

# The OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises

Lithuania's Integrity Academy

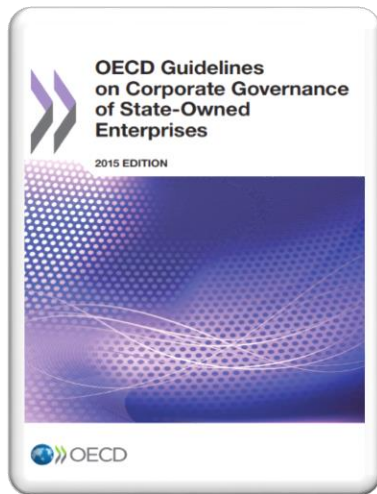
21 June, 2021

Alison McMeekin

Policy Analyst, Corporate Governance and Corporate Affairs Division

Directorate for Enterprise and Financial Affairs

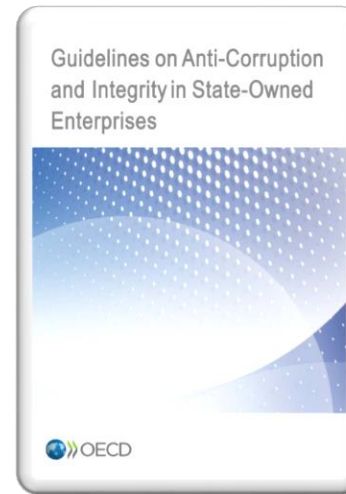
# Providing countries with support to promote integrity in SOEs



