



# OECD Russia Corporate Governance Roundtable

Moscow, 15 November 2017





## **GOOD CORPORATE GOVERNANCE:**

### *TRENDS IN INTEGRITY AND ANTI-CORRUPTION IN STATE-OWNED ENTERPRISES*

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# Overview of presentation

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- Corruption and rule-breaking in theory and in practice
- Select trends in **prevention** of corruption and other rule-breaking
- Select trends in **detection** of corruption and other rule-breaking
- Select trends in **response** to corruption and other rule-breaking
  
- Primary OECD data sources:
  - Preliminary data on challenges and good practices in integrity in SOEs (2017) – 261 responses, 23 state ownership entities
  - “Corporate Governance and Business Integrity” (2015) – 88 responses, 40 interviews
  - “Foreign Bribery Report” (2014) – 427 adjudicated instances of foreign bribery

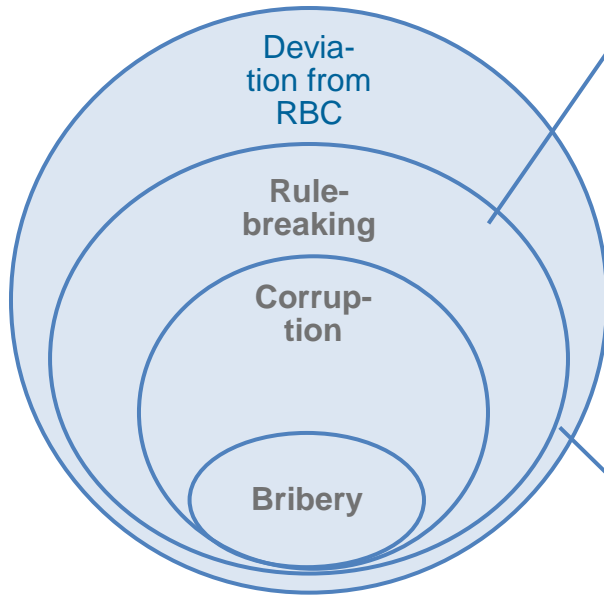


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# Corruption and rule-breaking in SOEs and private companies



# Corruption and rule-breaking: in theory



**Rule-breaking** is referred to as 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.

**Corruption** refers to “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”



# Corruption and other rule-breaking: in practice

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43% of respondents reported witnessing corruption or other rule-breaking in the last 3 years

48% companies sustained financial losses (2.5% of annual corporate profit)

