Anticorruption recommendations for state-owned enterprises

This document contains one part of NRGI’s Anticorruption Guidance for Partners of SOEs. The full guidance and information about how the guidance was developed can be found at resourcegovernance.org/soe-anticorruption.

State-owned enterprises (SOEs) in the oil, gas or mining sectors should consider adopting the measures recommended below as part of their efforts to prevent corruption.

Oil, gas and mining SOEs are highly diverse. Some have extensive anticorruption systems and are subject to actively enforced antibribery and other anticorruption laws. The guidance offers these SOEs ways to shore up well-established processes in light of prevailing corruption trends and evolving good practices. Many smaller SOEs and those that engage in fewer commercial operations have more limited anticorruption policies, capacities and resources. For lower-capacity and smaller SOEs, the guidance offers possible starting points on their journey toward developing stronger integrity systems. They may prefer to choose a few priorities from among the recommendations where they could focus their efforts during an initial phase.

Achieving progress on these fronts will help SOEs of all sizes to inspire investor confidence, attract partners and suppliers committed to integrity, improve operational efficiency, reduce costs, avoid controversy, and protect their countries from the harms that corruption can inflict.

The five recommendations below complement the accompanying guidance for private-sector companies that work with SOEs, and align with the five sections of this guidance. Action by both private-sector and state-owned companies is essential to reducing corruption risks.
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The recommendations:

- reflect extensive consultations with extractive-sector stakeholders
- target specific corruption vulnerabilities apparent in the extractive sector, based on analysis of dozens of past corruption cases involving SOEs (rather than offering a comprehensive approach to corruption risk management)
- include concrete measures primarily intended for SOE management to adopt, whereas some other sources of guidance target the SOE’s government owners
- draw from recent SOE reforms, other industry good practices, as well as several sources of guidance which represent valuable and complementary resources

Focus on the roles played by SOEs within their home countries. When a SOE operates overseas, the other sections of this guidance would apply.

NRGI anticipates engaging with SOEs as they work to improve their integrity systems, and welcomes feedback and exchange on the recommendations that follow.

Recommendations

Note: For the purposes of this guidance, private-sector companies that partner with SOEs are referred to as “companies” and state-owned enterprises, while also companies, are referred to as “SOEs.”

S1. Adopt and publicly announce governance practices that demonstrate the SOE’s commitment to operating with integrity.

Adopting these foundational measures will help an SOE prevent corruption, while also signaling to investors, partners, suppliers, employees and the public its commitment to integrity. The OECD, the World Bank and compliance guidance for privately owned companies all provide more detailed coverage of these topics.

S1.1. Corporate governance

A strong, clearly defined framework for corporate governance can help insulate the SOE and its operations from political and personal agendas. This begins with an independent, professional and empowered board. In particular, stakeholders emphasized the value of an active board audit committee, separate roles for board chair and CEO, and board appointment of the CEO. The SOE’s shareholders should be identified and their roles and responsibilities clearly established. Board and senior staff appointments should follow well-defined meritocratic processes that emphasize
technical expertise rather than political connections. The SOE should be subject to regular, independent external audits and publish the results. When the SOE plays both regulatory and commercial roles, it should indicate clearly how it avoids potential conflicts between them.

S1.2. Anticorruption policies and practices

The SOE should establish codes of conduct or similar policies that address topics including third-party due diligence and the procurement of goods and services (see Recommendation S3), board and senior management remuneration, conflicts of interest (see Recommendation S3), nepotism, bribery, facilitation payments, gifts and hospitality, political contributions, charitable donations and sponsorships, solicitation and extortion. The SOE should also create an anonymous channel for reporting suspicions or concerns, such as a whistleblower hotline, and protect anyone raising concerns from recrimination. The SOE should look to partner with firms that share a commitment to working to high integrity standards. The SOE’s third parties should be contractually required to follow its anticorruption policies and it should monitor their compliance with these policies.

The SOE should have a dedicated compliance function with professional staff, which operates with independence and visible leadership support, and has direct access to the board. To protect independence, it is important to separate this function from commercial and procurement units. An empowered and qualified internal audit unit is also important.

The SOE should regularly review the effectiveness of its anticorruption measures through a process that involves the board.

