



Survey on integrity and anti-corruption in state-owned enterprises in Latin American and OECD countries

2017

This document was prepared as a background paper for the 5th Meeting of the Latin American Network on Corporate Governance of State-Owned Enterprises, which took place in Bogotá, Colombia on 30 November – 1 December 2017.

Introduction

As highlighted in the OECD draft report on “Integrity and Anti-Corruption in State-Owned Enterprises: challenges and solutions” reviewed by the Working Party on State Ownership and Privatisation Practices (“Working Party”) in October 2017: *“In recent years, much attention has been placed on state-owned enterprises and their increasing international presence, greater market share and importance for national economies. Yet this development has gone hand-in-hand with high-profile scandals and occasional evidence of susceptibility of SOEs to corruption. What, if anything, makes SOEs susceptible to corruption? What can and should policy makers do to maximise the likelihood of a positive outcome? How can they maximize SOEs’ productive contributions to the economy and society, with integrity?”*

The OECD seeks to answer these important questions in a comprehensive report to be published in 2018, based on new work from the OECD’s Working Party. Both the Working Party report and the present document are based on two surveys – of SOEs and of state ownership entities which were circulated to OECD Member and Partner countries during the second half of 2017.

As background for discussions at the 5th meeting of the Latin American Network on Corporate Governance of SOEs, the Secretariat prepared this supplement to the Anti-Corruption and Integrity survey, specific to countries in Latin America. It offers a regional perspective - with comparisons to results obtained for OECD Member countries - on issues of corruption and other irregular practices, as well as challenges and good practices in promoting integrity in SOEs at both the state ownership and company level. The topic is particularly relevant as the survey was undertaken at a time when corruption issues have received major attention across Latin America, including due to the Petrobras and Oldebrecht scandals which have had ramifications for several Latin American countries concerning both SOEs and private sector companies alleged to be involved in bribery and other corruption practices. Does this mean a deterioration in both real and perceived corruption levels in the region or is the sudden surge in scandals *“attributable to increased public sector transparency, powerful enforcement against corruption or rising public intolerance”*, as recent studies and reports seem to suggest? (Casas-Zamora & Carter, 2017). As this survey suggests, Latin America’s fight against corruption is increasingly becoming a priority.

For the purpose of this report, the OECD uses the following key definitions:

- **Corruption:** the abuse of public or private office for personal gain. The active or passive misuse of powers of public officials (appointed or elected) for private financial or other benefits.
- **Rule-breaking:** broader instances of breaking SOE integrity policies – that include internal company programmes, functions, people processes or controls that seek to prevent, detect or address risks of waste and abuse. Rule-breaking, harmful in its own right, also makes the SOE vulnerable to corruption.
- **Responsible business conduct (RBC):** business conduct that is consistent with applicable laws and internationally recognised standards. RBC is a key pillar of the OECD Guidelines on Corporate Governance of State-Owned Enterprises (“SOE Guidelines”), incorporating integrity and anti-corruption requirements that

contribute to overall corporate governance. The topic is well covered by other OECD instruments and initiatives and is left outside the scope of this report.

The report analyses the risk of corruption and other irregular practices that deviate from good corporate governance and that may make the SOE vulnerable to corruption. Looking beyond only corruption allows for an analysis of the link between the incidence of corruption and obstacles to, or absence of, integrity practices.¹

This report includes participation from eight Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, and Peru. For the purpose of this report, responses from Latin American OECD member countries - Chile and Mexico - are only accounted for in the Latin American (LatAm) group of countries. The ownership survey was filled by seven state ownership or co-ordination agencies exercising ownership on behalf of the State (Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, and Peru). The SOE questionnaire accounted for 69 individual SOE respondents (across 43 companies) from seven different countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru). Resulting findings are, however, presented on an aggregate level and are not individual country-level assessments.

This paper is structured into three different parts.

- Part 1 focuses on identifying the risks of corruption which are most prevalent in and around SOEs in Latin America. The survey results show that 43% of all respondents have witnessed corruption or other irregular practices in their company in the last three years.
- Part 2 provides an overview of national legal and regulatory frameworks and initiatives for anti-corruption and integrity in Latin American SOEs.
- Part 3 sets out some preliminary conclusions and possible next steps.

While this supplemental Latin American report has been prepared with care and diligence, it does not claim to be representative of the situation of anti-corruption and integrity of all SOEs in the Latin American region, nor amongst OECD member countries, given the variance in sample sizes of respondents and companies.² The report does however point to trends and commonalities across SOEs and state approaches in the region, including in comparison to OECD countries, and offers insights related to the risk profiles of companies and their ownership structures.

¹ The broader approach also allows for comparison with existing OECD data on business integrity, captured in “Trust and Business: Corporate Governance and Business Integrity” (OECD, 2015), that appears in the full report of the Working Party “Integrity and Anti-Corruption in State-Owned Enterprises: challenges and solutions”.

² The survey was first sent to government ownership representatives of 9 Latin American countries, with each ownership entity asked to identify and request responses from relevant officials in their 10 largest SOEs. Subsequently, the OECD received 69 individual SOE responses across 43 companies: 1 respondent in Argentina from 1 SOE; 6 respondents from 6 companies in Brazil; 17 respondents from 10 companies in Chile; 6 respondents from 4 companies in Colombia; 10 respondents from 4 companies in Costa Rica; 11 respondents from 8 companies in Mexico; and 18 respondents from 10 companies in Peru.

1. CORRUPTION RISKS IN AND AROUND LATIN AMERICAN SOES

1.1 Identifying overall and individual risks of corruption

This section aims at identifying important corruption risks for the SOE sector and provides a regional overview of the most striking features of the Latin American region compared to OECD countries. The survey of SOE board members, executive management representatives and individuals in charge of audit, compliance and risk management³ provided respondents with a list of 24 types of potential risks of corruption and other irregular practices (See Annex 1, Table 1.1 for the full list). It should be noted that the list includes a wide range of practices that vary in severity. Most of them relate to the violation of applicable law or company-internal rule. Some of them, however, go beyond corruption or rule-breaking to include examples of corporate behaviour that may undermine transparency and accountability.

Regional data from 69 individual Latin American respondents reveal that **43%** of them have witnessed the occurrence of at least one such instance of acts that present a corruption or integrity risk or other irregular practices in their companies in the last 3 years. This percentage echoes that found amongst OECD countries, as well as the overall global sample provided in the Working Party draft report.

Table 1. Witnesses to corruption or other irregular practices

Percentage of total responses to the question: In your assessment, did any of the [24 listed] risks materialise into activities/actions in the last 3 years in (or involving) your company?

	ALL	LAC	OECD
I don't know	13%	6%	16%
No	44%	51%	41%
Yes	43%	43%	43%
Grand Total	100.00%	100.00%	100.00%

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs

As will be shown, corruption or other irregular practices may be found at all levels of the SOE – most commonly employees and management (mid-level). Respondents in the oil and gas, transportation and energy sectors report having witnessed more corruption and other irregular practices transpire in their companies.

Respondents perceive their companies to be susceptible to corrupt activities and other irregular practices that are both internal and external to the company: favouritism (nepotism and cronyism), non-declaration of conflict of interest, bribes, influence peddling and interference in decision-making.

The below sections elaborate on the above findings, with the framework of analysis rooted in the SOE Guidelines, as well as other OECD instruments, guidelines and best practices on the importance of managing corruption risks.