## Who witnessed?

Board members  
and  
Head of compliance/audit/legal

## Who was involved?

Employees  
and  
Mid-level management most  
often involved

## In which particular sectors?

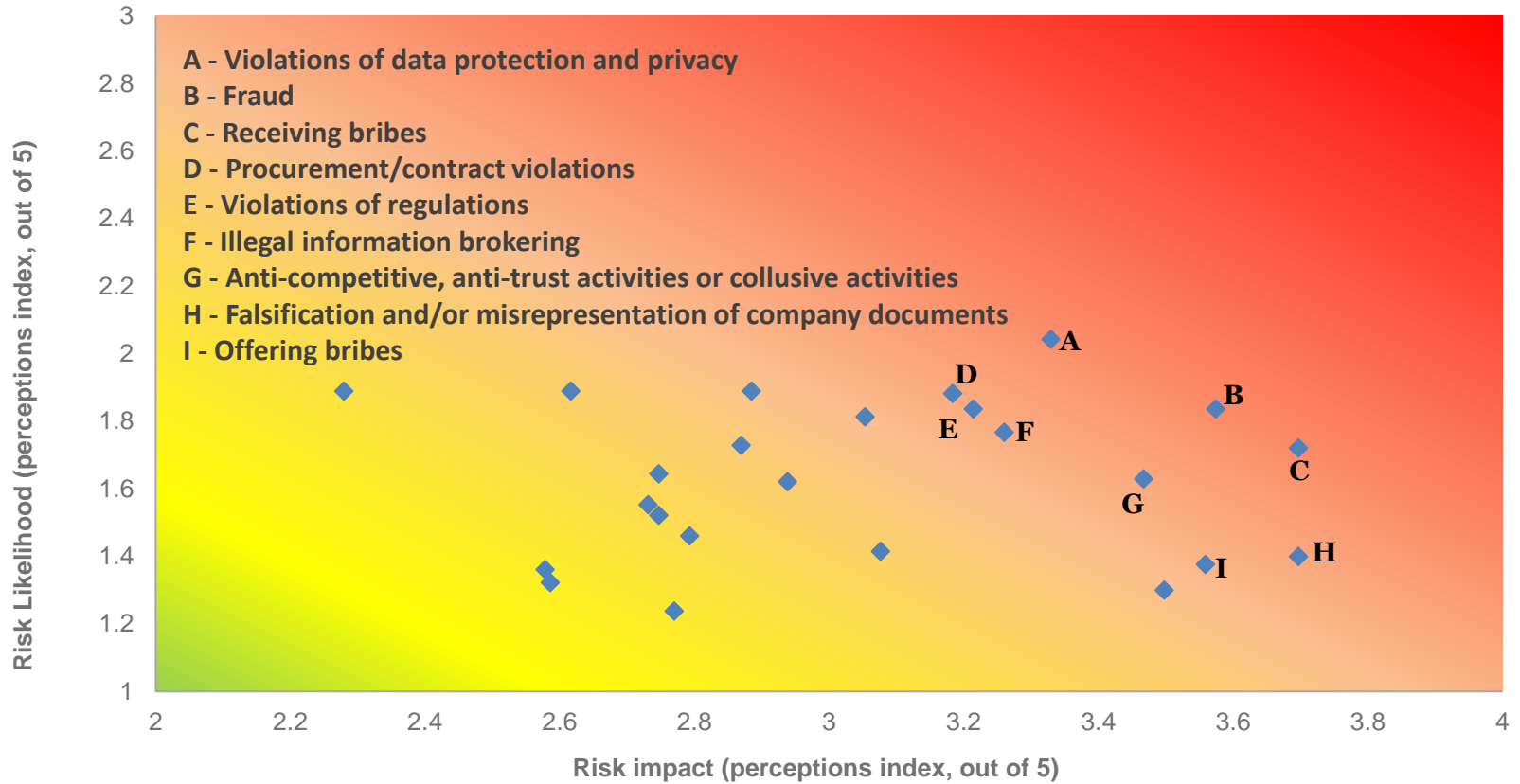
Oil and Gas, and Energy

## What types of companies?

In the grey space – not  
entirely commercial and not  
with public policy objectives



# Heat-risk map





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## Specific risk: Bribery



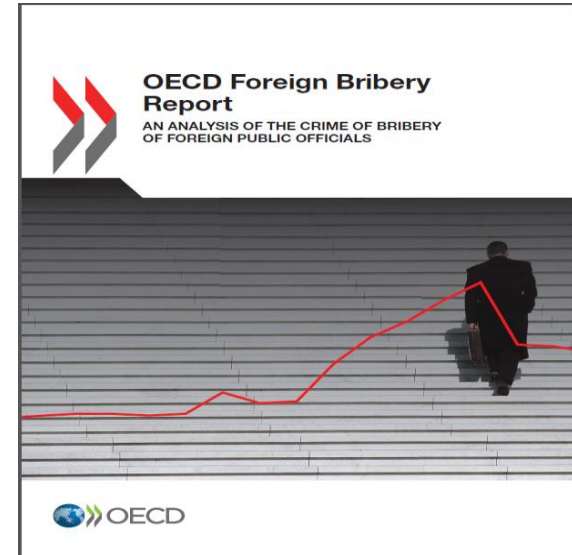


# OECD Foreign Bribery Report: *An analysis of the crime of bribery of foreign public officials*

## Analysis of 427 enforcement actions or “cases” of foreign bribery (1999-2014)

### Key results show that:

- Foreign bribery is concentrated in key sectors: extractive, construction, transportation and storage, and information and communication
- In the majority of cases, bribes were paid to obtain public procurement contracts (57%), followed by clearance of customs procedures (12%)
- Bribes equalled 11% of the total transaction value and 34.5% of the profits.
- Sanctions ranged from 100 to 200% of the proceeds of the bribe in 41% of cases.

