

Promoting integrity in SOEs: contributing to the development of new international guidance

Friday 8 June 2018, Moscow

Summary of Discussions

This seminar was the final in the series organised by the OECD in partnership with Deloitte CIS and with the support of the Federal Antimonopoly Service, thanks to the funding provided by the Siemens Integrity Initiative.

The seminar explored the topic of anti-corruption and integrity in state-owned enterprises (SOEs) from the international, national and company perspective, with experts from international organisations, civil society, the Russian public sector, domestic and foreign private sectors, spanning the fields of corporate strategy and compliance, policy analysis, audit and assurance, and enforcement.

The seminar offered participants the opportunity to contribute concretely to an international dialogue on anti-corruption and integrity in SOEs, and to provide comments on related and proposed OECD Guidance for states as owners of SOEs. The topic is a priority for the G20 Anti-Corruption Working Group, under the 2018 Argentinian Presidency, and is being discussed also within the B20.

Trends, opportunities and challenges

The OECD shed light on trends in SOEs' activities in recent years: an increasing international presence, greater market share and maintained importance for national economies. Recent high-profile scandals involving SOEs around the world have led to a discussion about SOEs' potential vulnerability to exploitation or to waste, mismanagement and abuse. The OECD presented new evidence to contribute to this discussion, a summary of which was tabled in a report for this seminar. The OECD's 2017 perceptions-based survey, which includes 5 Russian companies, showed that 42% of over 350 SOE leaders around the world reported witnessing corruption or irregular practices in their company in the last 3 years. SOEs consider the following risks as more likely to occur in their companies: violations of data protection and privacy, favouritism (nepotism, cronyism and patronage) and non-declaration of conflict of interests. While many of these companies have control mechanisms in place, they report that a lack of integrity in the public and political sector, and a lack of awareness of the importance of integrity within the company, make it challenging for such controls to be effective. Both undue influence, and opportunistic behaviour of staff, remain a challenge for SOEs.

Deloitte CIS shed light on the current efforts of Russian companies in the area of compliance, showing improvements over last year's results to the now annual survey. Aygul Abdullina of Deloitte CIS referred to the various tools that Russian SOEs are using to promote business integrity, including codes of ethics and anti-corruption policies, hotlines and improved procurement practices. Despite improvements, she said that some challenges remain – namely, a lack of awareness of employees of existing mechanisms, a need for more comprehensive and standardised trainings and a lack of time allocated to compliance and reporting.

An Italian SOE listed on the Milan Stock Exchange – Snam Ltd. – shared an international peer perspective on the steps it uses in seeking to mitigate the potential for misconduct in its company: 1 – to be mindful of timing and not to wait to do the right thing; 2 – establishing a wide perimeter of who integrity mechanisms should be applied to. Snam chooses to include suppliers in its perimeter, despite employees of subsidiaries not being considered as Snam staff; 3 – requiring all potential subsidiaries to sign an integrity pact before being accepted into the bidding process; 4 – training on ethics, transparency and integrity, and; 5 – promoting accountability and co-operation between colleagues.

Legal frameworks and international standards

Two international initiatives were shared. First, Transparency International Russia presented findings from a recent study on transparency in reporting amongst Russian companies, showing much room for improvement in disclosure. Transparency International's new *10 Anti-Corruption Principles for SOEs* focus largely on improving transparency and disclosure of SOEs. The OECD then presented its draft guidance for state owners in improving integrity in their countries' SOE sectors.

Aslan Yususov of the Prosecutor General's Office of Russia, elaborated on Russian legislation relevant to the discussion, namely, article 13.3, based on Article 12 of the UN Convention Against Corruption, and Article 19.28 referring to administrative liability. He highlighted that attention is now being paid to enforcing the implementation of such anti-corruption legislation in Russia. To this end, an "inter-agency plan" has been established and shared between enforcement agencies in Russia. A database of persons found liable under relevant provisions is accessible to clients for wider accountability.

International consultation on proposed OECD Guidance on anti-corruption and integrity in SOEs

In the afternoon, panellists and audience members were invited to provide input on draft guidance for state owners in improving integrity in SOEs. First, company representatives presented their perspective on the importance of integrity and SOEs and then provided input on the OECD's proposed new guidance.

Companies highlighted the importance of:

- **Autonomous boards.** Emphasised particularly by Andrey Zhemchugov of Transcontainer.
- **A level playing field.** Vadim Solovyev of Avtodor recommended that the OECD's new guidance focus more on anti-monopoly measures to ensure competition between entities, particularly where SOEs are concerned. This includes using new technologies (such as e-procurement) to bring greater transparency to contracting and procurement practices.
- **A clear ownership structure and transparency on beneficial ownership.** Maria Birenberg of GSK discussed the importance of the company knowing who it is working with (e.g. who the ultimate beneficiary is). In the pharmaceutical industry, corruption can manifest as price mark-ups and inaccessible products that put peoples' health at risk.

Institutional representatives then presented their perspectives, and highlighted the importance of:

- **Practical guidance and examples for SOEs.** Mikhail Kuznetsov, of the National Association for Corporate Directors, referred to a need to improve accountability amongst SOEs through many of the methods that OECD proposes. He suggested that the guidance should be complemented with practical examples that can be implemented in practice.
- **Improved compliance by SOEs,** particularly in the anti-trust area. Dmitry Artyushenko drew on his experience in FAS to recommend that companies adopt improved methods for understanding risks, provide more compliance training and establish clear KPIs to combat fraud in tendering.

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- **Leveraging the interest of institutional shareholders and institutional investors to promote integrity and anti-corruption in SOEs**, as echoed by both Mikhail Kuznetsov and Denis Spirin of Prosperity Capital Management.
 - **Political interest and goodwill on the subject of integrity in SOEs**. This, in the view's of the panelists, is needed for the implementation of existing standards in practice.
 - **Professional boards with the capacity and authority to fulfil their mandate**. Denis Spirin pointed to the risk of boards being squeezed out of the decision-making process, or bypassed between the state and SOE management, and called for clarification on remunerations and the incentives of board members and executive managers. This requires “real discussions” to be held at the board level, and accountability by board members and executive managers for what happens in their company, as suggested by Alexander Shevchuk of the Association of Institutional Investors.

The rich discussions provided insights into both national and international challenges with regards to business integrity. The main recommendations that emerged from the day were not to establish more laws but to focus on prevention of corruption through improved ownership and governance, including:

1. Strengthening and promoting competition (or a “level playing field”) between entities where possible;
2. Creating meaningful strides on transparency in individual companies and in their objectives;
3. Taking additional steps towards good practices in audit and compliance; and,
4. Ensuring autonomy of boards.

The recommendation of the experts are being taken into account by the OECD in its development of new guidance for the state as owner on integrity and anti-corruption in SOEs.