³ A fourth category “other” incorporates responses from respondents that are involved in, but not in charge of, internal audit, representatives of human resources and those self-reporting as Secretary – given the potential for this role to be either an executive management function or an integrity function depending on the company. The “other category” represents 20 responses out of 276 overall, and 6 of 69 Latin American respondents.

1.1.1. Who sees it, and who is involved?

Risks of corruption and other irregular practices materialised in 43% of the respondents' companies in the last three years. This figure is higher than those reported by other international studies seeking to assess the rate of bribery and corruption in both SOEs and other non-state firms, though different methodologies render it difficult to conclude on the incidence of corruption in SOEs versus private companies.

There is no substantial difference between LatAm and OECD SOEs in terms of how often corruption or other irregular practices were witnessed or between the perceptions about the likelihood of risks occurring in the future. However, as will be shown below, the LatAm region differs from OECD countries in the ranking of potential risks occurring.

Table 2 provides a breakdown of the past experiences and future perceptions of respondents, by their position. Many of these survey respondents across positions represent, in some cases, the same company. Thus, differences among respondents within the same company in reporting on past experience, and in perceptions of future risks, may point to differences in awareness of risk, accuracy of risk assessments, or willingness to report the true risk-profile of their company.

Table 2. Those who witnessed corruption and other irregular practices and their risk perceptions in last 3 years

Row Labels	Past experience		Future perceptions			
	Responded "yes" to had witnessed risks materialise		Likelihood of risks materialising		Impact of risks materialising	
	OECD	LAC	OECD	LAC	OECD	LAC
Board members	47%	45%	1.5	1.8	3.1	3.2
Executive management	33%	38%	1.6	1.8	2.9	3.3
Head of compliance, internal audit, legal or other	47%	52%	1.8	1.7	3.2	3.1
Other*	50%	17%	1.6	2.2	2.8	3.7
Average	43%	43%	1.6	1.8	3.1	3.2

Note: Board members included Chairs and other board members; Executive management included Chief Executive Officers/Presidents/Managing Directors, Chief Financial officer or similar or other "C-suite" executives; the group of head of Compliance, internal audit and legal also included Chief Risk and Chief Sustainability Officers. *The category "other" incorporates responses from respondents that are involved in, but not in charge of, internal audit, representatives of human resources and those self-reporting as Secretary – given the potential for this role to be either an executive management function or an integrity function depending on the company.

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs

Table 2 shows that corruption and other irregular practices were most often witnessed by those respondents in charge of audit, compliance or legal (52%) and board members (45%), while executive management reported seeing it less (38%). As the draft report points out: *"this may be due to the fact that [audit and compliance officers] are more privy to such information through confidential reporting functions."* Executive management, on the other hand, *"may be more likely to underreport corruption or corruption risks given their position and responsibility for the company image"* (OECD forthcoming).

Table 3. Those involved in corrupt activities and other irregular practices

Responses to “Which actor(s) was(were) involved in the activities/actions [Annex 1] that materialised? Please check all that apply, recalling that the survey results will not be linked to your specific company”

Which actor(s) was (were) involved?	% of respondents that reported the below actors to be involved in corrupt or other irregular practices	
	OECD	LAC
Employee	69	67
Mid-level management	44	37
Public official	16	23
Business partner	31	23
Senior management (c-suite)	27	17
Shareholder	9	10
Other	8	7
Board	23	3
Civil society representative	4	0

Notes: Based on the 90/207 OECD and 30/69 Latam respondents that replied yes to: “In your assessment, did any of the [Annex 1] risks materialise into activities/actions in the last 3 years in (or involving) your company?”

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs.

Table 3 shows the percentage of respondents that have witnessed each category of SOE official involved in corruption or other irregular practices that have materialised in their company in the last 3 years. In both Latin American and OECD countries, the persons most commonly reported as involved were employees and mid-level management. On the other hand, the results indicate that it is relatively rare in Latin America for board members to have been involved in SOE corruption or irregular practices, while it is more likely for public officials to have been witnessed engaging in such acts (23% in Latin America versus 16% in OECD countries). This may reflect the greater involvement of public officials in the day-to-day business of Latin American SOEs while SOE boards may tend to play a more passive role.

1.1.2. In which type of state-owned enterprises?

SOE respondents were asked to identify their companies’ objectives as: a mix between commercial and public policy objectives; companies that have commercial objectives but are subject to legislative or regulatory requirements that may significantly impact their profitability (compared to private firms); or companies that have entirely commercial objectives.

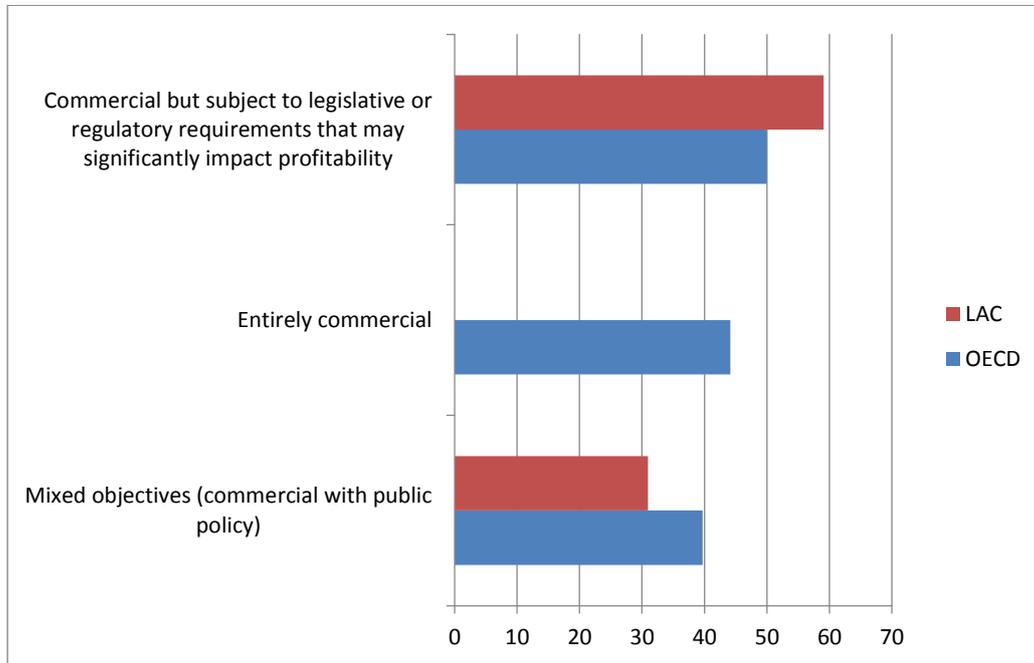
Companies with mixed commercial and public policy objectives reported having witnessed less corruption or other irregular practices than other categories of SOEs (see Figure 1). However, the reported level is slightly higher for OECD countries than for LatAm countries (40% and 30% respectively).

In both OECD and LatAm countries, companies with commercial objectives, but which are subject to legislative or regulatory requirements that impact profitability, reported that corruption and other irregular practices have transpired more than any other type of companies. A possible explanation could be that corruption and other irregular practices are more likely to occur in heavily regulated sectors when such regulations are not clear enough, as this might shield the companies and their management from accountability. An alternative hypothesis would be that the finding is mostly coincidental, reflecting the fact that

these sectors happen to be the ones where usually public procurement contracts occur the most.