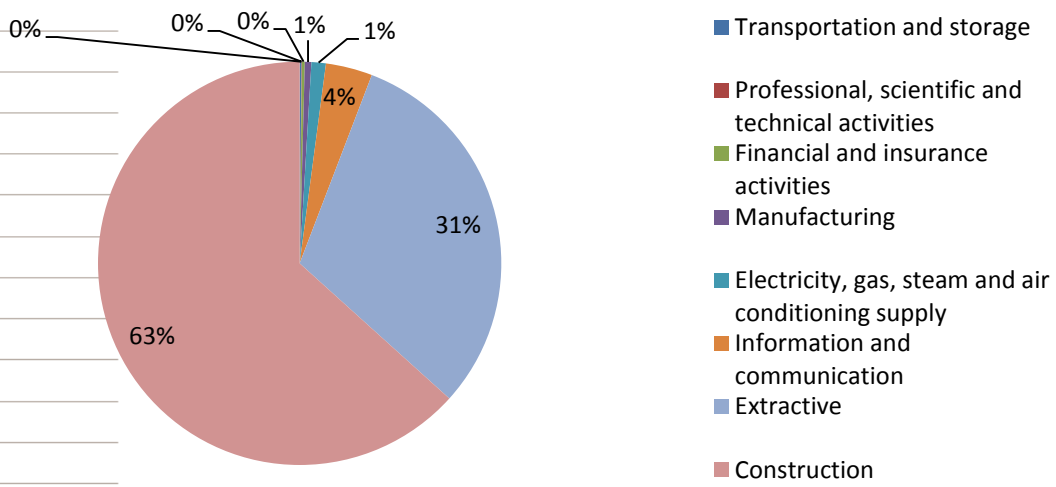


PERCENTAGE OF BRIBES PROMISED,  
OFFERED OR GIVEN

SOE official	80.11%	\$2,502,383,897
Customs official	1.14%	
Health official	0.92%	
Defence official	2.93%	
Resource official	0.08%	
IO official	0.22%	
Tax official	0.21%	
Elected official	0.55%	
Minister	4.08%	
Transport official	0.06%	
Procurement official	0.25%	
Family of public official	UNKNOWN AMOUNT	
Maritime official	<0.01%	
Law enforcement official	0.07%	
Head of state	6.97%	
Intelligence official	0.01%	
Diplomatic official	0.18%	
Environment official	<0.01%	
Immigration official	<0.01%	
Political party	0.05%	
Local government official	<0.01%	
Vice minister	<0.01%	
Education official	<0.01%	
Unknown	2.17%	

SOE officials receiving  
foreign bribes:  
*in the largest amounts*

Percentage of total bribes received by SOE officials, by sector



(Adapted analysis from the OECD's Foreign Bribery report (2014))



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# Select trends in corruption **prevention** and promotion of integrity