2005 + 2015



2018



2019



2021



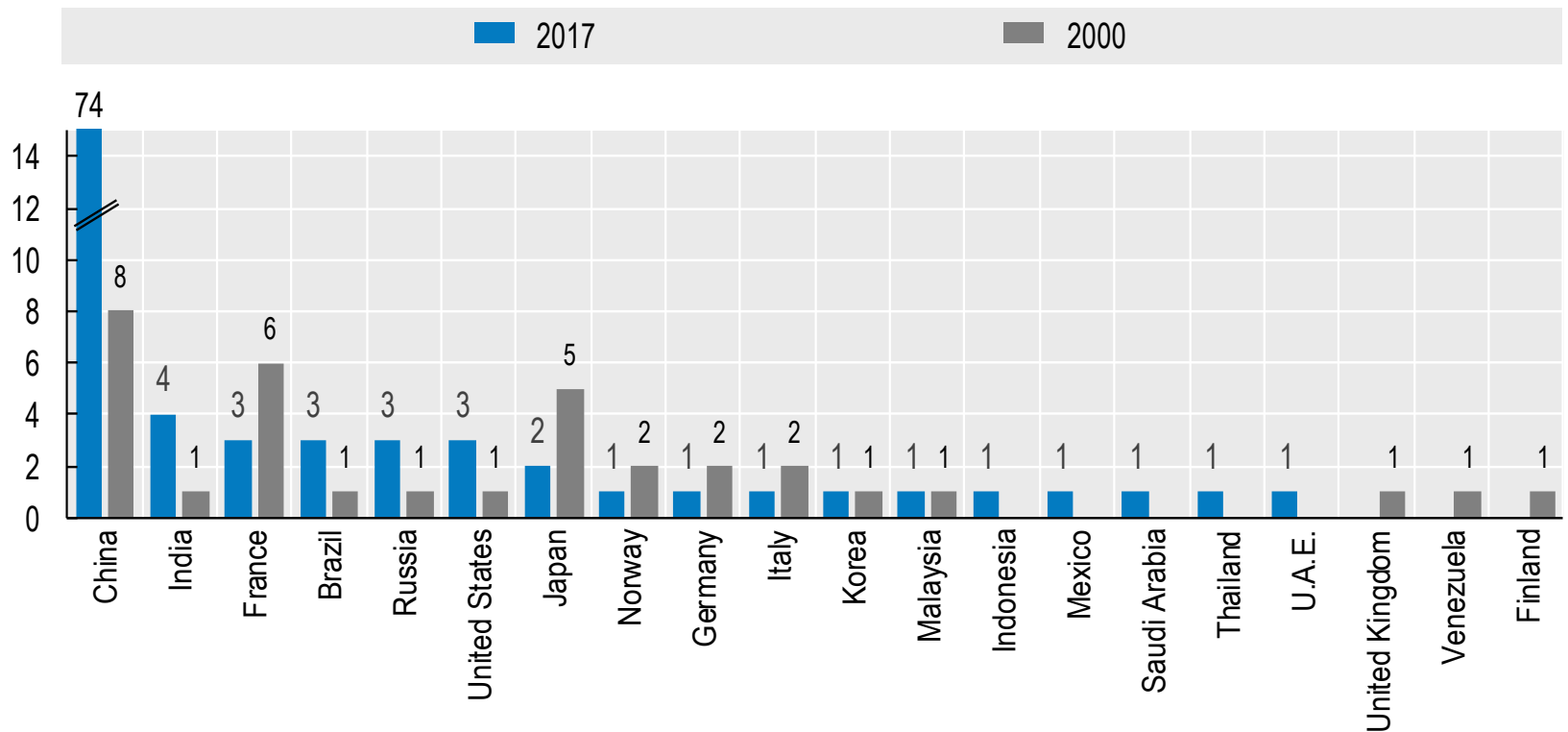


*SOEs in the marketplace and the need for corporate governance*



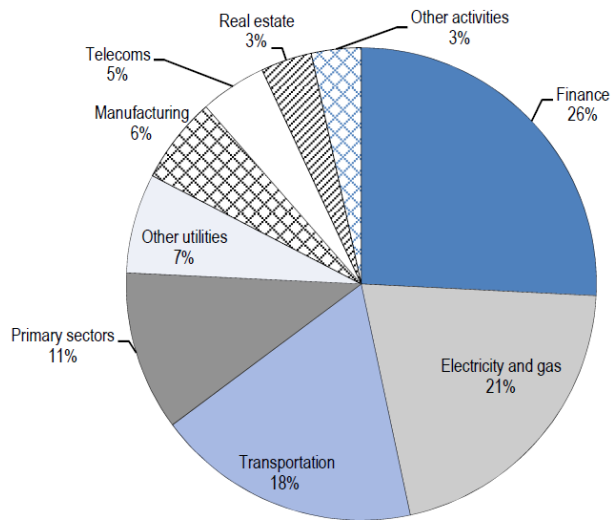


# 102 / world's 500 largest companies are SOEs – tripled from 2000





# SOEs in the marketplace

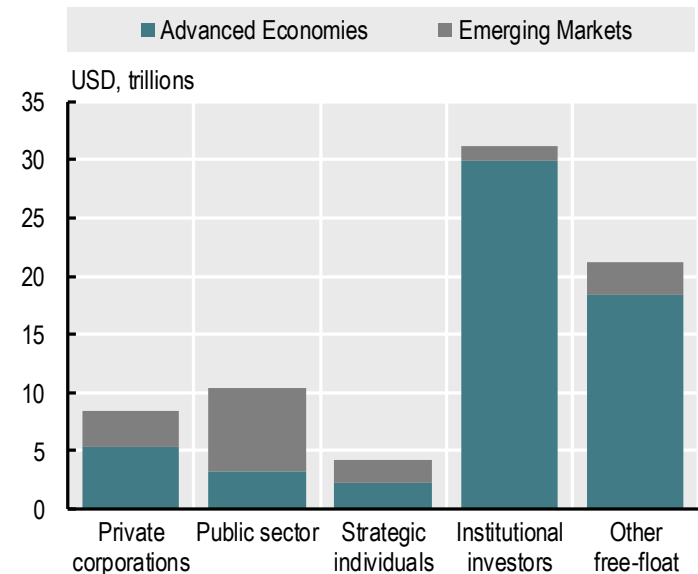


Concentrated in network industries and the financial sector (OECD countries)

Largest portfolios in emerging markets and post-transition economies



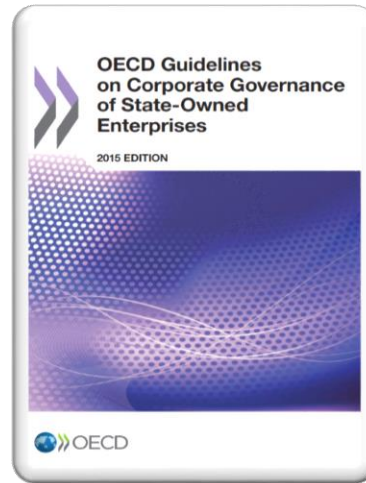
Active internationally



Governments are important shareholders in listed companies



# The OECD Guidelines on Corporate Governance of State-Owned Enterprises





# SOEs and a level playing field?

## Performance: SOE vs. private firms

- Substantially lower rates of return
- Higher leverage
- Example of the steel sector: less efficient, yet fewer plant closures

## Interpretations?

- State ownership in itself does not automatically lead to high performance or a cushioned balance sheet
- SOEs may not be maximising productivity or profitability
- SOEs may be less risk averse
- Abuse or exploitation of SOEs may be an issue

