. This should preferably take the form of independent market regulation, but where this is not feasible a continued state ownership of certain companies may be the outcome.

The challenge to "build back better" includes two main elements: (i) making the economy more resilient, both with regard to avoiding future corporate crises and to limit the risk of supply shortages and disruptions to value chains; (ii) ensuring that crisis resolution and mitigation measures are supportive of broader sustainability and other societal goals.

Regarding the first point, the crisis has brought to the fore the need to ensure the resilience of supply-chains of key essential goods[19]. This requires that both governments and firms carefully re-assess the strengths and fragilities of key supply chains, avoiding quick assumptions on what can increase resilience when making sourcing decisions. This will require revisiting procurement strategies and introducing relevant criteria going beyond economic efficiency. It may also require re-examining redundancy capacity and inventory stocks. If governments impose new public service obligations on firms (e.g. stockpiling certain goods) to further ensure essential supplies, these would need to be appropriately and transparently reimbursed.

Some argue for a greater reliance on domestic production, which may have a role to play in increasing resilience, but which also has drawbacks. Important production activities should clearly not depend on supply chains in which one single producer is indispensable, but the best remedy against this is a diversified production with adequate competition. Sovereign governments and regulatory authorities can achieve this outcome without relying on SOEs – or on nationally owned producers, for that matter.

However, as demonstrated during the early stages of the COVID-19 crisis, the presence of multiple suppliers may not prevent acute shortages during period of booming demand. It is simply not commercially viable for private producers to maintain a supply capacity sufficient to deal with all eventualities. If the authorities, in the public interest, want to maintain a particularly large delivery capacity they basically have three options: (i) compensate existent private suppliers; (ii) maintain large precautionary stocks (which is only possible for some kinds of produce); or (iii) assume control over the production process via SOEs (or state-linked private firms). If the third option is chosen, it is imperative that measures are taken to ensure competitive neutrality so that in terms of their normal (non-crisis related) commercial activities the SOEs compete with the private sector on an entirely level playing field. This is further important in the context of ensuring that the allocation of resources remains essentially guided by market signals rather than dictated by government planning.

The state may further want to involve itself in the corporate economy where, on the one hand, certain activities are deemed systemically important, while on the other hand no viable option for private supply exists[20]. A current example is the airlines industry where governments perceive important economic externalities arising from maintaining a “flag carrier” and an important airline hub within the country. Going forward similar action might occur when doubts arise about the viability of companies that retain important proprietary technologies and/or economies of scale.

The OECD takes no position on whether the ownership of commercial enterprises is better placed with the private or public sector, but in the countries where the state does decide to assume an enlarged ownership role good practices need to be respected. The state should exercise its role as an enterprise owner in accordance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises. This implies, among other things, a corporate governance that is up to private sector best practices; high standards of transparency and accountability; and a continued effort to ensure a level playing field in competitive markets.

Also, the state needs to clearly accentuate the rationale for owning commercial enterprises and regularly review the rationale. The highest standards of transparency and accountability should be applied, including explaining ex-ante why the government chooses to favour equity stakes, as opposed to other policy and financial instruments, to deliver its policy objectives. Such information should be disclosed to the public via well structured annual aggregate reporting by the state ownership entities, covering all relevant aspects of ESG in accordance with OECD recommendations. Going forward the OECD will work toward raising standards of disclosure by SOEs and their owners. This will involve cooperation with other standard-setting organisations to clarify the system of standards and reporting tools that exist and how they complement each other, including via joint initiatives such as the Impact Management Project[21].

If the state assumes a significant position as a company owner it needs to pay even greater attention to broader policy priorities in the area of responsible business conduct. The state will effectively be setting

"the tone at the top" within the business sector. As such, it is well placed to use its shareholding position to encourage environmental, social and governance standards in line with its international policy commitments, including the MNE Guidelines. It will also be in a position to step up the fight against corruption, in which irregular payments to SOEs have in the past often played a role, in accordance with OECD's Anti-Corruption and Integrity Guidelines for State-Owned Enterprises.

In addition to a heightened emphasis on RBC and integrity, the state might want to take a further step toward ensuring long-term sustainable development. As an important enterprise owner it could integrate broader objectives such as, for instance, climate, inclusion and digital transformation considerations in its ownership practices. The effect can be magnified by integrating such objectives into SOEs' procurement criteria, as well as their supply chains more generally. However, if governments choose to go in this direction care must be taken to avoid conflicts with commonly agreed good practices for public procurement, competition and non-discrimination in international trade and investment.

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Notes

[1] Public sector ownership is defined as ownership through direct government ownership or through sovereign wealth funds, public pension funds and state-owned enterprises.

[2] OECD plus is defined as 39 countries, including the portfolios of large G20 countries such as India, Brazil, Saudi Arabia.

[3] OECD (2012b) provides insights on OECD’s position regarding good standards for regulatory policies.

[4] The concerns about the methodology applied to ESG scorecard methodologies expressed elsewhere in this Outlook. However, in the present chapter the purpose of the exercises is more narrowly defined as monitoring public perceptions of different companies’ performance.

[5] The geographic distribution of the SOEs is: China 242; Persian Gulf 48; other Asia 80; Europe 87; rest of the world 37.

[6] One might ideally want to analyse a breakdown of SOEs both by regions and sector, but the underlying sample (494 state-owned companies) is too limited to allow meaningful conclusions.

[7] This is further supported by the school of thought referred to as “Ethical Business Regulation” (for further details, see Hodges, 2016).

[8] As mentioned elsewhere this body of evidence is summarised in OECD (2018).

[9] An early such study was conducted by Christiansen (2013).

[10] The 39 countries cover: Argentina, Australia, Austria, Brazil, Canada, Chile, Colombia, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Mexico, the Netherlands, New Zealand, Norway, Poland, Saudi Arabia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

[11] The risk relates to the fact that investors cannot recoup their investment in such assets because climate or other related policies and market forces will curtail the economic life or otherwise limit the operations of the facility to the point of preventing a sufficient financial return.

[12] Prag et al. (2018).

[13] Moreover, research suggests that profitability tends to be higher in countries and economic sectors with less corruption and the impact appears more pronounced for SOEs. In a low corruption environment, SOEs can be as, or more, productive than private firms and reforms aimed at improving integrity and government oversight improve their performance underscoring the importance of anti-corruption and integrity initiatives (IMF, 2019).

[14] Moreover, large SOEs including German Deutsche Telekom, Norwegian Equinor (Statoil), Swedish and Finnish Telia, Italian ENI have all been sanctioned for violating Foreign Corrupt Practices Act in the last decade.

[15] In October 2019, the shares of Banco do Brasil fell 3.4 percent in one day, after the Brazilian press reported that it was being investigated as part of the anti-corruption operation “Car wash” and was accused of laundering bribes.

[16] Among the early beneficiaries of these schemes, alongside with the airlines, have been the automobile industries in some countries. This is discussed in OECD (2020b).

[17] Subsequently the Union issued a white paper detailing its approach to foreign governments’ approach to subsidising SOEs, linking these to the application of European state aid rules to companies facing competition from such foreign SOEs (https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1070).

[18] In terms of sound fiscal practices there should also be transparent and comprehensive reporting in the government’s balance sheet showing any difference between the government’s interventions cost (including borrowing) and the value of the assets these interventions create (loans or equity stakes).

[19] This point was developed in OECD (2020c).

[20] This is a variation of the argument for government interventions during the COVID-19 crisis: some activities were seen as “too important to be allowed to fail”.

[21] For further information on the Project, see https://impactmanagementproject.com/.

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