Quite interestingly, no LatAm respondent reported to have SOEs with entirely commercial objectives, while conversely this group accounted for 35% of OECD responses. Companies with entirely commercial objectives are likely more common in European countries that have relatively small economies and in which issues of maintaining national ownership may be the main reason for continued state involvement. It is also possible that SOEs in Europe which may typically be classified as entirely commercial in nature have in the Latin American context been classified as commercial with regulatory requirements impacting on profitability due to SOE-specific regulatory constraints on procurement, personnel and other management decisions that may be more common in the region.

Figure 1. Respondents that witnessed risk of corruption and other irregular practices materialise, by type of company objectives

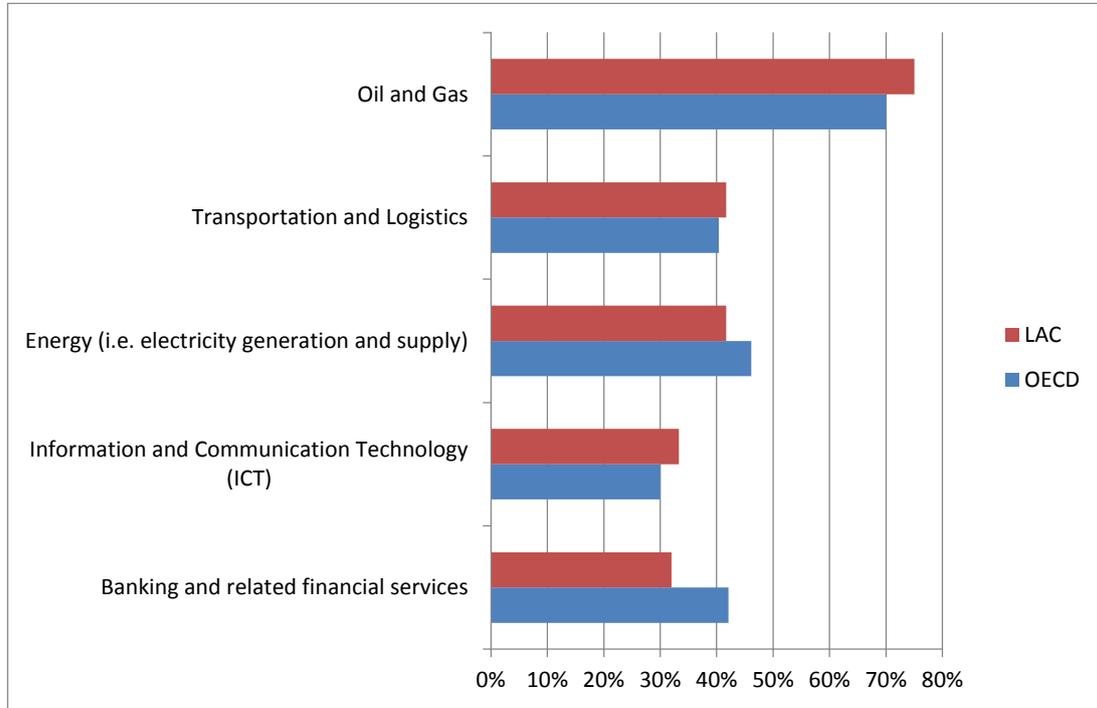


Note: The number of respondents in the sample is lower here, as not all respondents were able to identify their type of company objectives. Further, no LAC companies reported to have entirely commercial objectives.

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs

1.1.3. In which SOE sectors?

Figure 2. Respondents that witnessed risks of corruption and other irregular practices materialise, by sector



Source: OECD 2017 Survey of anti-corruption and integrity in SOEs

The highest proportions of those who have seen corruption and other irregular practices in their company are found in oil and gas, energy and transportation and logistics sectors (figure 2). These findings echo other recent international studies which have identified similar sectors as being at risk. This is commonly attributed to their high cash flows, large public procurements and in some cases lack of competition.

Results between both groups are fairly similar. The biggest regional difference occurs in the banking and related financial services sector, where more OECD respondents report to have witnessed risks of corruption and other irregular practices materialise.

1.1.4. The risk of corruption in state-owned enterprises

Having considered what SOE respondents have witnessed in their companies in the last 3 years, this section focuses on their perceptions of the likelihood and impact of future risks occurring. As shown below, such perceptions vary across countries, within countries and within SOEs. This section deconstructs risk perceptions and points to areas that are considered high risk by respondents.

SOE respondents were asked to assess a range of corruption risks, and risks of other rule-breaking, for their likelihood of occurrence and for the impact that the occurrence would have on the company if it were to materialise. (The list of risks put forth for evaluation by respondents is provided in Annex 1, Table 1.1.)

Table 4 below provides a comparison of the risks that are considered to be of greater likelihood, and impact, according to the perceptions of Latin American and OECD respondents. Importantly, they point to a concern of respondents' risks that are both exogenous and endogenous to the SOE.

Table 4. Top 10 corruption risks for SOEs: perceptions of likelihood and impact

Based on an indexed weighting of the likelihood and impact of corruption risks as high, medium or low

Index ranking for likelihood of occurrence		Index ranking for impact of occurrence	
LAC	OECD	LAC	OECD
1. Non-declaration of conflict of interest	1. Violations of data protection and privacy	1. Fraud	1. Falsification and/or misrepresentation of company documents, or false accounting
2. (Receiving) bribes	2. Stealing or theft of goods from your company	2. (Receiving) bribes	2. (Receiving) bribes
3. Influence peddling	3. Violations of regulations (health and safety, environmental)	3. Falsification and/or misrepresentation of company documents, or false accounting	3. Offering bribes
4. Interference in decision-making	4. Non-declaration of conflict of interest	4. Money laundering	4. Anti-competitive, anti-trust activities or collusive activities
5. Favouritism (nepotism, cronyism and patronage)	5. Procurement/contract violations (delivering sub-par goods/services, violating contract terms with suppliers)	5. Interference in decision-making	5. Money laundering
6. Fraud	6. Favouritism (nepotism, cronyism and patronage)	6. Illegal information brokering	6. Fraud
7. (Receiving) kickbacks and/or inappropriate gifts	7. Fraud	7. Non-declaration of conflict of interest	7. Violations of data protection and privacy
8. Interference in appointments of board members or CEO	8. Illegal information brokering	8. Interference in appointments of board members or CEO	8. Illegal information brokering
9. Illegal information brokering	9. Interference in decision-making	9. Violations of data protection and privacy	9. Violations of regulations (health and safety, environmental)
10. Procurement/contract violations (delivering sub-par goods/services, violating contract terms with suppliers)	10. (Receiving) kickbacks and/or inappropriate gifts	10. Procurement/contract violations AND violations of regulations (health and safety, environmental)	10. Procurement/contract violations (delivering sub-par goods/services, violating contract terms with suppliers)

Note: Respondents were asked to rate risks as having “high or “medium” likelihood or impact. Likelihood is the possibility/probability that a risk event may occur, in, or involving, your company. Impact is the affect that the risk event would have on achievement of your company’s desired results or objectives. For instance, high impact would have a severe impact on achieving desired results, such that one or more of its critical outcome objectives will not be achieved. Low impact would have little or no impact on achieving outcome objectives. *Source:* OECD 2017 Survey of Anti-Corruption and Integrity in SOEs; Georgetown University (2017), Impact, Likelihood and Velocity, accessible at: <https://riskmanagement.georgetown.edu/RiskAssessmentMeasures>