# A key element: knowing risks and identifying obstacles to integrity

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

Behavioural  
issues

Proximity to  
government

Inefficient  
prevention and  
detection



# A key element: Explicit commitment to promoting integrity and countering corruption

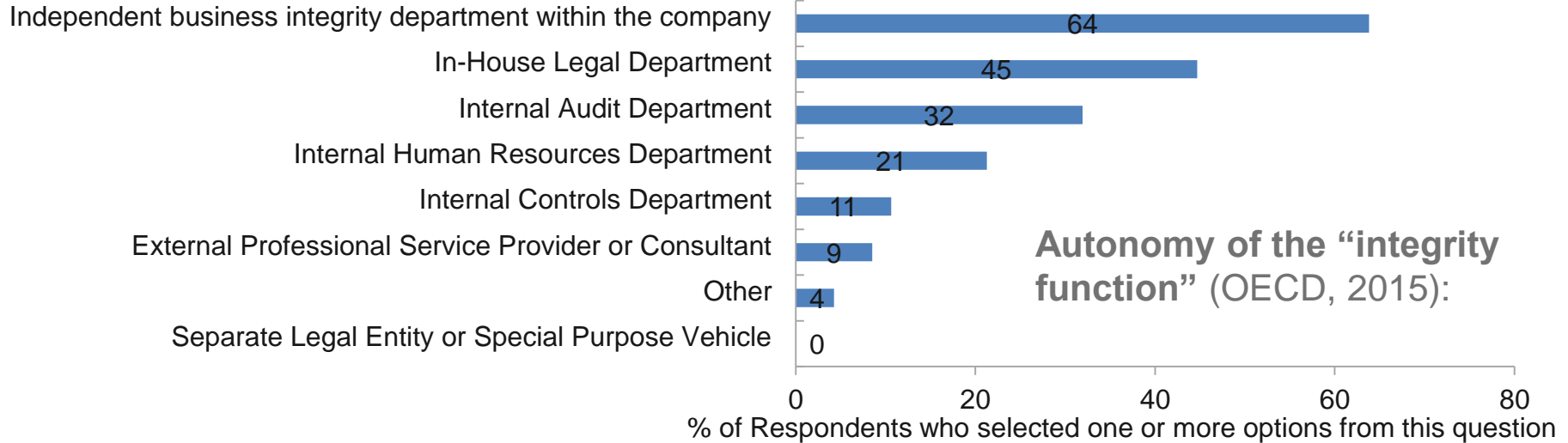
- Trends in the private sector:
  - increasingly recognising the importance of preventing misconduct through effective corporate governance;
  - developing an integrity policy;
  - creating a business integrity function;
- For SOEs, rules are considered clear, but there is a lack of importance placed on them and a lack of implementation
- Allocation of budget to anti-corruption and integrity: an investment or a cost?
  - Investment – 60% of private companies
  - Investment – 51% of SOEs



[www.oecd.org/daf/ca/trust-business.htm](http://www.oecd.org/daf/ca/trust-business.htm)



## A key element: Autonomy



### Autonomy and diversity of the board:

OECD SOE Guidelines: Well-structured, merit-based and transparent **board nomination processes** in fully- or majority-owned SOEs, actively participating in the nomination of all SOEs' boards... (II.F.2)

- Favouritism and interference in decision-making is an issue
- Independent board members matter
- Specialised committees are linked to lower corruption and rule-breaking



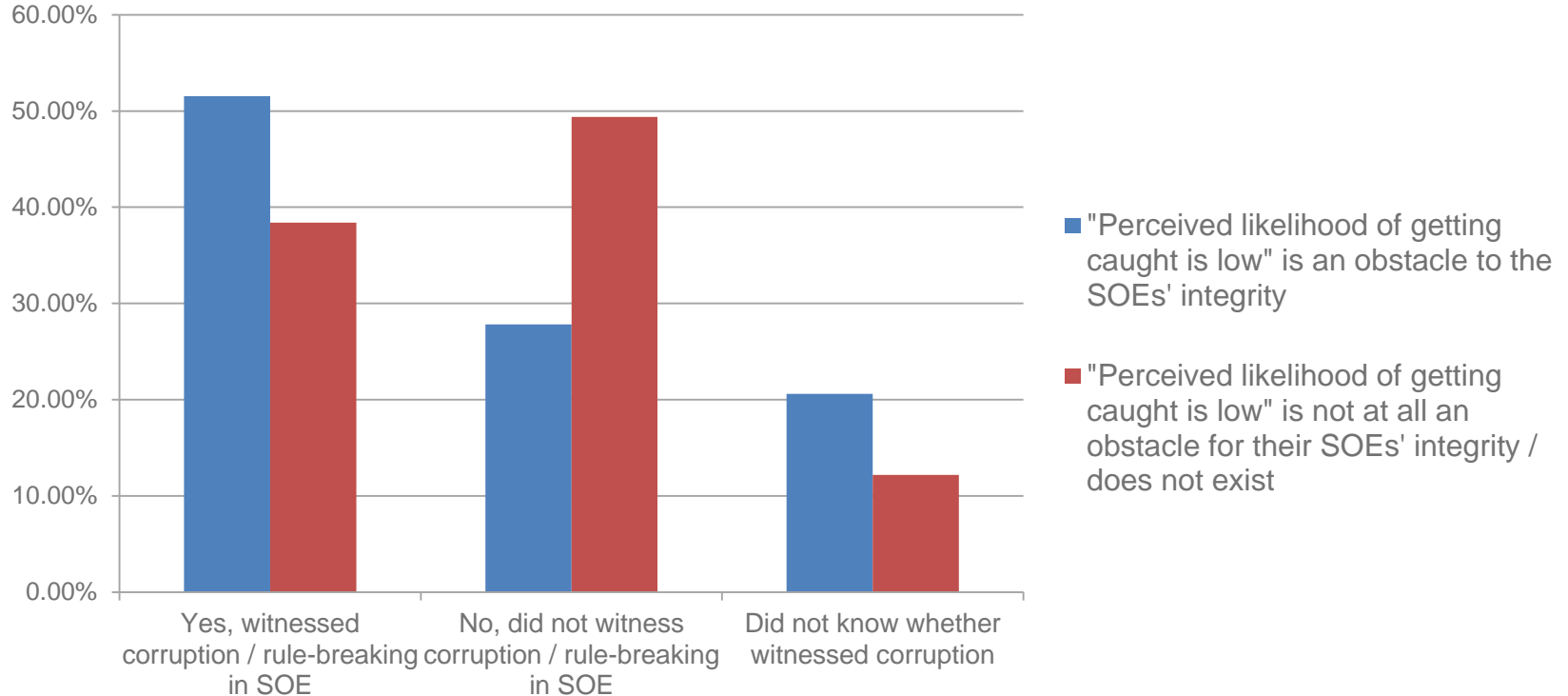
# A key element: effective internal control and risk management