There is no replacement for an organizational culture that prioritizes ethics and integrity, premised on a strong tone from the top. All senior management, relevant personnel and high-risk suppliers should regularly receive training on anticorruption policies and practices.

S1.3. Transparency

The Extractive Industries Transparency Initiative (EITI) Standard is a good reference for SOE transparency. Its requirements include disclosure of the SOE’s contracts, payments, financial transfers to and from the government, commodity sales, resource-backed loans and quasifiscal expenditures.

The SOE should also publish annual reports and audited financial statements.

To help prevent corruption, the SOE should also disclose detailed anticorruption policies, including the code of ethics that applies to employees and third parties. It should also prioritize transparency in high-risk processes which have proven vulnerable to corruption across many countries, including procurement, local content, commodity trading and social programs. For
instance, for commodity trading, the SOE should disclose the rules and contracts that govern commodity sales; information about tenders, including lists of prequalified and selected companies, and the buyer, volume, price and date of individual sales.

In addition, the SOE should report their beneficial owners, including the legal name of the state body, agency or office that holds the interest.

It should also identify its subsidiaries and joint ventures, and work toward disclosing the names and beneficial owners of the entities that hold shares in these entities.

**S1.4. Engagement and oversight**

An SOE should invite and support active oversight and stakeholder engagement, including with its government shareholders, the legislature, oversight institutions such as anticorruption commissions and supreme audit institutions, the media, civil society groups and the public. To advance this, the SOE should participate actively in the country’s EITI process, where applicable, or hold regular meetings with the relevant stakeholders. As the OECD notes, SOE representatives should “refrain from actions that serve to repress or otherwise restrict the civil liberties, including liberties to criticise or investigate, of civil society organisations, trade unions, private sector representatives, the public and media.”

**S1.5. Investigations and penalties for corrupt behavior**

When credible allegations of corruption arise, the SOE and its government should investigate, apply dissuasive penalties as warranted, and engage in remediation and reform.

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**OECD guidance on enforcement and penalties**

Corruption must be met with appropriate sanctions. The OECD’s 2019 Guidelines on Anti-Corruption and Integrity in SOEs offers valuable instruction on this matter:

“Civil, administrative or criminal penalties for corruption or other unlawful acts should be effective, proportionate and dissuasive. They should be applicable to both natural and legal persons, including SOEs....

Transparent procedures should be developed to ensure that all detected irregularities in and concerning SOEs are investigated and prosecuted when necessary, in accordance with domestic legal procedures. Enforcement of provisions in the legal framework should be rigorous and systematic, and ensure that SOEs are not given unfair advantage or protected by their ownership. Furthermore:
In the extractive sector, numerous foreign bribery cases and other legal proceedings have revealed credible allegations that SOE officials engaged in corruption, but many of those officials subsequently faced no serious investigation or penalties in their home country. To deter corruption, an SOE and its government owners have a responsibility to act when suspicions of corruption arise, even if this implicates their own officials or politically powerful parties. The SOE should establish procedures for handling situations when allegations arise, follow them rigorously, and cooperate with investigations by other legal authorities. Law enforcement in the SOE’s country also has a major role to play. See the box above for more on this topic from the OECD.

**S2. Reduce the use of high-risk agents by companies seeking business from the SOE.**

Agents have featured in many corruption cases involving SOEs, particularly when companies use them to help secure new business from an SOE. (See Section 2.) To reduce the number of these high-risk actors, the SOE should reduce the need for private sector companies to use agents, particularly in its procurement processes and commodity-trading business. For any remaining agents, the SOE should adopt additional controls.
While definitions vary, the term “agent” typically refers to third-party individuals or organizations that represent a company or act on its behalf.

S2.1. Map and monitor the use of agents.

Mapping the use of agents by companies seeking business from an SOE will allow the SOE to understand the current state of play and generate a baseline for efforts to reduce agent use. Tracking the use of agents also enables the SOE to spot worrying practices, such as companies using business development agents that lack experience and qualifications, or multiple companies using the same agent in ways that appear unusual. To inform the mapping, the SOE could require suppliers, traders or other relevant entities to report whether they use agents and, if so, the identities of those agents. For instance, Petrobras requires prospective suppliers to provide this information before they can participate in a tender. Any mapping effort should review whether other entities, such as local equity partners or consultants, are performing agent-like functions, as this can present equal corruption risks. Section 2.1 provides guidance on categorizing agent functions.