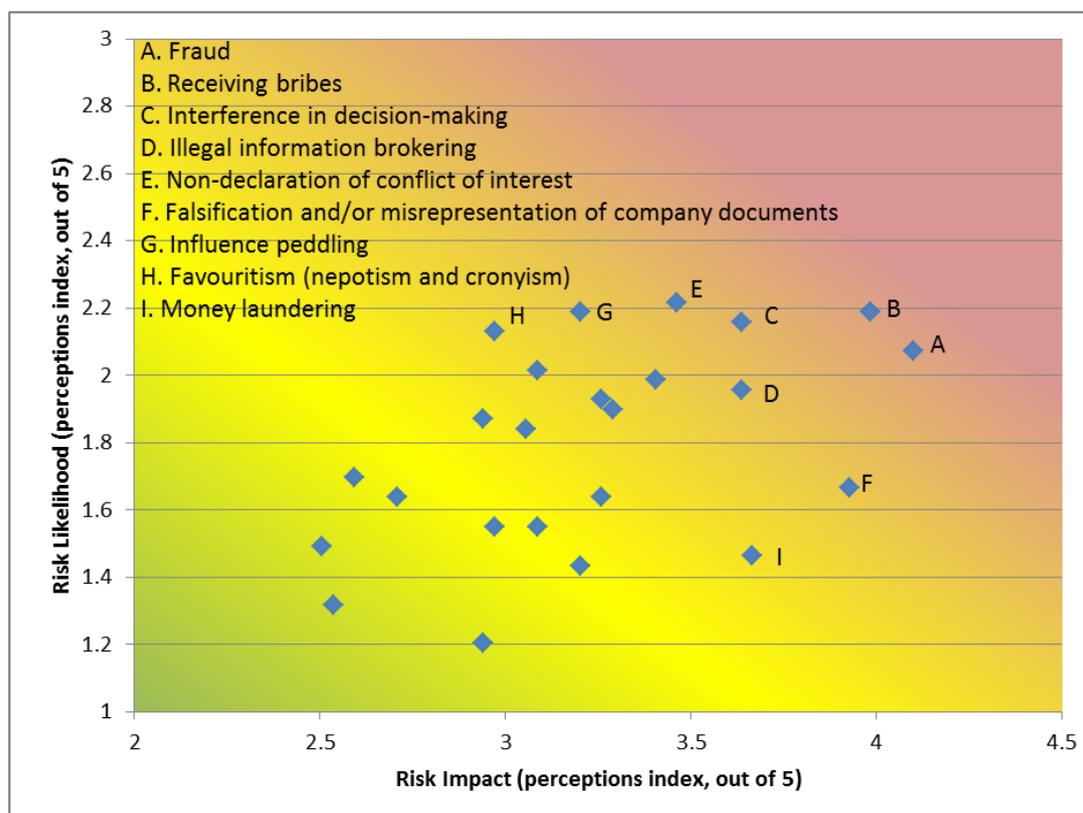
The types of corruption risks that are considered more likely to occur than others in the LatAm region are not vastly different from those reported by OECD countries, as they share 7 common risks within their top 10 listings. However, it is striking to see that the major differences are to be found within the top 3 of both groups. LatAm countries rank non-declaration of conflict of interest, receiving bribes and influence peddling as among the top three risks for SOEs; however these latter two do not even appear on the top 10 risks for OECD countries. Similarly, OECD top 3 risks (violations of data protection and privacy, stealing or theft of goods, and violations of regulations) do not even feature within the LatAm countries' list of top 10 risks. This shows that corruption might take different forms between regions and groups.

In terms of perceptions of impact, however, the numbers were more similar, as both groups have 8 commonly-shared, highly-ranked risks within their top 10 – most of which featured in almost identical positions. Here, receiving bribes and falsification and/or misrepresentation of company documents are presented as the risks that would have the highest impact on SOEs. Perceptions of impact therefore, are not really different between these two groups, despite showing differences in perceptions on the likelihood of such events occurring.

It is also important to mention that the risks assigned with the highest likelihood of occurrence are not consistently the same as those assigned the greatest impact on the company. Conversely, some risks considered unlikely to occur were assigned medium or high impact on the company's ability to achieve key objectives.

Furthermore, to understand the interplay between risk likelihood and impact, a heat risk mapping of likelihood and impact of risks (Figure 3) is presented below.

Figure 3. Risk mapping of corruption risks in SOEs in LAC



Note: Both axes represent a perception index out of a total of 5, where 1 denotes assignment of “low” impact or likelihood, 3 to “medium” impact or likelihood and 5 to “high” impact or likelihood.

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs.

Based on the individual assessments of the likelihood of occurrence and the impact of a range of corruption risks and other irregular practices put forth (Annex 1), the risk mapping shows that 1) fraud, 2) receiving bribes, 3) interference in decision-making, 4) illegal information brokering and 5) non-declaration of conflict of interest rank the highest in terms of both likelihood of occurrence and impact for SOEs in the LatAm region. They thus represent areas that could garner more attention from both SOEs and government programmes.

1.2. Understanding obstacles to integrity in LAC

Beyond identifying potential risks for SOEs, the survey on anti-corruption and integrity practices also assesses which factors pose an obstacle to effectively promoting integrity and preventing corruption in, or involving, respondents’ companies. This section will compare OECD and Latin American countries’ challenges that SOEs are facing in adopting and effectively implementing internationally-recognised key elements of compliance and integrity mechanisms and programmes.

The global findings in the Working Party draft report show a “link between the incidence of corruption and other [irregular practices] in a company with the degree to which it faces obstacles in improving integrity. In other words, weak integrity mechanisms, which can be

considered corruption-prevention mechanisms, are associated with increased corruption in SOEs.”

Investing in integrity helps to safeguard the company from undue influence, to remove blind spots to the vulnerabilities of the SOE, and reduces the likelihood of loss -- whether financial, of trust by clients and citizens, or in reputation. It can also help a company to justify diligence and integrity efforts in defence of corporate liability. All of these repercussions raise concerns by SOEs participating in this study.

With the aforementioned 43% of SOE respondents reporting to have witnessed corruption or other irregular practices in their SOEs in the last 3 years, there is more work to be done. SOEs could implement a series of integrity and compliance mechanisms, or associated programmes to mitigate the risks of corruption and other irregular practices transpiring in the future.

In both groups, respondents that have witnessed corruption or other irregular practices report that the obstacles to improving integrity are greater. On average, respondents in LatAm countries see greater obstacles to integrity in their companies than do respondents in OECD, even OECD respondents that have witnessed corruption or other irregular practices. Thus evidence shows that respondents in LatAm see more standing in the way between improving integrity at the company level.

1.2.1. Tackling obstacles to integrity

The OECD survey unpacked particular challenges to improving integrity in their SOEs. Table 5 provides a comparative table of SOEs’ top obstacles to integrity in the view of respondents in LatAm and OECD companies.

Such obstacles can represent weaknesses or blind spots to the SOE that may leave it exposed to corruption or other irregular practices by insiders, or by outsiders to the SOE.

Table 5. SOEs’ perceived obstacles to integrity in their company

Comparison of top 10 obstacles between groups	
LAC	OECD
1. A lack of a culture of integrity in the political and public sector	1. A lack of awareness among employees of the need for, or priority placed on, integrity
2. Opportunistic behaviour of individuals	2. A lack of awareness of legal requirements
3. A lack of awareness among employees of the need for, or priority placed on, integrity	3. A lack of a culture of integrity in the political and public sector
4. A lack of a culture of integrity in your company	4. Opportunistic behaviour of individuals
5. Perceived cost of corruption is low and/or return is high	5. Overly complex or burdensome legal requirements
6. Perceived likelihood of getting caught is low	6. Ineffective internal control or risk management
7. Inadequate financial or human resources to invest in integrity and prevent corruption	7. Perceived likelihood of getting caught is low
8. Inadequate remuneration/compensation	8. Inadequate financial or human resources to invest in integrity and prevent corruption
9. A lack of awareness of legal requirements	9. A lack of culture of integrity in your company
10. Loyalty to company	10. Loyalty to customers or third parties

Note: The 10 obstacles were ranked out of a list of 24 obstacles put forth to SOE respondents, found in Annex 2, Table 2.1.