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- OECD SOE Guidelines: V.C. *The boards of SOEs should **develop, implement, monitor and communicate internal controls, ethics and compliance programmes or measures, including those which contribute to preventing fraud and corruption.** They should be based on country norms, in conformity with international commitments and apply to the SOE and its subsidiaries.*
- There is a link between incidence of corruption and other rule-breaking in SOEs with ineffective **internal audit and control**
- **Risk management in SOEs:**
  - 52% of governments require SOEs to establish risk management systems
  - 42% require (large) SOEs to establish specialised board committees to deal with risk
  - 18% require (large) SOEs to employ risk specialists
- **Corruption risk management in SOEs could be regularised:**
  - Corruption risks most often seen as compliance risks
  - Explicitly addressing corruption risks
  - Annual risk assessment > 2-3 years



## A key element: Managing perverse incentives and opportunistic behaviour







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# Effective corruption **detection**



# A key element: Confidential reporting and advice channels

- Tip and communication channels (phone, online, in person) are most common; followed by internal audit
- Fear of retaliation for reporting may be lower for SOEs

Category	General	Specific to foreign bribery	Specific to fraud	Effectiveness of business ethics and compliance programmes
Report	Control Risks' International Business Attitudes to Compliance (2017)	OECD's Foreign Bribery Report (2014)	The Association of Certified Fraud Examiners' 2017 Global Fraud Survey	PwC's Global Economic Crime Survey (2016)
Findings	<p>Anonymous <b>whistle-blower line or reporting mechanism</b> (64%),</p> <p>A known person or team within the organisation responsible for responding (59%),</p> <p>Anti-corruption compliance audits (41%),</p> <p>data analytics to monitor transactions in real time (34%),</p> <p>Post-acquisition assessments (20%)</p> <p>Surprise fraud audits (18%) (Control Risks, 2017)</p>	<p>31% of foreign bribery cases were brought to the attention of law enforcement authorities through <b>self-reporting</b>.</p> <p>These self-reporting entities became aware of foreign bribery in their business operations predominantly through internal audit (31%), mergers and acquisitions due diligence (28%) and whistleblowing (17%).</p>	<p><b>Tips</b> (predominantly through telephone but also through email and through online or web-based forms) (39.1%),</p> <p>Internal audit (16.5%)</p> <p>Management review (13.4%)</p>	<p>76% <b>internal audit</b>,</p> <p>54% management <b>reporting</b>,</p> <p>42% monitoring <b>whistleblowing</b> hotline reports,</p> <p>40% external audit,</p> <p>6% other internal monitoring,</p> <p>2% other external monitoring,</p> <p>4% other</p>



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# **Response** to corruption and rule-breaking?



