

B20 & C20 Joint Statement

INCREASING INTEGRITY AND TRANSPARENCY IN STATE-OWNED ENTERPRISES



June 28th, 2018

Ethics and integrity are important elements for all organizations, not just for fostering a positive working environment but also in terms of improving reputation and creating long-term value. For the public sector, implementing high standards of ethics and integrity is especially crucial in rebuilding trust in public institutions and laying the groundwork for sustainable growth.

It is likewise important for State-Owned Enterprises (SOEs) to implement such standards because, particularly in emerging markets, SOEs can represent a large portion of many countries' GDPs and are often used by governments to provide critical services to citizens, such as water and energy. Moreover, SOEs continue to increase as major players in the international market, competing directly with some of the largest private corporations. According to the United Nations Conference on Trade and Development, roughly 1,500 state-owned multinational enterprises have more than half of their headquarters in developing countries and nearly a third in the European Union. These SOEs own almost 10% of all foreign affiliates.¹ Moreover, Transparency International states that approximately one quarter of Fortune 500 companies are state owned and are often the largest employers in certain countries.²

The highest corruption risks for SOEs lies in public contracting, conflicts of interest, marketing, privatization processes, theft of assets and money laundering. Some reports show hard evidence on these tendencies: An OECD report analyzing completed bribery cases showed that 81 per cent of the total bribes were promised, offered or given to SOE officials.

At the same time, weak public reporting practices by SOEs are indicators of poor anti-corruption systems. A 2016 TI survey on transparency of corporate anti-corruption reporting found that out of 100 global companies from emerging markets being assessed, 21 Chinese SOEs scored only 12.9 per cent compared to the rest of the companies, which scored 43.3 per cent.

Transparency of ownership and operations and public reporting on anti-corruption programs are the best defense against corruption yet Transparency International's research shows that many states do not perform well on transparency of their beneficial ownership and that SOEs are weak in reporting on their anti-corruption programs.

1 United Nations Conference on Trade and Development, World Investment Report 2017: Investment and the Digital Economy (Geneva: United Nations, 2017), xi, accessed 13 May 2018, http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf.

2 Transparency International, Transparency International Launches 10 Anti-Corruption Principles for State-Owned Enterprises (28 November 2017), 1, accessed 3 April 2018, https://www.transparency.org/news/pressrelease/transparency_international_launches_10_anti_corruption_principles_for_soes.

A 2018 report by Transparency International assessed the extent to which G20 members were fulfilling their legal and regulatory commitments implicit in the G20 Principles three years after their adoption. report on the efforts of the G20 nations, with 11 G20 countries showing either an average or weak legal framework for implementing the G20 Framework.

To counter corruption in SOEs, all actors - states, SOEs, investors, business partners, civil society and the public - need to set expectations for SOEs to operate according to high standards of integrity, transparency and accountability. All actors should hold SOEs accountable for the way they meet these standards. Best practice standards should include:

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- OECD guidelines on corporate governance of SOEs (2015).
- Transparency International's 10 Anti-Corruption Principles for SOEs which provide comprehensive best practice anti-corruption guidance (2017).

C20 and B20 call upon G20 governments to significantly strengthen their efforts to implement existing commitments made under previous presidencies, including the G20 High Level Principles on Beneficial Ownership Transparency, and the G20 High-Level Principles on Promoting Integrity in Public Procurement. The implementation of those Principles is imperative for increasing integrity and transparency and preventing corruption in SOEs – a key priority of the Argentinian Presidency. To achieve this, we recommend the implementation of best practice standards in SOEs founded on cultures of integrity, good governance, continuing risk assessments, rigorous oversight and monitoring, transparency, public reporting and stakeholder engagement.

As custodians of public assets SOEs should be champions of integrity and transparency. This is also the best check against corruption.

More specifically, states are encouraged to make the following

anti-corruption requirements from SOEs:

- Design and implement best practice anti-corruption programs based on the SOE's commitment to integrity and the results of anti-corruption risk assessments.

- Apply good governance with balanced boards of directors, representation of independent directors and a rigorous and transparent process for appointments of board directors.
- Be transparent about integrity and anti-corruption programs including:
 - The anti-corruption policies and procedures.
 - Risk-assessment process, key corruption risks and mitigation measures.
 - Publishing online up-to-date information on the beneficial ownership of the SOE and related conflicts of interest.
 - Reporting regularly to the public on the SOE's integrity and anti-corruption measures and performance.
- Manage conflicts of interest by maintaining up-to-date, online, public registers of conflicts of interest of board members, senior executives and those in critical decision making or other sensitive positions and implementing procedures for dealing with conflicts of interest when they could intrude in an SOE's operations.
- Counter corruption risks in procurement and contracting and significant asset transactions by:
 - Making public transparency of procurement, asset transactions and other vulnerable processes.
 - Requiring anti-corruption standards from third parties. Carry out due diligence on them and monitor contracts once awarded.
- Carry out regular independent review of the SOE's integrity performance and the design and implementation of their integrity anti-corruption programs.
- Adopt and implement high-quality reporting, governance and financial management practices.

In addition, we call upon G20 members to:

- Significantly strengthen the implementation of G20 anti-corruption High Level Principles:
 - G20 High Level Principles on Organizing Against Corruption.
 - G20 High-Level Principles on Beneficial Ownership Transparency.
 - G20 High Level Principles on Promoting Integrity in Procurement.
 - High Level Principles on the Liability of Legal Persons for Corruption.
 - High Level Principles on Countering Corruption in Customs.

- Work collectively to counter SOE corruption by engaging all actors – SOEs, - investors, business partners, civil society and the public.
- Set expectations for SOEs for integrity and anti-corruption standards, provide guidance, oversight, advice and support.
- Support the good governance of SOEs by prohibiting the appointment of serving politicians as board directors or senior management.
- Monitor the performance of SOEs against the expected standards
- Be transparent and accountable to the public on how the state directs and works with SOEs to build integrity and counter corruption and on the performance of SOEs.
- Encourage SOEs to advance integrity standards in all countries where they operate by being examples of integrity and giving practical support in supply chains and communities.
- Work with non-G20 countries to encourage and assist the application of the above recommendations.
- Provide the public with confidential channels including ombudsmen for raising concerns regarding SOEs.