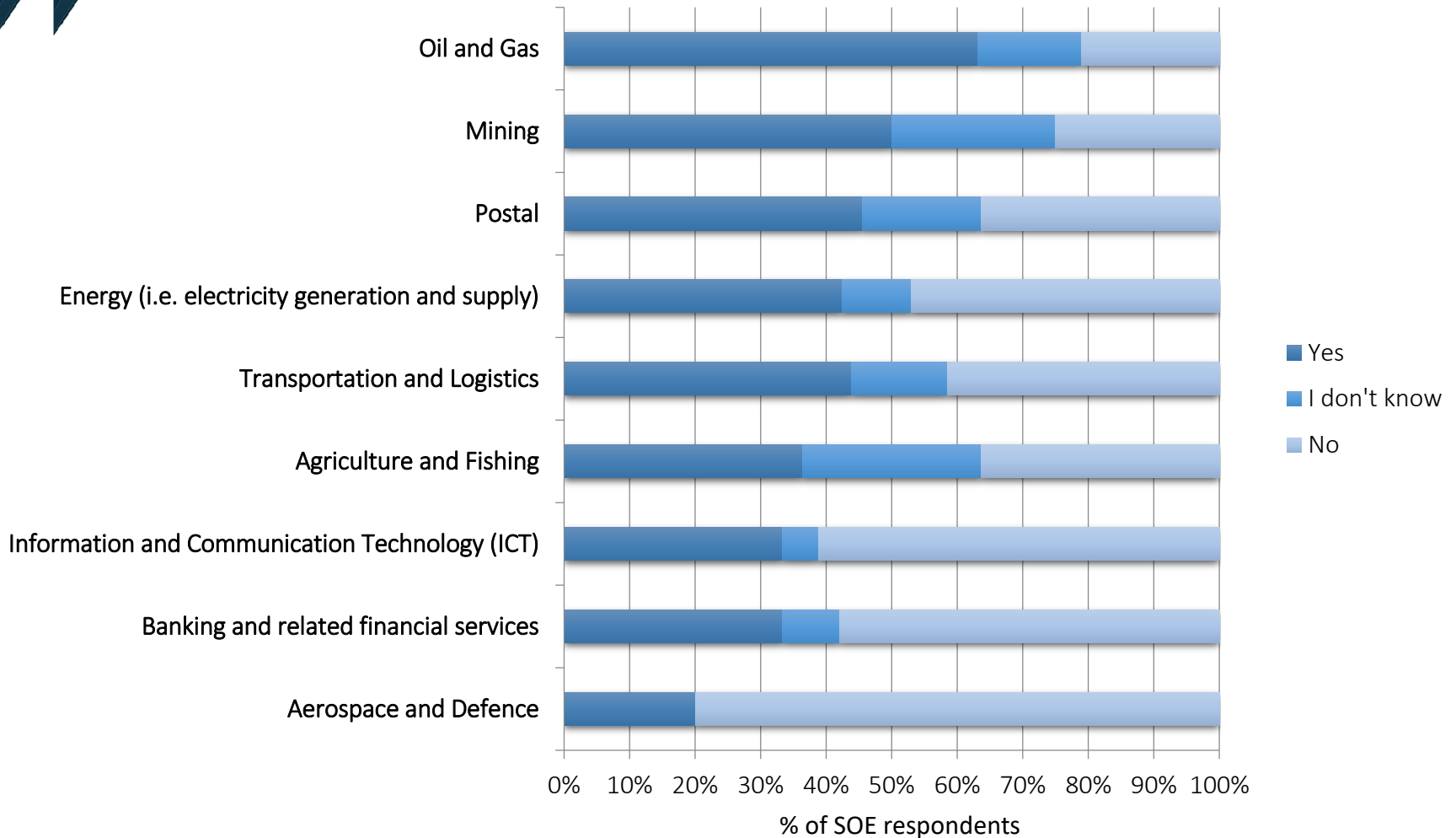


## *Risks of corruption in SOEs*





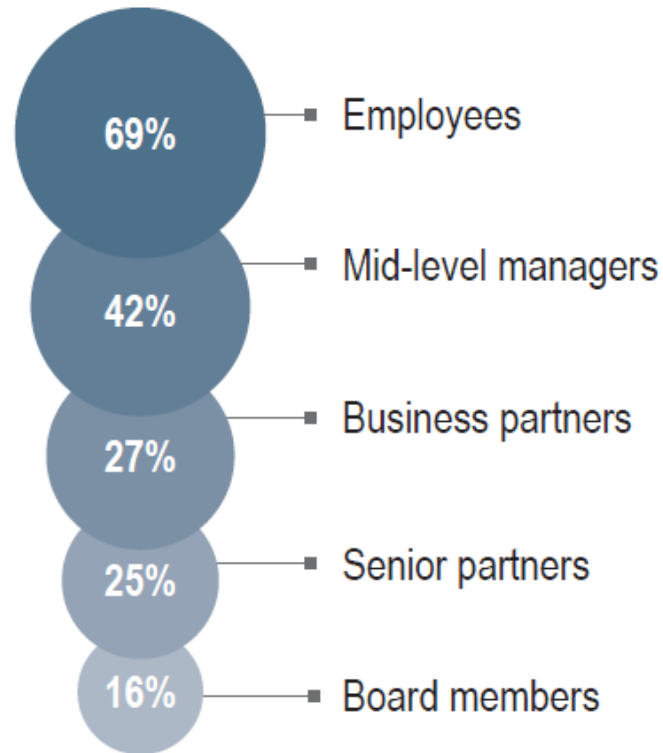
# Certain sectors may be higher risk





# All levels of the corporate hierarchy can be involved

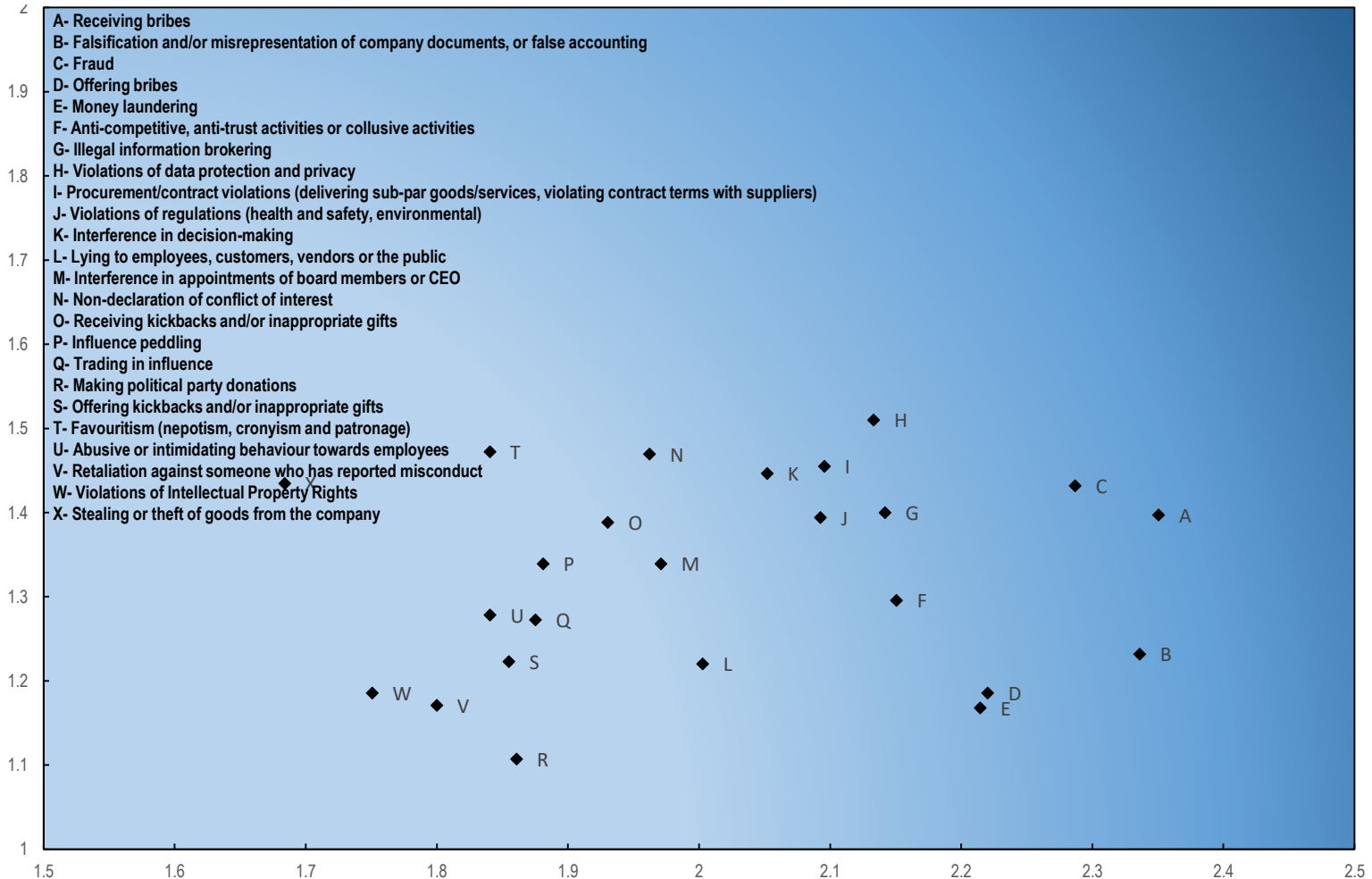
## Who engages in corrupt behaviour?





# Risks are internal and external to the SOE

Likelihood



Impact



# Challenges to SOE integrity

- 1 A lack of a culture of integrity in the political and public sector
- 2 A lack of awareness among employees of the need for, or priority placed on, integrity
- 3 Opportunistic behaviour of individuals
- 4 A lack of awareness of legal requirements
- 5 Perceived likelihood of getting caught is low
- 6 A lack of a culture of integrity in the company
- 7 Overly complex or burdensome legal requirements
