



Reexamining Government Ownership of Companies in Israel

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This paper seeks to examine the justifications for full or partial government ownership of companies in Israel as of 2017, discussing the concept broadly and detailing the specifics of Israeli government ownership of companies. The paper closely reviews 39 companies, recommending at the end for each whether to retain the status quo, dissolve the company, merge it with another or with an existing public body, or reduce government ownership.

The **first chapter** is an overview of government ownership of Israeli companies - examining the issue of ownership, the relations between government companies and the government, The Government Companies Authority, and the general justifications for government ownership of companies.

The **second chapter** is a detailed analysis of the government ownership of specific Israeli companies - listing pertinent information, describing their history and operations, discussing their future, and laying out recommendations for each one.

The chapter examines an extensive list of companies across nine categories: (1) Fund management companies for public sector employees (such as the Educational Fund For Teachers Ltd); (2) Tourism companies (such as the Ariel Sharon Park); (3) Transportation companies (such as the Ayalon Highways); (4) Industry and trade companies (such as the Israel Wine Institute); (5) Agriculture companies (such as the Meir Shfeyah Youth Village); (6) Infrastructure, energy and water companies (such as The Geophysical Institute of Israel); (7) Construction, real estate and housing companies (such as the Better Homes Association); (8) Culture and arts companies (such as The Israel Museum); and (9) Miscellaneous others (such as the Inbal Insurance Company Ltd.).

Two **appendices** are attached: **the first** expands on the definition of a company, **the second** provides the background history of companies in Israel.

Summary:

Israeli governments have over the years chosen to advance their policies, provide services and produce goods through companies that are wholly or partially owned by the state, in partnership with private and third-sector entities.

There are three types of government companies: (i) a government company, where more than half of the Board voting power belongs to the state; (ii) a mixed company, in which half or less of the voting power in its general assemblies, or the right to appoint half or less of its directors, is held by the state; and (iii) a government subsidiary company, in which more than half of the voting power in its general assemblies, or the right to appoint more than half of its directors, is held by a government company, by a government subsidiary company, or jointly by a government company and a government subsidiary company.

Government companies are established pursuant to a government decision, with the Minister of Finance, as the minister overseeing the government's economic-budgetary issues, appointed to implement the provisions of the Government Companies Law. Most of the companies themselves are also the responsibility of at least one additional minister: whoever heads the ministry or ministries that specialize in the company's fields of activity. The governing ministers appoint the company directors on behalf of the state. The law allows ministers to influence the actions of government-owned companies through additional means, such as the power to make substantive structural decisions regarding the company (like dissolutions, mergers, etc.). The Government Companies Authority, an auxiliary unit of the Ministry of Finance, serves as a connecting link between the government and the government companies and mixed companies, also supervising the activities of four nonprofit organizations.

In the past, the government was the sole or co-owner of several hundred companies; this number has been greatly reduced in the last 25 years. The Government Companies Authority now supervises 100 companies and associations: 82 government companies and subsidiaries, 14 mixed companies and 4 non-profits.

The extent and manner of influence that are permitted and desirable for governments to have on companies in their full or partial ownership is a complex and controversial issue. This reflects the inherent tension between responding to the public will on one hand, and conducting business in a way that is not based on political-partisan considerations on the other - governments find it necessary to achieve a balance between government companies' freedom of action and the desire to promote the policies for which they were elected.

OECD studies indicate that in developed countries, state-owned enterprises thrive when the state functions as an active and well-informed player in their respective fields of endeavor; when their corporate governance is based on professionalism, efficiency, transparency and accountability; and when government-owned companies receive neither preferential nor discriminatory treatment. Governments should confine their direction of government companies to strategic issues, and to further the attainment of public objectives that are not of a distinctly commercial character.

The first justification for government-owned companies is the fact that markets don't always ensure universal access to essential goods and services, particularly public goods. Public goods are defined as products and services that can be consumed by multiple people simultaneously, without preventing others' use, and from which individuals cannot easily be excluded, such as clean air and national defense. Some view public goods as essential government tasks, regardless of the financial incentives in the free market.