S2.2. Consider banning applicants from using representative business development agents.

Corruption risks run high whenever awards or tenders involve many intermediaries seeking to influence SOE officials. The SOE could choose to prohibit traders, suppliers or other third-party applicants from using agents in certain circumstances. Such a ban would need a specified scope and clear definitions. For instance, the SOE could ban companies from using agents to represent them when seeking new business from the SOE, or when securing certain contract extensions, renewals or regulatory approvals. Such a ban could also apply to agents that perform wider representative

Sample agent prohibition

The Abu Dhabi National Oil Company includes in its 2021 General Terms and Conditions for the Sale of Crude Oil, the following provision prohibiting the use of agents:

“19.3 Buyer represents that:

(a) this Contract is entered into without the assistance or intervention, direct or indirect, of any broker, intermediary, commission agent or any similar person, firm or corporation (each hereinafter referred to as an “Agent”);

(b) neither Buyer nor any of its Affiliates, directors, officers, employees, agents, representatives
functions, such as sourcing new business opportunities, making introductions, negotiating or acquiring information on the company’s behalf, or other activities requiring interaction with officials.

Several national oil companies have taken steps in these directions, as illustrated in Box 2. Such measures will only be practical if the SOE takes steps to create an even playing field that is open and accessible to new entrants, such as by providing clear and comprehensive information about the tender process to prospective participants.

S2.3. Reduce the practical need for agents.

In some cases, companies use agents when procurement systems are confusing, unpredictable or out of date, or when award decisions are discretionary and require earning favor from individual SOE officials or other influential figures. Adopting transparent, standardized and digitized processes and the use of open tenders in areas such as procurement and applications for approvals will reduce the need for local agents, and the risk of bribes and facilitation payments. Companies will be able to compete for opportunities and secure the necessary approvals without hiring an insider to help them navigate the system. For instance, companies should not have to hire an agent to hand-deliver physical copies of tender documents to an SOE.

Elsewhere, companies often hire agents as a way of meeting the SOE’s local content requirements. The SOE could evaluate whether these agents are effectively delivering on the aims of the local content program, such as growing local business capacity, or whether the use of agents is only benefiting a few well-connected individuals, creating corruption risks and adding to industry costs. If the latter, the SOE should take steps to reduce the use of agents.

S2.4. Where agents remain, adopt controls and avoid high-risk practices.

Where companies continue to use agents in their SOE engagements, the SOE can take measures to reduce corruption risks, including:

- Publishing a policy that details the SOE’s approach to agents.
- Requiring that when companies register to compete in a tender or other award process, they
name any business agents they use and provide a justification for this use. Collecting this information could be a standard part of the prequalification or application process for third parties. If an SOE assigns levels of risk to third parties as part of its due diligence system, the use of agents can then be considered as a risk factor that informs the overall risk assessment. See the box below for more on how Petrobras implements a similar measure.

- Performing further scrutiny when companies use agents, including enhanced due diligence on the company and the agents, and examining whether an agent is providing a legitimate service and whether they have any connections to politically exposed persons.
- Requiring all entities participating in a tender or contract, including agents, to agree to robust anticorruption measures.
- Creating and publishing a register of agents, accepting only those that have fulfilled integrity and capacity criteria. The register could include the name of the agent and its representatives, its beneficial owners, its clients and the type of service provided.
- Prohibiting companies from engaging with agents that exhibit a pre-established set of red flags. (See Recommendation S3.4 below.)
- Discouraging corruption-prone types of fee, such as success fees, by publishing standard fee rates for certain services.
- Requiring SOE personnel who meet with suppliers about new business opportunities (e.g., a future or ongoing tender) to attend with more than one person and submit written minutes of the meeting.
- Securing buy-in from SOE personnel who interact with agents. Capacity building and culture change are often required within the SOE if agents have played a big part in the system for many years. SOE personnel may have established close and mutually beneficial relationships with agents. Staff training and consultation can help.

S3. Avoid conflicts of interest and the inappropriate participation of politically exposed persons among the SOE’s third parties.