- 8 Inadequate financial or human resources to invest in integrity and prevent corruption
- 9 Ineffective internal control or risk management
- 10 Ineffective channels for whistle-blowing / reporting misconduct



# Considerations for the SOE sector

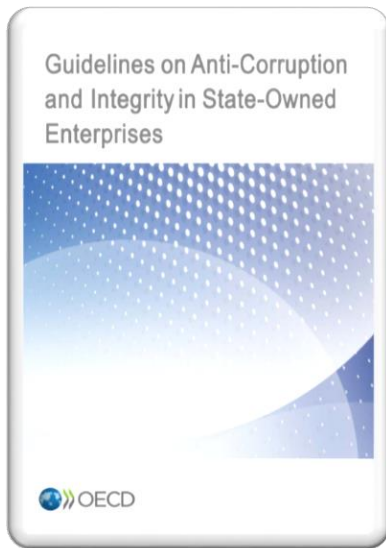
On the one hand,

SOEs are offered more bribes than other public officials

On the other hand,

SOEs are less likely than private firms to take mitigating actions

Action	SOEs	Non SOEs
<b>ceased business operations</b> in a particular jurisdiction ...	12%	39%
<b>internal remedial/disciplinary action</b> following violations ...	46%	70%
<b>substantially revised at least one business project</b>	30%	66%
<b>severed a relationship with at least one business partner</b>	32%	66%