Source: OECD 2017 Survey of Anti-corruption and Integrity in SOEs.

Obstacles vary only slightly between the two groups which share 7 common obstacles within their top 10. The LatAm region also includes low perceived cost of corruption, inadequate remuneration/compensation and loyalty to the company as top obstacles, which are less troublesome for the average OECD respondent. On the other hand, overly complex or burdensome legal requirements, ineffective internal control or risk management, and loyalty to customers or third parties seem to play a lesser role in the LatAm countries than OECD.

Overall, respondents from companies in OECD (non-LatAm) member countries report fewer obstacles to integrity than those in Latin America, despite having witnessed corruption and other irregular practices at the same rate (43%). Given the fact that, in the global sample, those that reported greater obstacles to integrity were more likely to have witnessed corrupt activities or other irregular practices in their company, LatAm respondents could have in fact underreported the instance of witnessing (43%). A considerably higher awareness of obstacles to integrity would normally be expected to be linked to a greater incidence of irregular practices.

As seen below (table 6), in the OECD countries, the greatest obstacles are reputational or behavioural – for instance, opportunistic behaviour or pressure to perform, whereas in LatAm it seems to have more to do with obstacles related to their proximity to government (a lack of culture of integrity in the political and public sector, relations between company, or the board, and political officials, etc.)

Table 6. Obstacles to SOE integrity by category

By category of obstacles	LAC	OECD
Obstacles related to detection	1.4	1.2
Obstacles related to behavioural aspects	1.6	1.3
Obstacles related to reputation	1.5	1.3
Obstacles related to the proximity to government	1.7	1.2
Average	1.6	1.2

Source: OECD 2017 Survey of Anti-corruption and Integrity in SOEs. Based on an index rating of obstacles 0 (obstacle does not exist in the company) to 4 (very much an obstacle).

Addressing such obstacles is a challenge. The global review showed that SOEs' existing approaches to integrity are either stratified throughout a company or centralised in an integrity, compliance or anti-corruption programme. The approach taken may derive from the state ownership entity's expectations, the legal and regulatory framework in place – or the executive management and board of directors' consideration. However, whether or not they are formalized into an explicit "programme", SOEs can still seek to implement key elements of a good practice programme and can tailor them based on risk profiles and risk tolerance levels (OECD, forthcoming). For more information, the Working Party draft report on anti-corruption and integrity highlights, in chapter 2, key elements of effective integrity, compliance, and anti-corruption for non-state owned companies, but that may be applicable to SOEs, based on existing international instruments.

2. OVERVIEW OF NATIONAL LEGAL AND REGULATORY FRAMEWORKS FOR ACI IN LATIN AMERICAN SOES

2.1 Laws and regulations in place for each country

The Working Party draft report highlights the active role that the state can play in overcoming or at least mitigating corruption risks and obstacles to integrity identified in the previous section. As noted in the draft report: *“improving government integrity requires a whole of government approach and strong democratic institutions. The ownership entity – charged with exercising the ownership rights of the state – is given primary responsibility for this and must have adequate skills and resources to oversee the performance of the SOE, including the adequacy of anti-corruption and integrity mechanisms”* (OECD, forthcoming). This is particularly relevant for the LatAM region as reported obstacles to integrity are more related to their proximity to government, than they are for OECD countries.

Informed by responses from seven ownership entities or coordinating agencies within the Latin American region, this section provides a comparison of broad policy and regulatory frameworks which SOEs are subject to with regards to integrity and anti-corruption (Table 7), as well as an overview of activities that state ownership entities undertake in support of their implementation.

Table 7. Legal and regulatory frameworks for ACI

Country	legal form: Incorporated using same legal form as private firms in like circumstances (I) or Statutory (S) / Application of commercial law (C)	ACI – related provision in:		
		SOE-specific laws, policies, codes or guidelines	Additional public laws applicable to SOEs	Criminal law
Argentina	S / C	Decree 606/2012 – “Transparency Provisions for listed enterprises”; SIGEN Regulation 37/2006 – “Principles of Internal Control for Good Corporate Governance of SOEs” (not for listed SOEs)	Decree 1172/2003 “Disclosure of Management of Interests in the Public Sector”; Law 27.275 - “Access to Information Law”; Decree 202/2017 – “Conflict of Interests in Procurement”; Public Ethics Law 25188; Anticorruption Office Resolution 11- E/2017 “Conflict of Interests in Procurement”; Decree 1179/2016 – “Gift regulations for public officials”	Criminal Procedure Code Article 177 item 1
Brazil	S / C	Law on Responsibility of Federal State Companies - Law 13.303/2016); Decree 8.945/2016 which regulates Law 13.303/16	Evaluation of Integrity programs of legal entities (Office of the Comptroller General No 909/2015); Controls and Risk Management (Normative Instruction 1 MP/CGU) Illicit enrichment; The Administrative improbity Act (Law 8.429/1992); the Anti-Corruption Act (Law 12.846/2013); Decree 8.420/2015 on Administrative Proceedings and sanctions	
Chile	I / C	Corporate Governance Guidelines ; Law 20.880 on the Prevention of Conflicts of Interest; Law 20.285 on Transparency and Access to Information	Board Members and Executive Management as Politically Exposed Persons (law 19.913 makes BMs and executive management PEPs); declaration of interest / patrimony each year for board members and managers); Lobbying (where state is the major shareholder meetings with third parties must be disclosed);	Art. 251 of Penal Code establishes as a crime the bribery of national or foreigner public servant; Law 20.393 on the criminal responsibility of legal entities
Colombia	*	Law 489/2011; Corporate Governance Code	The Anti-corruption Law (Law 1474 /2011) and related Decree 4632/2011); Decree 734/2012 on Public Procurement; Law on Transparency and the right of information (Law 1712/2014 and related Decree 103/2015)	Liability of legal persons for the bribery of foreign public officials in international business transactions
Mexico	S / C		General Law of the National Anticorruption System (Ley General del Sistema Nacional Anticorrupción –LGSNA);General Law on Administrative Responsibilities (Ley General de Responsabilidades Administrativas – LGRA)	

Paraguay	*	Code of Corporate Governance (Decree N° 6381/2016)	Applying to SOEs: remuneration (Law No. 5189/2014); Law No. 5282/2014 and Decree No. 4064/2015 (Access to information); Decree No. 4900/2016 (National plan for anti-corruption)	
Peru	*	Code of Corporate Governance; Conduct and Ethics Guidelines ; Transparency Guidelines (for enterprises under FONAFE supervision)	Law 28716 on the Internal Control System of State entities; Law 30225 on Government Procurement; Law 30294; Law 29622 on Decentralization; Whistleblower protection (Law 29542 and Decree-Law 1327); Access to Public Information (Law 1353)	Decree-Law 1243 which modifies the Criminal Code to introduce definitive civil disqualification measures following corruption

Note: * Information missing; I = Most SOEs in the jurisdiction are incorporated using same legal form as private firms in like circumstances; S = Most SOEs in the jurisdiction are statutory or quasi-corporations. C = SOEs are generally subject to company law.

