**Session Title:** Building trust in the business sector—Combating corruption in state-owned enterprises  
**Date & Time:** December 2, 2016, 11.30 to 13.30  
**Report prepared by:** Name, Position, Organisation

**Experts:**

Mr Jermyn Brooks, Chair, TI Business Principles Steering Committee, Transparency International (TI)  
Mr João Elek, Chief, Governance, Risk and Compliance, Petróleo Brasileiro S.A. (Petrobras)  
Mr Matthew Murray, Senior Advisor on Governance and Rule of Law, Center of Excellence on Democracy, Human Rights, & Governance (DRG), United States Agency for International Development (USAID)

**Moderated by:** Axel Threlfall, Editor-at-Large, Reuters  
**Session coordinated by:** Katja Bechtel, TI Secretariat

**Main issues raised in kick off remarks. What’s the focus of the session?**

This joint OECD / Transparency International (TI) workshop addressed the unique integrity risks that state-owned enterprise (SOEs) face and how they can be overcome. This is a timely topic given the important role they play in domestic and global markets and the recent media reports of major governance failures in SOEs. Panelist stressed that addressing the corruption risks in SOEs is integral to upholding trust in public institutions, increasing efficiency of public spending, ensuring a level playing field for private sector companies, and promoting stable economic development.

Mr João Elek pointed to the importance of an independent compliance function within the company including a direct reporting line to the board. The board should also be...
independent and diverse (no members form the government, army or ministries). He further stressed the importance of training of senior management and the board.

Mr Jermyn Brooks mentioned a new Transparency International initiative to develop Business Principles for SOEs building on TI’s Business Principles for Countering Bribery. He stressed that SOEs are not that much different from other companies but there are some important differences related to their proximity to government which need to be captured. TI’s report Transparency in Corporate Reporting shows that SOEs are lacking behind in transparency and openness compared to publicly listed and private companies. This needs to change. He furthermore stressed the challenge of achieving the distance between SOEs and governments in day-to-day operations.

Mr Matthew Murray spoke from an international donor’s perspective. He stressed that SOEs need to act in the public interest otherwise development policies will not be effective, and spending tax-payer’s money cannot be justified. He gave the example of the energy sector in Ukraine were SOEs have been loss making and rent seeking. USAID’s approach includes also the privatisation of SOEs if services can be better delivered that way.

What initiatives have been showcased? Briefly describe the Game Changing strategies/ ideas (if applicable)

Two complementary initiatives were showcased:

The OECD will develop Guidelines for anti-corruption and integrity for SOEs as a specific initiative on combatting corruption in the field of corporate governance. The ultimate objective is to issue recommendations that can be implemented by the entities exercising state ownership.

TI is in the process of developing Business Principles for SOEs based on its Business Principles for Countering Bribery. TI is undertaking this initiative in cooperation with a multi-stakeholder group including SOEs and other organisations such as the OECD.

Hence, TI is looking at SOEs form the company side, while the OECD is looking at SOEs from the government side.

Both organisations will work together closely in the implementation and role-out of these initiatives.
Briefly describe the highlights including the thematically interesting questions and ideas that were generated from the discussion or from the floor, and session quotes.

Brazil has just adopted a new law on SOEs and it was discussed whether a specific law on SOEs makes the situation more ambiguous or whether it helps to level the playing field.

It was discussed how SOEs can strike a good balance between their commercial and public interest mandate. SOEs have to take decision which serve the public interest such as keeping energy prices affordable, holding inflation down etc. which may go against their profitability. Often, SOE Boards comprise members which represent either one or the other interest – this is difficult to manage. What is still legitimate and what is government interference? The only answer is transparency.

A question directed to Petrobras was whether suppliers in Brazil have kept pace with the increasing compliance and ethics demands that the company now requires under its new management? Many suppliers were part of the “lava jato” corruption scheme – did they change as well? Mr Elek mentioned that many suppliers have done the necessary and exchanges several layers of management. He also stressed that the level of compliance demanded from suppliers is in accordance with the size of the company. But a code of ethics is required as a minimum.

The importance of regular training of executives and in particular board members was mention as a key success factor to install a culture of integrity. “It is very important that there is one set of rules for everyone with no exceptions” said Mr Elek.

Mr Brooks added that incentive systems need to support the value systems and not contradict them. We saw on the example of VW that they had good structures in place including a well-functioning whistle-blower hotline but the incentives set by management contradicted these structures.

Also, the role of institutional investors was mentioned: SOEs as other companies need institutional investors to compete globally. Many of them make investments based on ethical considerations.

What are the key recommendations, follow-up Actions (200 words narrative form)

This workshop will be part of ongoing efforts at the OECD and Transparency International to consider concrete solutions for promoting integrity and combating corruption in SOEs. Those interested in further engagement on this issue would be invited to carry on the conversation with the two organisations beyond Panama.

TI will invite stakeholders to take part in a public consultation on Business Principles
for SOEs online and through workshops in various countries around the world hosted by its national Chapters over the next year to:

• To RAISE AWARENESS of the need to focus specifically on combatting corruption in the SOE sector, given the impact corruption in SOEs can have on trust in governments, functioning markets, and everyday citizens’ well-being.

• To identify the UNIQUE INTEGRITY RISKS that SOEs face, given their proximity to government and—often—the sectors in which they operate (which, according to Transparency International’s Bribe Payers Index, are often sectors with an increased exposure to bribery risk).

• To consider PRACTICAL MECHANISMS FOR COMBATING CORRUPTION IN SOES that SOEs and their government owners can adopt as part of their overall approach to SOE governance.

• To ENGAGE KEY STAKEHOLDERS IN ONGOING WORK at the OECD and Transparency International on improving SOE integrity at the level of governments and at the level of SOEs, respectively.

Key Insights that could be included in the IACC Declaration

• SOEs face huge risks of corruption because of their proximity to government. They also, on average, show low levels of openness and transparency. However,

• SOEs are owned (to various extends) by the state, i.e. by the citizens. They should appeal to the highest standards of integrity and transparency to serve the public good.

Rapporteur’s name and date submitted: Katja Bechtel, 2 December 2016
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