PREVENTING CORRUPTION IN STATE-OWNED ENTERPRISES

“Because SOEs are owned by the public, they should be beacons of integrity and transparency. Unfortunately, this does not always seem to be the case. We call upon G20 leaders to demonstrate political will at the highest level and adopt Transparency International’s 10 Anti-Corruption Principles for SOEs so that citizens get the infrastructure and services they deserve.”

Delia Ferreira Rubio, Chair Transparency International

THE CHALLENGE

SOEs are important globally, nationally and locally especially in emerging economies. They are giving employment, protecting and managing critical resources and wealth and delivering essential services to citizens.

- Of the 100 largest companies globally, 22 are effectively under state control.
- In emerging markets SOEs can often account for more than 50 per cent of the gross national product.

As enterprises ultimately owned by the public, SOEs should be champions of integrity and transparency. This is also the best check against corruption. However, many SOEs have weak transparency practices.

- A 2016 TI survey on transparency reporting found that of 100 global companies from emerging markets assessed, 21 Chinese SOEs scored only 12.9 per cent against the 43.3 per cent of other businesses.1

SOEs are particularly vulnerable to corruption due to their closeness to governments and politics. The highest corruption risks for SOEs lie in public contracting, privatisation processes, theft of assets and money laundering.2

- An OECD report analysing completed bribery cases showed that 81 per cent of the total bribes in the analysis were promised, offered or given to SOE officials.3

The size and importance of SOEs means that corruption often results in substantial damage for society at large including undermining of trust in the state, economic costs, poor public services, abuse of human rights, fines for SOEs and prison for the corrupt.

- Telia, a Sweden-based telecommunications company, routed bribes totalling at least US$330 million to Gulnara Karimova, daughter of the then Uzbek President and also a public official.4 The bribes generated more than US$2.5 billion in revenues for Telia.
- Brazilian oil giant Petrobras was at the centre of Operation Car Wash, one of the largest ever corruption scandals.5 Investigations are ongoing but to date the company has settled numerous shareholder lawsuits and in January 2018 agreed to a US$2.95 billion settlement to end a class-action lawsuit in the US thought to be the then largest such agreement for a foreign issuer in the US.6

THE SOLUTION

To counter corruption in SOEs the state-owner, the SOEs, investors, business partners, civil society and the public need to act collectively. There should be a common expectation across these actors of the standards expected of SOEs for integrity, transparency and accountability as well as quality and accessibility and fairness in operations. These standards are set out in TI’s 10 Anti-Corruption Principles for SOE Principles which provide comprehensive best practice guidance for SOEs and support them in achieving the high level of integrity and transparency expected from enterprises owned by the citizens.

RECOMMENDATIONS FOR ACTIONS

To the G20 Anti-Corruption Working Group:
- adopt TI’s 10 Anti-Corruption Principles for SOEs which are complementary to the OECD’s guidelines for SOEs and commit to report back on progress in two years.
- monitor the application of the G20 Principles for Promoting Integrity in Public Procurement, on Open Data and the G20 High Level Principles on Beneficial Ownership Transparency and share lessons learned with the rest of the group.

To G20 countries / state-owners:
- work with SOEs to apply the SOE Principles, monitor, assess and report publicly on SOE’s progress.
- apply the complementary OECD Corporate Governance Guidelines for SOEs.
- be transparent to the public on how the state directs and works with SOEs to build integrity and counter corruption.
- encourage SOEs to advance integrity standards in all countries were they operate, both as examples of integrity and by giving practical support in supply chains and communities.
- require SOEs to maintain up-to-date, online, public registers of conflicts of interest of board members, senior executives and those in critical decision making or other sensitive positions.
- provide the public with channels including ombudsmen for raising concerns regarding SOEs.
- work with non-G20 countries to encourage and assist the application of the above recommendations.

TO SOEs:
- consult with the state-owners on their expectations for integrity and anti-corruption standards, the state-owner’s framework and support for the SOEs in achieving these standards and how the SOEs meet the expectations.
- Design and implement anti-corruption programmes based on the SOE Principles, including the SOEs’ values, commitments to integrity and ethics and on the results of regular risk assessments.
- Report publicly on the design, implementation and results of the anti-corruption programme.
- Be accountable and transparent to stakeholders, including transparency of beneficial ownership, organisational transparency, country-by-country reporting (if operating globally) and transparency of implementation of policies and procedures for transactions vulnerable to corruption.
- apply open, transparent and fair contracting and procurement processes throughout the whole life-cycle of a contract.
- manage conflicts of interest including maintaining an up-to-date register of conflicts of interest, a process for managing any conflicts and transparency on key conflicts of interest.

CONTEXT

- G20 Anti-Corruption Action Plan 2017-2018: The G20 Implementation Plan states that the G20 Anti-Corruption Working Group (ACWG) "will consider the role government can play to promote a culture of integrity in the private sector, including within State-Owned Enterprises".
- G20 High-Level Principles on Beneficial Ownership Transparency: The G20 considers financial transparency, in particular the transparency of beneficial ownership of legal persons and arrangements, is a high priority.
- G20 Principles for Promoting Integrity in Public Procurement: In 2015, at the G20 in Turkey, the G20 publishes Principles for Promoting Integrity in Public Procurement.
- Transparency International’s 10 Anti-corruption Principles for State-Owned Enterprises: The SOE Principles are the only global anti-corruption standard for SOEs and were developed through a multi-stakeholder process guided by an expert working group whose membership included the OECD.  
- OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015 Edition: The guidelines give recommendations to governments on how to ensure that SOEs operate efficiently, transparently and in an accountable manner.

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