Source: Adapted from OECD (2017a), Questionnaire on integrity and anti-corruption by SOEs and their ownership, Unpublished; OECD (2017d), The Size and Sectoral Distribution of State-Owned Enterprises, OECD Publishing, Paris.

Table 7 shows that in addition to commercial law, most countries have established additional provisions applying to SOEs, whether SOE-specific policies, codes or guidelines or thematically-relevant public laws. Mechanisms for their implementation and enforcement vary, with some being merely advisory, others being implemented on a comply-or-explain basis and others being mandatory.

The universe of ACI-related laws and regulations is therefore quite extensive and has been growing in recent years. Indeed, in addition to heightened enforcement efforts, several Latin American countries have introduced or enhanced asset declaration requirements as in Argentina and Mexico, and adopted new laws including on the right to information as in Argentina and Paraguay. Other developments and reforms such as those of Mexico and Colombia both in areas of SOE ownership as well as in anti-corruption regulations should help tackle the issue of corruption more concretely (Box 1). This clearly shows the increasing interest in corruption and integrity issues in the region.

Furthermore, 93% of SOE respondents reported that, in their assessment, “relevant national laws, regulations, bylaws or governance codes clearly (or very clearly) establish expectations and requirements for their company’s actions and responsibilities in areas of integrity and anti-corruption (including for internal control, risk management, compliance etc.)”.

Box 1. Mexico's National Anticorruption Framework

Mexico voted to amend the Federal constitution in June 2015 to create a National Anti-corruption System (NAS). This constitutional amendment was implemented in July 2016 through a series of laws, including the General Law for the National Anti-Corruption System (LGSNA) and the General Law of Administrative responsibilities (GLAR). This Constitutional reform created the National Anticorruption System as a coordination body between national and subnational agencies, in charge of detecting, investigating and punishing corruption under both administrative and criminal law. The reform also created a Citizen Participation Committee composed of 5 distinguished citizens in the field, whose President also serves as chair of the NAS.

The reform proceeded to transform the actual Federal Court of Fiscal and Administrative Justice into the Federal Tribunal of Administrative Justice – and created a specific chamber for issues regarding corruption of public servants and private citizens under administrative law, with the following powers:

- Settle disputes between the Federal Public Administration and individuals;
- Impose sanctions on public servants for corrupt conducts under administrative law;
- Set compensations and fines arising resulting from damages to the public finances or federal public entities.

Furthermore, the constitutional reform also gave more powers to the Federal Audit Office (*Auditoria Superior de la Federación* – ASF) as the organ of the Chamber of deputies in charge of overseeing the destination and use of federal resources allocated and exercised by any entity, individual or moral person, public or private, and transferred to trusts, funds and or any other legal entity – by creating an autonomous agency that can oversee the legality of all operations that occur with public funding.

Finally, it also introduced a differentiation between administrative and criminal responsibilities (i.e. distinguishes between administrative failures and corruption). Administrative faults are regulated by the GLAR, while acts of corruption are regulated by criminal law.

Source: OECD 2017 Survey of Anti-corruption and Integrity in SOEs

2.2 Governments' efforts in tackling integrity challenges

Despite positive improvements in legal and regulatory frameworks in the region, it appears from the survey of SOE representatives in the LatAM region that existing anti-corruption and integrity provisions are not sufficient in themselves. Indeed, 64% of LatAm SOEs reported that integrity in their SOE is hindered by a “lack of awareness among employees of the need for, or priority placed on, integrity”.

Furthermore, 58% of SOE respondents also reported a “lack of awareness of legal requirements” as an obstacle to integrity in their companies. In a few cases, SOE respondents within the same companies differed in their responses as to whether their own integrity-related programmes were established voluntarily or because they were required by the legal framework.

The lack of awareness either of legal requirements or the need for integrity appear therefore as areas where more work needs to be done. However, recent regional efforts seem to be moving in this direction, with many state ownership entities reporting having established roundtables, task forces, seminars, training programmes, and workshops with the aim of promoting good practices and raising awareness on integrity issues among board members and executives of SOEs (see examples in Box 2).

Box 2. Governments' efforts in promoting Integrity in SOEs

ARGENTINA - Roundtables on Integrity: In May 2016 an SOE Integrity Network was created by representatives of Chief of the Ministerial Cabinet (*Jefatura de Gabinete de Ministros* – JGM), the national auditing body (*Sindicatura General de la Nación* - SIGEN), the Anticorruption Office (OA) and SOEs officials with responsibilities in the areas of auditing, ethics and compliance. Its main objectives are to: i) Raise awareness on the relevance of transparency and integrity in SOEs; ii) Promote the design and implementation of integrity and compliance programmes; iii) Generate a community where practitioners can exchange views and best practices on integrity issues; iv) Conduct training with a “train the trainers” perspective, with the purpose of replicating training activities within SOEs.

BRAZIL – Seminars: Since the adoption of the Law on the Responsibility of Federal State Companies (Law No. 13.303/2016), the Secretariat for the Control of State-owned Enterprises (SEST) has been conducting seminars aimed at raising awareness – especially to public servants working in SOEs – on the importance of the law. This seminar named “Good Governance and Strategic Realignment Practices” offers opportunities to debate on the responsibility of State companies, fiscal councils, audit committees and boards of directors, and to discuss the importance of control as a tool for efficiency in public companies.

CHILE – Seminars and training programmes: the ownership entity Sistema de Empresas (SEP) organizes seminars and training programmes for board members and executives of SOEs on a regular basis, covering some of the topics tackled in the SEP Guidelines or related corporate governance issues. The efforts are coordinated with the assistance of professional training bodies, such as universities or other public institutions working on SOEs’ corporate governance such as the General Audit Bureau (Contraloría General de la República), or the Financial Analysis unit (UAF). Examples include the Diploma in Corporate Governance for Board members, Workshop on compliance, and Training for Internal Audit Units, which were undertaken in 2017.

COLOMBIA – Training: A guide for directors was designed in order to promote good practices, explain roles and responsibilities, and provide guidance related to the topics that should be covered during a board of directors session. This guide was delivered to each member of the board of directors and the Ministry of Finance. An important training programme was also held in October 2017 for board members of SOEs and the Ministry of Finance.

Source: OECD 2017 Survey of Anti-corruption and Integrity in SOEs

Besides promoting a “culture of integrity”, another important issue has to do with how effective the state is in communicating its requirements and expectations. As the OECD draft report points out, “*If governments do not communicate and highlight the importance*

of such laws and regulations, either in writing or in person, there is a risk that the understanding of their importance, and more critically of the requirements and guidance, suffers. This is particularly the case where certain provisions are voluntary". 84% of LatAm respondents said that the ownership entity clearly communicated its expectations for integrity and anti-corruption for their company in the last 12 months.

Table 8. Communication of State expectations on integrity and anti-corruption

Country	Ownership Structure	Ownership or co-ordination entity ⁴	Applied methods for communicating expectations on ACI		
			Through laws, Regulations and Policies pertaining to SOEs (see Table 4.1 above)	Through supporting documentation	Through in person interaction: Meetings (M), Trainings and Seminars (T+S),
Argentina	Co-ordinating entity	Chief of the Cabinet of Ministers' Office (JGM)	x	x**	M, T+S
Brazil	Decentralised	Secretariat for the Control of State-owned Enterprises - SEST			M
Chile	Hybrid	Sistema de Empresas – SEP	x	x	M, T+S
Colombia	Co-ordinating entity	Ministry of Finance		x	
Mexico	Decentralised	Ministry of Finance (SGCP: Secretaría de Hacienda y Crédito Público)	x	x	M
Paraguay	Centralised	The National Council of Public Enterprises (CNEP)	x	x	
Peru	Centralised	Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE)	x	x	T+S

Note: **Argentina is currently preparing Guidelines on the Good Governance of SOEs.