## Avoiding and sustaining losses

SOES	Action	Non-SOEs
12%	respondents said their companies have ceased business operations in a particular jurisdiction because of the integrity or corruption risks involved	39%
47%	respondents said their companies have taken internal remedial/disciplinary action following violation of your organisation's integrity or anti-corruption policies.	70%
26%	respondents said their companies have substantially revised at least one business project because of the corruption and integrity risk(s) involved.	66%

- Losses:
  - Almost half of SOEs reported losses of **annual corporate profits** - 2.5% on average (OECD, 2017)
  - Roughly 10-30% of the **investment** in a publicly funded construction project may be lost due to mismanagement and corruption



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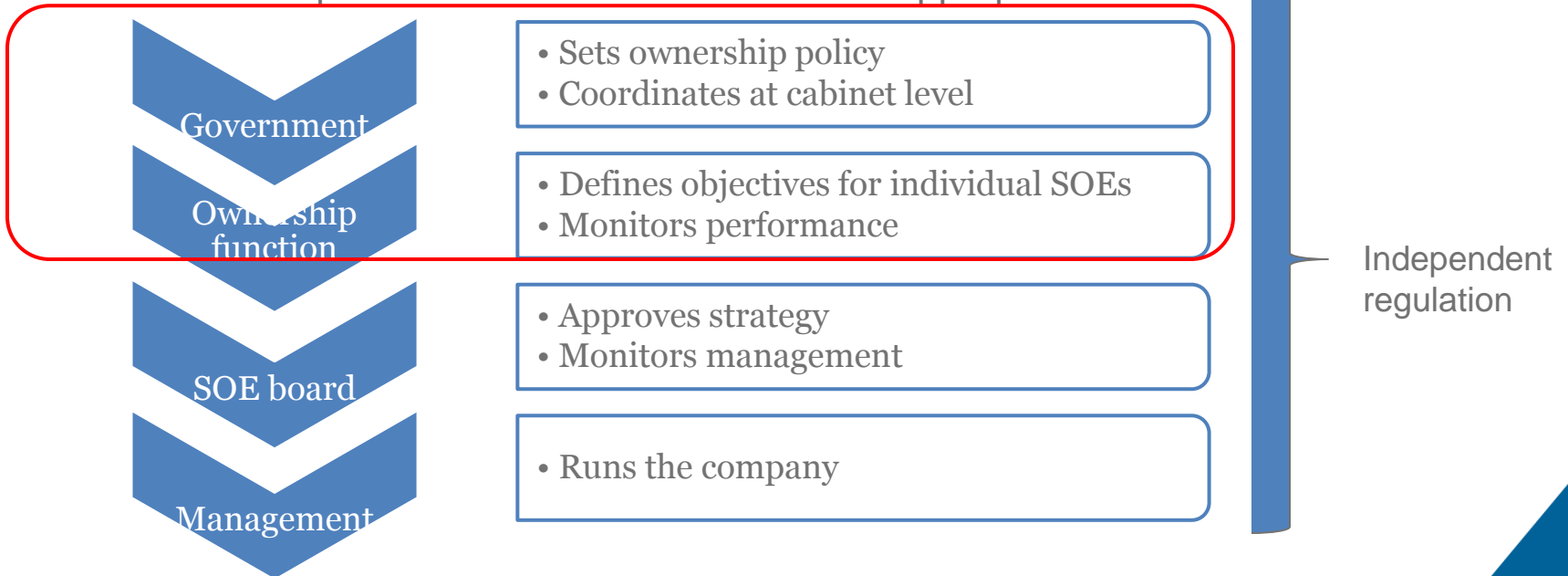
# Improving integrity in SOEs: The role of the state



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

## *The “OECD model” implies:*

- The ownership of SOEs is separated from regulation
- Each ownership decision should be taken at the appropriate level





# Anti-corruption and integrity guidelines for SOEs?

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2018:

- Based on the OECD Guidelines on Corporate Governance of State-Owned Enterprises
- Addressed to the state ownership function – hence respecting the autonomy of SOEs and their management.
- Consistent with ongoing efforts to develop guidance for the SOEs themselves (e.g. Transparency International)
- Intended for a wider audience than OECD's membership (e.g. the G7; G20)



## Resources and contacts

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For more information on OECD work: on corporate governance:

<http://www.oecd.org/corporate/>

on state-owned enterprises:

<http://www.oecd.org/daf/ca/soemarket.htm>

Questions can be addressed to:

[StateOwnedEnterprises@oecd.org](mailto:StateOwnedEnterprises@oecd.org)