

STATE-OWNED ENTERPRISES – CHAMPIONS OF INTEGRITY?



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"As custodians of public assets, State-Owned Enterprises (SOEs) should be champions of integrity and transparency"¹ – This is the message that business leaders sent to the G20 through the Policy Recommendations put forward by the Business 20 (B20), the private sector engagement group of the G20 community. More than ever before, SOEs have been in the spotlight of the global anti-corruption agenda in 2018. Rightly so, because when SOEs work inefficiently due to corruption and other malpractice, ordinary citizens feel the impact: trains are delayed, households go without power or water, and the sick are deprived of essential medical treatment.

As entities ultimately owned by taxpayers, SOEs should lead the way and be champions of integrity and transparency. However, the many high-profile corruption cases involving SOEs, as well as research undertaken by Transparency International² and the OECD³, show that this may not always be the case. To address this, Transparency International has developed 10 Anti-Corruption Principles for SOEs⁴, the first and currently only best practice guidance developed to aid SOEs with the implementation of anti-corruption programmes based on the highest standards of integrity and transparency.

What are the particular anti-corruption challenges that SOEs face and what can be done to ensure SOEs fulfil the important role they have for societies?

SOEs are Global Powerhouses

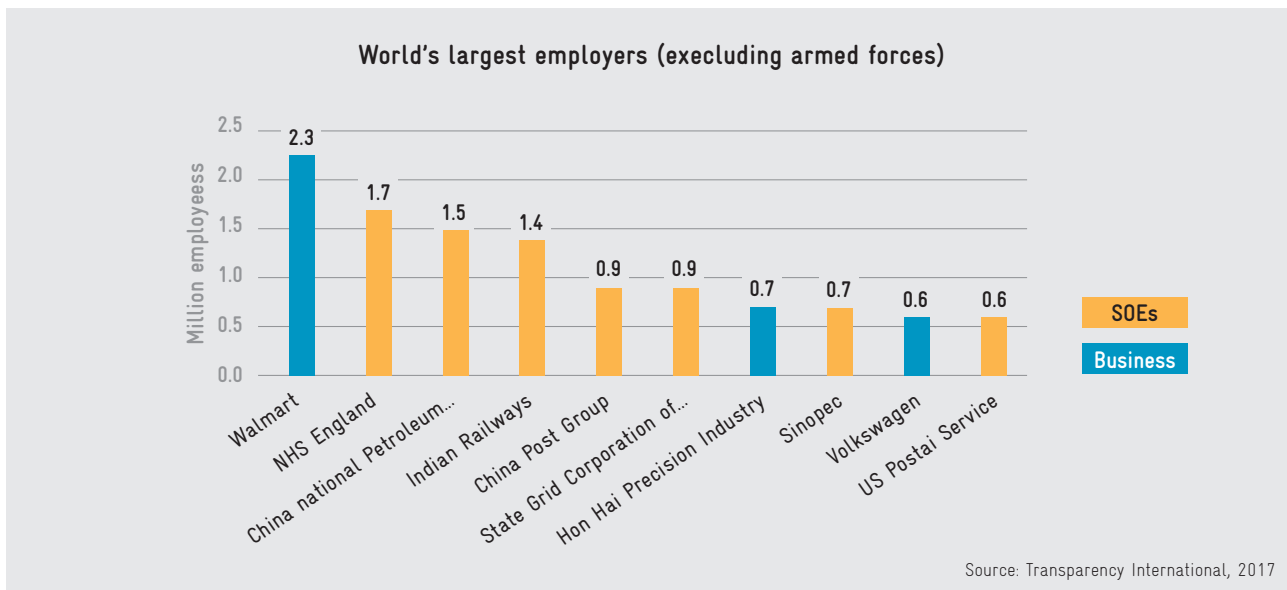
SOEs are important globally, nationally and locally, especially in emerging economies where they often account for more than 50 per cent of the gross national product. Controlled by national governments, SOEs rank among the largest companies in the world. They provide employment, protect and manage critical resources and wealth and deliver essential services to citizens such as transport, utilities, telecommunications and health. More than a fifth of Fortune 500 companies are state owned, often serving as some of the biggest employers in their country.

¹ Business 20, B20 Communique – Policy Recommendations to the G20, 04 – 05 October 2018, Business 20 Summit (Buenos Aires: Business 20, 2018). Available at: https://cs7e6cd119b4008x4ccax818blob.core.windows.net/documents/20181016_183602-B20%20Communique.pdf

² See, for example, Transparency in corporate reporting of multinationals in emerging markets, Transparency International, 2016

³ OECD, State-Owned Enterprises and Corruption: What Are the Risks and What Can Be Done? (Paris: OECD Publishing, 2018).

⁴ Transparency International, 10 Anti-Corruption Principles for SOEs, 2017. Available at: https://www.transparency.org/whatwedo/publication/10_anti_corruption_principles_for_state_owned_enterprises



SOEs are Particularly Vulnerable to Corruption

Because of their closeness to politicians and public officials, the scale of assets they control, the considerable value of the public contracts they award and the challenges of the markets and sectors in which they operate, SOEs are particularly vulnerable to corruption. Procurement and contracting pose particularly high corruption risks for SOEs because of the vulnerability to political interference, the size and regularity of transactions, and the often complex procurement and contracting processes.⁵ These processes can be susceptible to a range of corruption schemes, including bribes, kickbacks, abuse of conflicts of interest, patronage and cronyism.