Source: OECD (2017a), Questionnaire on integrity and anti-corruption by SOEs and their ownership, Unpublished; More information about ownership structures is found in the forthcoming OECD Compendium on SOE Governance (DAF/CA/SOPP (2016)2/REV2)

As Table 8 shows, all state ownership entities responding to the survey see their expectations as adequately communicated through anti-corruption and integrity-related laws and regulations, government policies and supporting documentation such as strategic plans or government policies. Several countries such as Colombia, Paraguay and Peru have aimed to provide a degree of centralisation by extracting and highlighting relevant guidelines in one place. Argentina is currently preparing similar guidelines on the good

⁴ For decentralized ownership structures, the entities featured in the table refer to government institutions with significant oversight functions over the sector.

governance of SOEs. In-person interactions – especially through meetings – is also relevant for most countries in this sample.

The ownership entities' expectations and related policies should be consistent with existing requirements, making requirements easily understood by management and boards. Mexico provides a good example of a state ownership entity centralising and making explicit its expectations with regards to integrity and anti-corruption in SOEs. The National anti-corruption reforms in Mexico (Box 1) established mechanisms to prevent administrative faults and corruption in the public sector, as well as in SOEs, requiring: an internal control body and supervisory/monitoring body, audit committees, internal audit, external auditor, responsibility units, code of ethics, and a National system of public servants and individuals sanctioned of the National Digital Platform.

The low rate of incidence involving board members in the LatAm region (3% compared to 23% for OECD countries), offers an opportunity for the state ownership entity to work with board members as partners, in ensuring the implementation of the ownership entities' expectations and related policies. This is already the case for most Latin American countries in this sample which have reported conveying their expectations to the board of directors.

Experiences of Latin American countries, highlighted below in Box 3, also provide examples of additional ways to communicate expectations if reliance on the board is proved insufficient.

Box 3. Best practices on communicating expectations

Inclusion in SOE or board performance objectives: In Colombia, specific objectives are to be set for strategic and majority owned companies by the Ministry of Finance throughout 2018 according to the new strategy for managing the SOEs portfolio that will be released by the end 2017: financial goals; public policy impact; disclosure of information regarding international standards; and anticorruption prevention plans.

Providing guidance, including sharing good practices and lessons learned: Brazil's Ministry of Transparency, Supervision and Control has created a Guide for the implementation of the Integrity Program in SOEs.

Written in letters, circulars, memorandums, and guidelines in support of relevant laws, policies and codes: Colombia's Guide for Directors was designed in order to promote good practices, explain roles and responsibilities, and provide guidance related to the topics that should be covered in a board of directors' session. This guide was delivered to each member of the board of directors at the Ministry of Finance. In October 2017 a major training program for members of boards of directors was initiated at the Ministry of Finance, where topics such as disclosure, transparency and anticorruption are part of the agenda

Requiring written confirmation of implementation: In 2017, Colombia required corporate ethics programmes to be put in place. In April 2017 the Superintendence of companies issued a communication to 531 companies, requesting the legal representative person to issue a certification stating that such program was being established.

Source: Working Party draft report on "Integrity, the fight against corruption and responsible business conduct in the SOE sector" (upcoming)

There are other key areas in which the state can play an important role, including in supporting SOE board composition that allows for the exercise of objective and independent judgement, establishing transparent appointment processes for decision-makers, or encouraging robust internal control, among others. For the purpose of this abbreviated regional analysis, these aspects will not be covered here, but are extensively discussed in the OECD draft report.

Furthermore, external auditors' oversight of SOEs can also work to support prevention and detection⁵ of corruption and irregular practices in SOEs. State auditors (or Supreme Audit Institutions - SAIs), in particular, may have the mandate, or be requested by the legislature, to perform external audits of individual SOEs, a group of SOEs or the ownership entity itself. OECD's "Risk Management by State-Owned Enterprises and their Ownership" found that the SAI has the authority to audit SOEs in 67% of 33 OECD member and non-member countries surveyed (OECD, 2016).

⁵ External auditors may assess the regularity and probity of finances, compliance with relevant laws and regulations and, if mandated, the effectiveness, efficiency and economy of processes and procedures (performance). Prevention and detection of corruption is not an audit goal unto itself, but may stem as a byproduct of work in supporting the compliance and integrity of an entity.

SAIs might play an important role in LatAm countries where SOEs are not fully corporatized and are therefore operated in close proximity to the public administration, which often makes them subject to more direct state financial control. External audits by state auditors, whether systematic or ad-hoc, should not substitute or displace the role of a third-party external auditor where desirable – in line with good practice for listed companies. The SOE Guidelines recommend for the ownership entity to “have clearly defined relationships with relevant public bodies, including SAIs” (OECD, 2015a). The SOE Guidelines also recommend, to avoid unnecessary duplication in assessments of SOEs, that SAIs focus audits on SOE performance (efficiency, effectiveness and economy).

3. PRELIMINARY CONCLUSIONS AND NEXT STEPS

Based on the findings of the OECD survey on anti-corruption and integrity, and the participation of 8 countries and 69 individual SOE respondents, this Latin American specific supplement is not intended to be a comprehensive and exhaustive research on corruption risks and integrity challenges in Latin America, but rather a basis for discussion for corruption and integrity issues that are commonly shared in the region - offering at the same time, an opportunity to share best practices in this area.

This research indicates that there are not substantial differences between LatAm and OECD countries in terms of how often corruption or other irregular practices materialises in SOEs. Those who both witness and are witnessed as implicated in corruption and other irregular practices activities are similar for both groups – with the main culprits being employees and mid-level management. However, there are differences in the perceptions of the types of risks that are seen as medium or high likelihood of occurring, and of their impact. Importantly, the groups also differ in the types of obstacles to integrity that respondents feel are the more acute in their companies/countries - with SOEs in the LatAm region experiencing challenges more related to proximity with government than SOEs in OECD countries. That should be taken into account as governments and SOEs reflect on how to tackle this issue. The OECD Guidelines on Corporate Governance of State-owned Enterprises provide some useful guidance in this regard.

While the analysis presented here is limited in scope, it also finds that laws and regulations regarding integrity are spreading in the region, but that does not suffice in itself. Many SOE respondents have expressed their discontent with the actual implementation of these laws and regulations in their respective companies and have reported a general lack of awareness or understanding of them. Similarly, challenges reported by state ownership entities also refer to the difficulty of implementing reforms and SOE-specific laws without a change in company culture, and the need for SOEs to “internalize” them. Others have reported finding it difficult to strengthen prevention or detection of corruption in companies.

With these challenges and opportunities in mind, the OECD is working towards the development of Anti-Corruption and Integrity Guidelines for the state as owner. A preliminary roadmap (or building blocks) for their development is/are provided in Annex 3. All participating countries of the Network are invited to contribute to the process, through discussions during the 5th Meeting of the Network by engaging actively with the Working Party as this process gains pace in 2018.