This justification also extends to services and products that elected institutions have determined to ensure public accessibility to, such as the care of economically or medically disadvantaged populations, transportation in remote areas, or seismological monitoring, therefore making the decision to provide them through tax funding or via the public sector itself.

The second consideration is that private control over the supply of monopolistic products or monopolistic services of great importance can grant private entities a powerful bargaining position vis-à-vis the government and the general public, which may endanger democratic rule in the country.

Finally, governments have an interest in maintaining capability and information in sensitive areas, mainly in the interests of internal and external security, as well as available national knowledge infrastructures in areas vital to the state's security and economy, for the benefit of the entire public, such as the means for exploring and monitoring land and sea.

The downsides of government companies are those that characterize the public sector in general, although the partnership with other sectors can mitigate these to some degree. Firstly, there is a degree of infringement on property rights and a restriction of citizens' freedoms: citizens should be free to decide which services and goods they purchase with their own money – not elected officials, who may act according to their own narrow interests. Secondly, government companies are largely protected from competition and external changes, as they are generally not subject to market incentives as is the private sector, making them prone to rigidity, lack of efficiency, and wastefulness, all while creating the potential for unjustified growth of their workforce and allocated budgets. These disadvantages become more acute in the context of monopolistic goods and services, when their public sector providers gain considerable power to resist changes that the citizens and their elected representatives wish to advance. Thirdly, political-partisan considerations and the promotion of political-partisan appointments can result in a lack of professionalism and in inefficient and even corrupt conduct. In addition, members of workers' committees tend to align themselves with large political parties in order to exert pressure on the ministers responsible for their companies to improve their conditions.

The guiding principle in this paper's analysis is that the government should own a company only when it is interested in achieving an objective with distinct business-oriented characteristics (such as the provision of a service or product) that cannot be optimally achieved through another company, a government office, the private sector, third sector, or local government. Such circumstances can arise through a natural monopoly; the desire to preserve vital bases of information or to ensure availability of certain goods or services in times of emergency; for reasons of security concerns in developing some product; or the market's inability to provide high-quality goods or services the government has seen fit to provide.

Recommendations:

In some cases, it is proposed to retain the government's present ownership of a company, while in others it is proposed to dissolve the company entirely. Some companies should be merged with another company, or converted into a ministry unit or other public body. The

extent of government ownership in some companies should be reduced by selling the state's shares in the company to a private sector entity, to a third sector entity or to a local authority, and in one exceptional case – the state's ownership of the company should increase.

- 1) Eleven companies should be **left in situ**, among them The Dead Sea Sustainable Preservation Government Company Ltd, and the Company for the Reconstruction and Development of the Jewish Quarter.
- 2) Four companies should be **dissolved** entirely: namely, the Tadmor Hotelier School, the Israel Wine Institute, The Debt Settlement Administration (for the agricultural sector), and the Board of Assets of M.I. Holdings.
- 3) Six companies and non-profits should be **merged with other government companies**; for example, The National Center for Holy Sites Development should be dissolved and its responsibilities transferred to a specialized department of the Israel Government Tourist Corporation.
- 4) Ten companies and non-profits should be **transformed into a government ministry unit or other public body**. The Israel Consumer Council, for example, should be converted into a designated unit within the Ministry of Economy and Industry, and the Ariel Sharon Park should move to the jurisdiction of The Israel Nature and Parks Authority.
- 5) Twenty-five companies and non-profits should have **government control reduced** by selling their government shares in full or in part to the private sector, the third sector or to local authorities, among them The Israeli Diamond Industry, The Central Archives for the History of the Jewish People (CAHJP), and the Shalom Meir Tower.
- 6) One company - *Hameshakem* Employment for the Elderly and Individuals with Limited Working Capacity - should have **government ownership increased**.

[For the full Hebrew paper](#)