An OECD analysis of 427 cases of bribery of foreign public officials from 1999 to 2014 found that SOE officials were bribed in 27% of the cases and received 80% of the total bribes paid.⁶ The same case data shows that 78% of the cases that involved SOE officials were related to seeking advantages in public procurement versus 49% of the cases that did not involve SOE officials.⁷ In a 2018 OECD survey among 350 executive

and board officials of SOEs, almost 40% of respondents rated the likelihood for procurement or contract violations to occur in their company as either medium or high.⁸

In addition, many SOEs have weak integrity and transparency practices. Transparency International's global studies on corporate transparency have shown that on average, SOEs have weaker practices of transparency than publicly listed companies.⁹ This poor performance is at odds with the expectation that, as enterprises ultimately owned by the public, SOEs should be champions of integrity and transparency.

The Solution

To counter corruption in SOEs, the state owner, the SOEs, investors, business partners, civil society and the public need to act collectively and agree on common expectations of the standards for integrity, transparency and accountability in SOEs. Transparency International's 10 Anti-Corruption Principles for SOEs, developed together with a multi-stakeholder group of SOEs, businesses and international organisations, clearly set out these standards. The principles provide detailed guidance

5 OECD, *State-Owned Enterprises and Corruption: What Are the Risks and What Can Be Done?* (Paris: OECD Publishing, 2018).

6 OECD, *OECD Foreign Bribery Report: An Analysis of the Crime of Bribery of Foreign Public Officials* (Paris: OECD Publishing, 2014).

7 Ibid.

8 OECD, *State-Owned Enterprises and Corruption: What Are the Risks and What Can Be Done?* (Paris: OECD Publishing, 2018).

9 See, for example, *Transparency in corporate reporting of multinationals in emerging markets*, Transparency International, 2016.

for anti-corruption best practice by SOEs and complement the Organisation for Economic Co-operation and Development's (OECD's) recommendations to govern-

ments on the corporate governance and anti-corruption measures of SOEs.¹⁰

10 ANTI-CORRUPTION PRINCIPLES FOR STATE-OWNED ENTERPRISES

The SOE board and management, supported by all its employees, shall follow these Principles:

PRINCIPLE 1:

Operate to the highest standards of ethics and integrity

PRINCIPLE 2:

Ensure best practice governance and oversight of the anti-corruption programme

PRINCIPLE 3:

Be accountable to stakeholders through transparency and public reporting

PRINCIPLE 4:

Ensure human resources policies and procedures support the anti-corruption programme

PRINCIPLE 5:

Design the anti-corruption programme based on thorough risk assessment

PRINCIPLE 6:

Implement detailed policies and procedures to counter key corruption risks

PRINCIPLE 7:

Manage relationships with third parties to ensure they perform to an anti-corruption standard equivalent to that of the SOE

PRINCIPLE 8:

Use communication and training to embed the anti-corruption programme in the SOE

PRINCIPLE 9:

Provide secure and accessible advice and whistleblowing channels

PRINCIPLE 10:

Monitor, assess and continuously improve the implementation of the anti-corruption programme

¹⁰ OECD, OECD Guidelines on Corporate Governance of State-Owned Enterprises. (Paris: OECD Publishing, 2015).

While the leadership of SOEs may strive to implement best anti-corruption practices, their efforts will be undermined if, as unfortunately is all too commonly the case, the state, politicians and public officials are determined to use SOEs for corrupt purposes. The most effective check against corruption is transparency. Stakeholders, whether investors, civil society or the public, cannot hold SOEs and governments to account where there is a lack of transparency and poor standards or wrongdoing can be hidden. For these reasons, the SOE Principles emphasise the critical roles of governance, accountability, stakeholder engagement – and, above all, transparency and public reporting.

Transparency means making comprehensive information on an SOE's structure, operations, policies and procedures accessible to the public. It means reporting publicly on commitments and measures to counter and prevent corruption. Meaningful transparency should include disclosing the beneficial ownership and control of the SOE, as well as its corporate governance, organisational structure, key financial information for domestic and foreign operations on a country-by-country basis, and commercial and public good priorities. It should also include reporting on the appointment processes for board directors and senior management, conflicts of interest related to key decisions or contracts, opening up critical processes (such as contracting and procurement) to public scrutiny, and reporting and engaging with stakeholders on the SOE's measures to counter corruption.

Implementing best practice anti-corruption programmes, as suggested by the SOE Principles, will allow SOEs to raise integrity standards in the market, attract more motivated and talented employees and obtain loans and equity financing from investors that increasingly demand anti-corruption standards as part of their due diligence.

Operating to a high degree of integrity will also enhance the reputation of both the SOE and the state, increasing the state's ability to support and invest in the SOE and to attract foreign direct investment.

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What Needs to Happen Next?

- In late November/early December, G20 leaders will meet in Buenos Aires to adopt High-level Principles on SOEs. We call upon the G20 to urgently act on the recommendations on SOE governance as set out in the B20's and the C20's unprecedented joint statement¹¹ of both engagement groups.
- We urge G20 leaders to implement the High-level Principles on SOEs based on national action plans that include a clear timeline and means to monitor progress.
- Transparency International is about to finalise a methodology to assess SOEs' anti-corruption and transparency practices. This assessment will also provide a baseline against which progress on implementation of the G20 High-level Principles can be measured.
- Assessments need to be complemented by training programs for SOEs such as those provided by the Alliance for Integrity, and exchanges on best practices involving also a knowledge transfer from private companies to SOEs. This will be key to aid SOEs in their efforts to improve their practices.

SOEs are often viewed as the mirror image of the state. At a time in which trust in public institutions and democracy is declining and populism is on the rise, SOEs have an important role to play in societies through providing good and reliable public services that are free from corruption and waste.

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¹¹ B20 & C20 Joint Statement: Increasing Integrity & Transparency in SOEs. Available at: https://cs7e6cd119b4008x4ccax818.blob.core.windows.net/documents/20180828_185520-C20%20B20%20Joint%20Statement%20_%20Increasing%20integrity%20and%20transparency%20in%20SOEs.pdf