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Annex 1 : List of corruption risks in the OECD state-owned enterprise survey

Table 1.1 : Risks of corruption and other irregular practices: Question options from the SOE Survey

Response options to the following question: In your personal assessment, please rate the below integrity risks for their likelihood of materialising/occurring and the impact they would have on your company? The responses will be aggregated with other participating companies, not linked to any one company.

List of risks put forth to SOE respondents to rank each: as low, medium or high likelihood of occurrence and as low, medium or high impact that such an occurrence would have on the SOE.
Anti-competitive, anti-trust activities or collusive activities
Abusive or intimidating behaviour towards employees
(Receiving) bribes
(Offering) bribes
Favouritism (nepotism, cronyism and patronage)
Fraud
Illegal information brokering
Falsification and/or misrepresentation of company documents, or false accounting
Influence peddling
Interference in appointments of board members or CEO
Interference in decision-making
(Receiving) kickbacks and/or inappropriate gifts
(Offering) kickbacks and/or inappropriate gifts
Lying to employees, customers, vendors or the public
Non-declaration of conflict of interest
Money laundering
Procurement/contract violations (delivering sub-par goods/services, violating contract terms with suppliers)
Making political party donations
Retaliation against someone who has reported misconduct
Stealing or theft of goods from your company
Trading in influence
Violations of data protection and privacy
Violations of Intellectual Property Rights
Violations of regulations (health and safety, environmental)
Other, please specify

Note: Likelihood is the possibility/probability that a risk event may occur in, or involving, your company. Impact is the affect that the risk event would have on achievement of your company's desired results or objectives. For instance, high impact would have a severe impact on achieving desired results, such that one or more of its critical outcome objectives will not be achieved. Low impact would have little or no impact on achieving outcome objectives

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs

Annex 2: List of obstacles in the OECD state-owned enterprise survey

Table 2.1 Obstacles to integrity: Question options from the SOE Survey

Response options for the following question: in your opinion, to what degree does each factor pose as an obstacle to effectively promoting integrity and preventing corruption in, or involving, your company?

List of obstacles put forth to SOE respondents to rank each: very much an obstacle, an obstacle, somewhat an obstacle, not at all an obstacle, NA/Does not exist
A lack of a culture of integrity in the political and public sector
A lack of a culture of integrity in your company
A lack of awareness among employees of the need for, or priority placed on, integrity
A lack of awareness of legal requirements
Conflicting corporate objectives
Inadequate financial or human resources to invest in integrity and prevent corruption
Inadequate remuneration/compensation
Ineffective channels for whistle-blowing / reporting misconduct
Ineffective internal audit
Ineffective external audit
Ineffective internal control or risk management
Loyalty to company
Loyalty to customers or third parties
Perceived cost of corruption is low and/or return is high
Perceived likelihood of getting caught is low
Pressure to perform or meet targets
Pressure to rule-break
Overly complex or burdensome legal requirements
Opportunistic behaviour of individuals
Relations between your company, or the board, and political officials
Unclear or ineffective reporting lines between integrity units and Board and others
Unclear rules or guidance from the government ownership entity
Unsupportive leadership from the Board or management
Fear of "doing the right thing"
Other [please specify]:

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs

Annex 3: Suggested structure of OECD ACI Guidelines

The preliminary stock-taking report “Integrity and Anti-Corruption in State-Owned Enterprises: challenges and solutions” highlights a number of risks and vulnerabilities related to corruption and other irregular practices in SOEs, and discusses about what state entities responsible for SOE oversight can and should do about it. The report will be updated and revised before finalisation in early 2018. Based on the findings of the stock-taking report and the output of consultation partners, the following six building blocks were discussed amongst the Working Party in October 2017 and will be revised accordingly.

I. Integrity and accountability of the state: ensuring sufficient integrity at the state level

- *Improving how the state manages its own accountability and integrity for optimal management of SOEs. Potential components could include:*
 - Ensuring sufficient integrity and capacity of the state to credibly fulfil its role: having the incentives and resources to both embody and convey an appropriate a tone from the top;
 - Bolstering state ownership entities’ capacities in the area of ACI;
 - Encouraging co-ordination between relevant state authorities for improved ACI in SOEs.

II. The state’s role in anti-corruption and integrity in SOEs as an owner

- *Seeking the fulfilment of primary responsibilities as owner outlined in the SOE Guidelines. Potential components could include:*
 - Clarifying state expectations around ACI – including in high risk areas such as public procurement, conflict-of-interest management, privatisation, political party financing, bribery, patronage and other favouritism;
 - Communicating state expectations concerning ACI to SOE boards of directors and, if necessary, senior management and staff;
 - Clarifying the status of SOE employees subject to applicable legislation;
 - Monitoring SOEs’ integrity and anti-corruption efforts as part of performance monitoring, considering new comparison-based approaches.

III. Translating state expectations to company practices

- *Encouraging strengthened internal SOE governance to insulate SOEs from corruption and to promote integrity meaningfully. Potential components could include:*
 - Encouraging SOEs to adopt internal controls, risk management, internal and external audit, and ethics and compliance measures or

programmes that are in line with international standards and with the corruption risks to the company:

- Promoting appropriate internal controls and staying informed about their effectiveness;
 - Calling for risk management processes that sufficiently engage stakeholders and decision-makers in an appropriate and timely manner;
 - Requiring more regular risk assessments of corruption risks, as well as their explicit treatment in risk management systems more broadly;
 - Supporting improved internal and external audit.
- *Developing a disclosure policy by the state and encouraging SOE reporting and transparency:*
- Promoting more consistent reporting on third-party interactions;
 - Improving disclosure of foreseeable risk factors and efforts to mitigate them;
 - Considering integrating other proactive disclosure into the disclosure policy.

IV. Well-functioning boards and other governing bodies of SOEs

- *Ensuring well-structured, merit-based, transparent board nomination procedures that are effective in safeguarding SOEs from undue influence and conflicts of interest. Potential components could include:*
- Establishing transparent appointment processes for decision-makers of SOEs;
 - Promoting board autonomy and specialised board committees - at minimum an audit committee;
 - Establishing strict requirements for conflict of interest at the time of appointment, as well as throughout the duration of members' duties;
 - Setting criteria for appointments that take into account integrity or ethics, and the risk profile of the company; ensuring that corruption and other rule-breaking is an explicit incompatibility for board membership;
 - Considering providing training or induction programmes for board members, in which anti-corruption and integrity figures prominently.

V. Objective external control

- *Ensuring adequate external controls are in place to provide assurance on the performance and integrity of SOEs. Potential components could include:*
- Verifying that SOEs' annual financial statements are subject to external audit based on high-quality standards, and exploring the opportunity for a greater role for performance auditing by external auditors;

- Exploring the benefits of external audit by the Supreme Audit Institution in auditing performance of SOEs that is in addition to, but does not displace, a regular external auditor;
- Promoting external audits of integrity and anti-corruption mechanisms or programmes;
- Following-up on relevant external audits for insights into the effectiveness of integrity and anti-corruption mechanisms or programmes.

VI. The responsibilities of the state in cases of suspected and real corruption in SOEs

- *Handling suspected and real instances of corruption transparently and in a measured way. Potential components could include:*
 - Developing transparent procedures for handling suspected and real cases of corruption, that is in accordance with the severity of the potential misconduct and the position and status of the actors involved
 - Facilitating professional co-operation across relevant government entities as needed
 - Conducting follow up, demanding proof of remedy, and sharing lessons-learned
 - Reviewing the state ownership entities' own processes for monitoring SOEs and revise, as needed
 - Demonstrating accountability to the public and ensure appropriate disclosure of the issue once relevant