2019

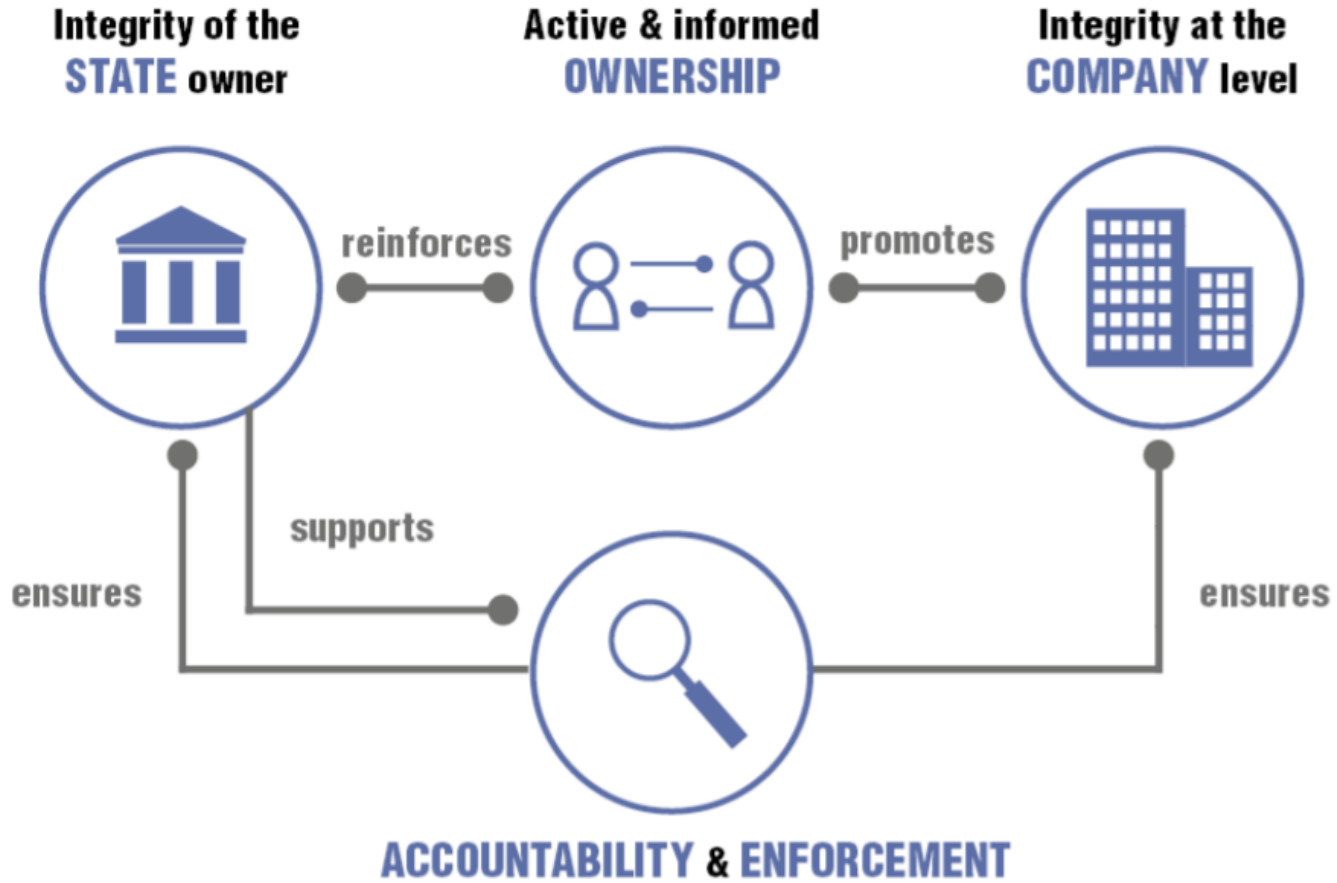
What can the state do?