Across many countries, SOEs have allocated contracts or licenses to entities connected to a politically exposed person (PEP). In some instances, the entity received this opportunity due to its industry credentials, and the PEP’s involvement did not create a conflict of interest. But in others, the PEP’s involvement caused the SOE to treat the entity favorably, or the contract became a vehicle for siphoning public funds into private pockets.
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The following measures can help avoid these scenarios. They should apply to a wide set of SOE processes, including the award of exploration or production licenses and equity shares in producing assets, procurement, commodity trading deals, asset sales and acquisitions, local content programs and social projects.

S3.1. Adopt, disclose and enforce strong policies on conflicts of interest, “revolving door” concerns and asset declarations.

In a publicly available policy, the SOE or its state owners should define clear rules and procedures for managing conflicts of interest. The policies should include prohibitions against senior SOE officials holding commercial interests in the sector, and against SOE personnel participating in decisions regarding related parties (e.g., entities tied to their family or associates). Policies should also cover SOE officials accepting gifts, hospitality and other favors from third parties that could impact their incentive to act in the best interest of the SOE’s shareholders. Even apparent or potential conflicts of interest can damage public trust in an institution.

The SOE should also establish restrictions on personnel moving between the SOE and the private sector, including requiring SOE officials to undertake a “cooling-off period” before joining or acquiring interests in a company active in the sector. Appointments from the private sector should receive enhanced vetting and be subject to conflict of interest controls.

As an essential complement to these measures, the SOE should establish and implement a robust asset disclosure policy for its senior personnel and board members. These policies should be actively enforced with serious, dissuasive penalties for violations.

Because SOE personnel are not the only concern, it is equally important that other senior public officials, such as those in the presidency, sector regulators and sector ministries, are also subject to strong conflict of interest, revolving door and asset declaration procedures.

S3.2. Implement open, competitive, rule-bound and transparent award processes that visibly prioritize integrity.

The SOE should seek to allocate business opportunities through processes that are open, competitive, rule-bound and transparent. Such a system will limit discretion and opportunities for political influence, make bribery less enticing, and elevate financial and commercial selection criteria over political or personal ones. In particular, the SOE should avoid single-source awards as much as possible and use them only following enhanced approval procedures.

As above, e-procurement systems and other digitization measures often help. To enhance transparency and oversight, the SOE should disclose full information concerning the bidding, awarding and delivery phases. The Open Contracting Principles provide useful guidance.

The SOE should also clearly and publicly define its integrity standards, which helps
The Petrobras approach to supplier “integrity due diligence”

In the wake of the “Car Wash” corruption scandal, which centered on SOE procurement, Brazil’s national oil company Petrobras undertook widespread anticorruption reform. Along with increasing its use of competitive tenders and digitizing additional elements of its procurement processes, one key reform concerns how Petrobras vets its suppliers.

Entities that seek supply contracts from Petrobras must first complete an integrity due diligence questionnaire. The form includes questions about the entity’s

- key personnel and beneficial owners
- connections to government entities and public officials
- corruption record, including any investigations
- ethics and compliance programs
- use of agents or intermediaries to obtain new business, generally and with respect to Petrobras, and the identity of any such agents.

Using this questionnaire, the Petrobras compliance team assigns each entity a high, medium or low integrity risk score. Since 2015, it has scored over 30,000 entities.

For entities that receive a medium score, the team examines the information and additional controls are put in place. Those that receive a high score are not eligible to seek contracts from Petrobras (with a narrow set of exceptions). Many entities that scored poorly over the years have taken measures to improve their performance. The Petrobras team cites this record as evidence that the integrity system is strengthening local suppliers, rather than harming them. During the first half of 2021, only around 2 percent of applicants received high scores.

Sources: Petrobras, “Integrity Due Diligence Questionnaire” (2021); Petrobras, “How a bidding procedure works” (accessed 2021); Petrobras, “Integrity Due Diligence (IDD),” presentation, August 2021.
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communicate its expectations to prospective third parties. For instance, the SOE should require all third parties to follow its anti-corruption policies or equivalent standards, and make these standards available publicly and at the start of any award process.

S3.3. Require applicant third parties to report their beneficial owners and other anticorruption information, and use this information to avoid high-risk entities.