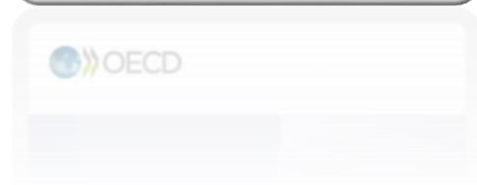
*Guidelines*  
+  
*Implementation Guide*



2021

## The pillars of the “ACI Guidelines”





### How can the state implement this Recommendation?

Gives an overview of the approaches state owners can take, and the considerations they can make, to address the challenges mentioned

### Why is this Recommendation important?

Explains the challenges that the Recommendation seeks to address

### “ Country examples

Provides real examples of different approaches to implementing the Recommendation

### Questions & answers

Answers common questions about this Recommendation

### What other sources might be useful?

Lists other OECD and non-OECD resources to support implementation

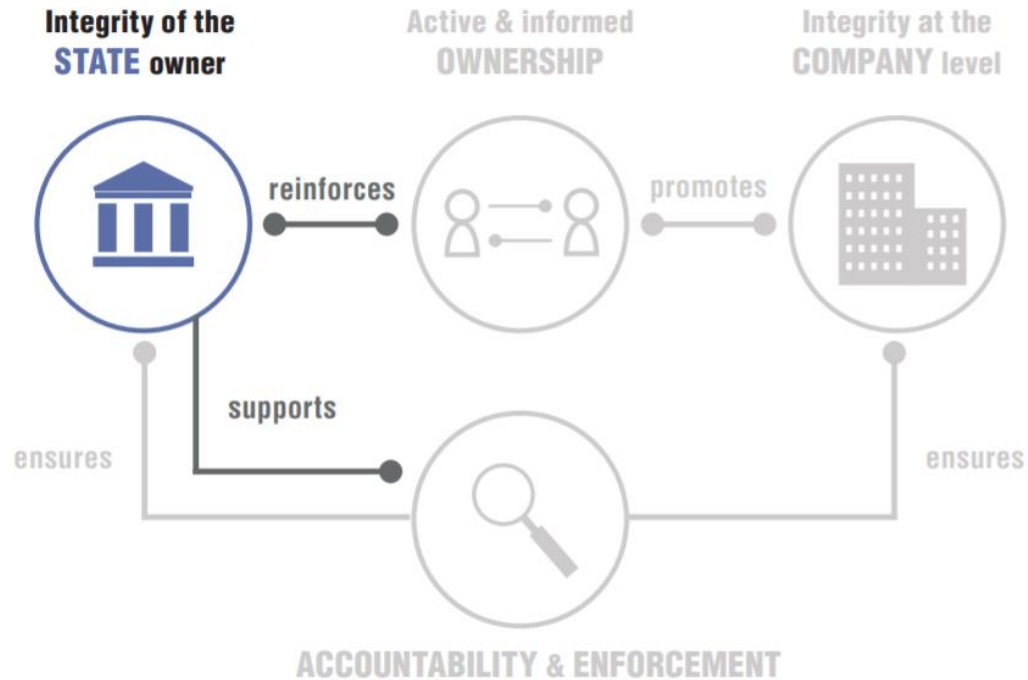


## II.A. Apply high standards of conduct to the state

Setting the “tone at the top”; managing conflicts of interest; establishing reporting channels; hiring based on clear criteria.

## II.B. Establish ownership arrangements that are conducive to integrity

Preventing abuse of SOEs; separating ownership from regulatory functions; bringing transparency about which companies are state-owned; communicating with SOE boards.



## II.A. Apply high standards of conduct to the state

Setting the “tone at the top”; managing conflicts of interest; establishing reporting channels; hiring based on clear criteria.

## II.B. Establish ownership arrangements that are conducive to integrity

Preventing abuse of SOEs; separating ownership from regulatory functions; bringing transparency about which companies are state-owned; communicating with SOE boards.



**The ACI Guidelines require that state ownership entities be subject to high standards of conduct. How can the state ensure this?**

This could be achieved through different approaches. In particular, the representatives of the ownership entity and others responsible for exercising ownership on behalf of the state could be included in the list of public officials covered by national anti-corruption and integrity legislation. In this case the full range of

...

## II.A. Apply high standards of conduct to the state

Setting the “tone at the top”; managing conflicts of interest; establishing reporting channels; hiring based on clear criteria.

## II.B. Establish ownership arrangements that are conducive to integrity

Preventing abuse of SOEs; separating ownership from regulatory functions; bringing transparency about which companies are state-owned; communicating with SOE boards.



*Those exercising ownership on behalf of the state should... be subject to conflict of interest rules [II.2.ii]*

- Chile: Chile’s ownership entity (SEP) has an Ethics Code - reminds representatives that their job is to serve the state... performing work honestly...
- France: control, directly or through other individuals are required to fill in a declaration of interest and, in certain cases, an asset declaration.
- Latvia: Law prevents public officials from taking more than two other paid (or compensated) offices of other public entities.
- Switzerland: Certain employees are not allowed at all to hold shares of SOEs.
- United Kingdom: the UK Government Investments (UKGI) Code of Conduct which applies to all employees of UKGI in their performance of a shareholder function for a portfolio of SOEs.



### III.A. Ensure clarity in the legal and regulatory framework and in the state's expectations for anti-corruption and integrity

Clarifying the legal framework; establishing owner expectations on integrity; identifying and disclosing SOE objectives.

### III.B. Act as an active and informed owner with regards to anti-corruption and integrity in state-owned enterprises

Monitoring SOE performance; integrating integrity into disclosure policies; making financial support to SOEs transparent; assessing risk exposure of the state.





### III.A. Ensure clarity in the legal and regulatory framework and in the state's expectations for anti-corruption and integrity

Clarifying the legal framework; establishing owner expectations on integrity; identifying and disclosing SOE objectives.

### III.B. Act as an active and informed owner with regards to anti-corruption and integrity in state-owned enterprises

Monitoring SOE performance; integrating integrity into disclosure policies; making financial support to SOEs transparent; assessing risk exposure of the state.



The ACI Guidelines promote “clarity in the legal and regulatory framework and in the State’s expectations for anti-corruption and integrity”. What should the legal and regulatory framework for anti-corruption and integrity in SOEs cover? Does the state ownership entity need to do more?



### III.A. Ensure clarity in the legal and regulatory framework and in the state's expectations for anti-corruption and integrity

Clarifying the legal framework; establishing owner expectations on integrity; identifying and disclosing SOE objectives.

### III.B. Act as an active and informed owner with regards to anti-corruption and integrity in state-owned enterprises

Monitoring SOE performance; integrating integrity into disclosure policies; making financial support to SOEs transparent; assessing risk exposure of the state.



The ACI Guidelines promote “clarity in the legal and regulatory framework and in the State’s expectations for anti-corruption and integrity”. What should the legal and regulatory framework for anti-corruption and integrity in SOEs cover? Does the state ownership entity need to do more?



*Setting up reporting systems to regularly monitor and assess SOE performance... and assess their alignment with the state's expectations with regards to integrity and anti-corruption [III.5.i]*

- Brazil: Monitoring tool “IG-SEST” evaluates internal controls and risk management, comparing SOEs, across 5 criteria.
- Colombia: Established a “Register of Active Companies in Anti-Corruption”
- Korea: Public Sector Integrity Assessment conducted by the Corruption and Civil Rights Commission
- Sweden: Sustainability Analysis Tool

#### IV.A. Encourage integrated risk management systems in state-owned enterprises

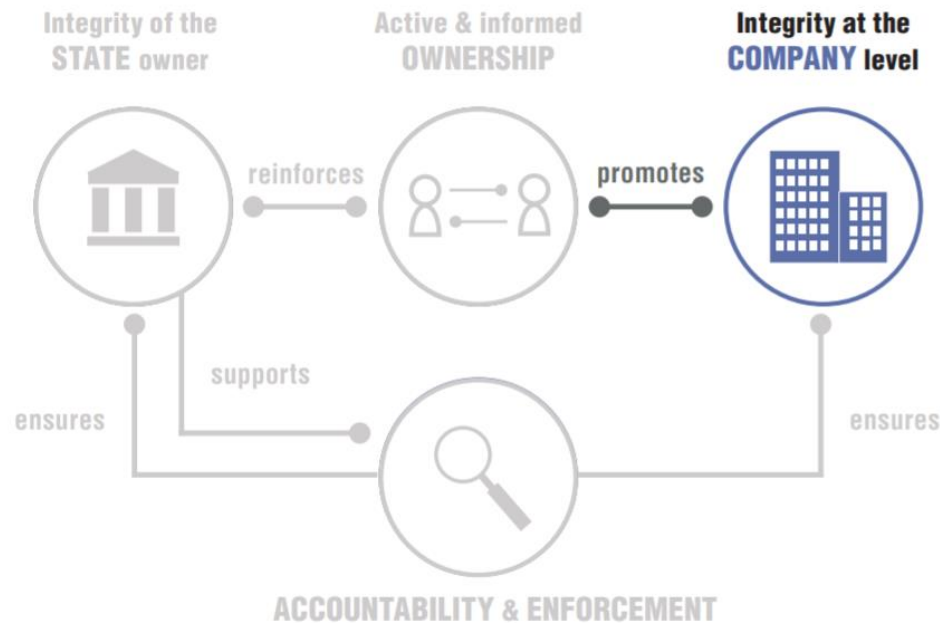
Establishing risk management systems, that address, inter alia: responsibilities of boards; risk assessments; disclosure.

#### IV.B. Promote internal controls, ethics and compliance measures in state-owned enterprises

Creating a 'culture of integrity'; addressing subsidiaries; setting standards for conduct; training; establishing oversight and reporting and internal investigative procedures; building transparency.

#### IV.C. Safeguard the autonomy of state-owned enterprises' decision-making bodies

Setting limits for politicians on boards; hiring independent board members; managing conflict of interests; conducting board evaluations; setting standards for conduct of executive management.



#### **IV.A. Encourage integrated risk management systems in state-owned enterprises**

Establishing risk management systems, that address, inter alia: responsibilities of boards; risk assessments; disclosure.

#### **IV.B. Promote internal controls, ethics and compliance measures in state-owned enterprises**

Creating a 'culture of integrity'; addressing subsidiaries; setting standards for conduct; training; establishing oversight and reporting and internal investigative procedures; building transparency.

#### **IV.C. Safeguard the autonomy of state-owned enterprises' decision-making bodies**

Setting limits for politicians on boards; hiring independent board members; managing conflict of interests; conducting board evaluations; setting standards for conduct of executive management.



**What are the components of an “integrated risk management system” for SOEs?**

#### IV.A. Encourage integrated risk management systems in state-owned enterprises

Establishing risk management systems, that address, inter alia: responsibilities of boards; risk assessments; disclosure.

#### IV.B. Promote internal controls, ethics and compliance measures in state-owned enterprises

Creating a 'culture of integrity'; addressing subsidiaries; setting standards for conduct; training; establishing oversight and reporting and internal investigative procedures; building transparency.

#### IV.C. Safeguard the autonomy of state-owned enterprises' decision-making bodies

Setting limits for politicians on boards; hiring independent board members; managing conflict of interests; conducting board evaluations; setting standards for conduct of executive management.



What are the components of an “integrated risk management system” for SOEs?



*Mechanisms to evaluate and maintain the effectiveness of board performance and independence should be in place [IV.9.vii]*

- Denmark: Ministries are required to assess board composition on a yearly basis with the Chair
- Finland: the Finnish state owner requires boards to undertake yearly self-evaluations



### V.A. Establish accountability and review mechanisms for state-owned enterprises

Being accountable to the legislature; reporting annually by SOEs and the state; ensuring external audit and, where relevant, state audit.

### V.B. Take action and respect due process for investigations and prosecutions

Enforcing rules; establishing penalties for corruption; protecting reporting persons; following due process for investigations; following-up with SOEs.

### V.C. Invite the inputs of civil society, the public and media and the business community

Engaging stakeholders and leveraging co-operation; providing for redress and liberties.





### **V.A. Establish accountability and review mechanisms for state-owned enterprises**

Being accountable to the legislature; reporting annually by SOEs and the state; ensuring external audit and, where relevant, state audit.

### **V.B. Take action and respect due process for investigations and prosecutions**

Enforcing rules; establishing penalties for corruption; protecting reporting persons; following due process for investigations; following-up with SOEs.

### **V.C. Invite the inputs of civil society, the public and media and the business community**

Engaging stakeholders and leveraging co-operation; providing for redress and liberties.



**What level of independence should be expected of the state auditor (the Supreme Audit Institution)?**



### **V.A. Establish accountability and review mechanisms for state-owned enterprises**

Being accountable to the legislature; reporting annually by SOEs and the state; ensuring external audit and, where relevant, state audit.

### **V.B. Take action and respect due process for investigations and prosecutions**

Enforcing rules; establishing penalties for corruption; protecting reporting persons; following due process for investigations; following-up with SOEs.

### **V.C. Invite the inputs of civil society, the public and media and the business community**

Engaging stakeholders and leveraging co-operation; providing for redress and liberties.



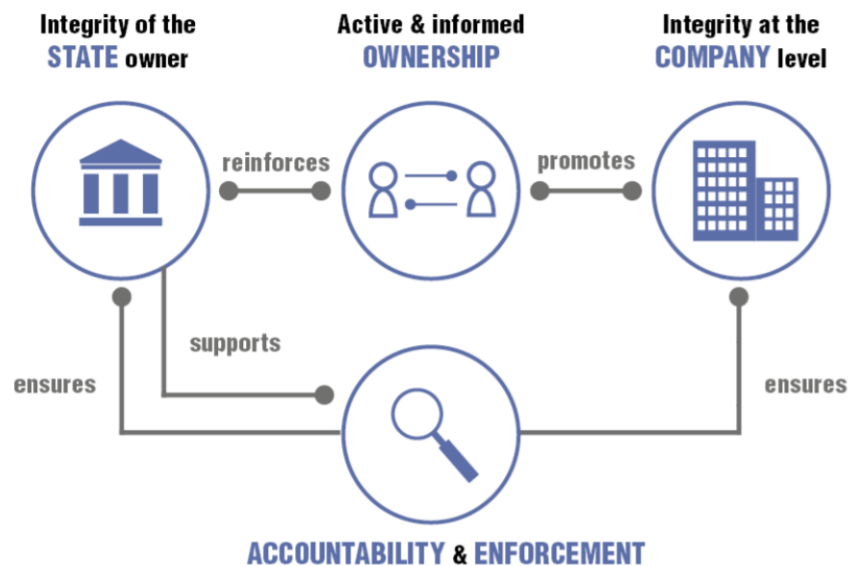
## **What level of independence should be expected of the state auditor (the Supreme Audit Institution)?**



*Relevant state bodies should be encouraged to co-operate with stakeholders, trade unions, private sector representatives and the public and the media in facilitating the analysis of disclosed information and, where appropriate, highlighting and addressing problems of corruption in and concerning SOEs [V.11]*

- Argentina: hosts a policy dialogue with civil society, encouraging NGOs and academia to debate performance of SOEs
- Hungary: The Transparency International Branch in Hungary evaluated and ranked SOEs for transparency and disclosure and had open discussions with the state holding company.

### The pillars of the “ACI Guidelines”



- Thematic studies
- Reviews against the instrument
- Compliance without Borders project
- Capacity-building activities
- ‘SOE Anti-Corruption Day’