Through a prequalification or application process, the SOE should require all prospective third parties to report:

- their directors, top personnel and beneficial owners
- any personnel or beneficial owners who are PEPs, based on a strong PEP definition
- whether they use agents (see S2.4 above)
- information about their anticorruption and compliance programs
- past investigations or convictions for corruption

The SOE’s staff should review this information, verify it for high-risk third parties and identify red flags that indicate a potential corruption risk. When red flags arise, the transaction should be elevated for review by the SOE’s compliance division and senior management. In some cases, the SOE may move forward and adopt enhanced anticorruption controls to mitigate risks. In others, it should refuse to work with the entity.

In the wake of the “Car Wash” corruption scandal, the Brazilian government and the national oil company Petrobras implemented wide-ranging anticorruption reforms. The box above describes how Petrobras screens suppliers for corruption risks.

S3.4. Prohibit working with certain types of high-risk entity.

The SOE should prohibit engagement with certain limited categories of entity, and publish these prohibitions in its anticorruption policy. These categories should include:

- entities that will not report their beneficial owners
- entities whose key personnel or beneficial owners include:
  - an SOE or government official with a conflict of interest relating to the business the company is seeking

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1 The OECD defines a conflict of interest as “a conflict between the public duty and private interests of a public official, in which the public official has private-capacity interests which could improperly influence the performance of their official duties and responsibilities.” Conflicts in this context can take many forms, most seriously when an official holds decision-making power or has access to inside information concerning the business a company is seeking. OECD, “Recommendation of the Council on OECD Guidelines for Managing Conflict of Interest in the Public Service,” OECD/LEGAL/0316. 28 May 2003.
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- a former official who recently left such a position of influence, for example, within the last 24 months\(^2\)
- individuals in violation of the SOE or producer country’s prohibitions on public officials acquiring commercial interests\(^3\)
- individuals or entities convicted or otherwise credibly shown to have engaged in corruption-related offenses, and where evidence of adequate remediation is not found.

S3.5. Work to disclose a register of third parties that includes beneficial ownership information.

Beneficial ownership transparency is spreading rapidly, and SOEs can support this essential anticorruption practice within the extractive sector. The SOE should publish a register of the third parties with which it contracts that includes beneficial ownership information. To move toward this goal, the SOE could take a phased approach and begin by reporting beneficial ownership information for its joint venture (JV) partners, large suppliers and high-risk suppliers.

S4. Safeguard SOE finances from misappropriation.

SOEs often play an important role in revenue collection, receiving production shares, cash calls, loans and payments for crude oil, among other types of payment. In some instances, SOE or other public officials have misappropriated or misused these funds. NRGI reviewed 21 corruption cases where illegal or illegitimate SOE spending took place in countries in Asia, Africa, Eurasia and Latin America. Some of these diversions were clearly illegal, such as when officials directly rerouted SOE funds into their private accounts. Others involved the allocation of funds for illegitimate purposes, such as spending on inflated contracts for politically connected companies, or patronage-driven spending ahead of elections. While some of these practices were legal under domestic law, they still fit under common definitions of corruption.

The following anticorruption measures should supplement the fundamental practices noted under recommendation A, such as conducting independent audits and having an empowered board audit committee.

S4.1. Prohibit or avoid certain high-risk transactions.

The SOE should avoid certain practices that have arisen in multiple corruption schemes.

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\(^2\) This recommendation does not mean conflicts of interest end after this period. As the Financial Action Task Force (FATF) notes, “The handling of a client who is no longer entrusted with a prominent public function should be based on an assessment of risk and not on prescribed time limits.” FATF, **FATF Guidance: Politically Exposed Persons (Recommendations 12 and 22)** (2013).

\(^3\) NRGI reviewed over 50 mining and oil laws and found that about half contained prohibitions on PEPs holding interests in the sector. Erica Westenberg and Aaron Sayne, **Beneficial Ownership Screening: Practical Measures to Reduce Corruption Risks in Extractives Licensing**, NRGI (2018).
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These practices should be prohibited or require approval from the compliance unit, senior management and board. They include:

- accepting cash payments
- accepting payments from agents, rather than the companies they represent
- requiring or allowing companies to pay funds owed to the SOE to third parties instead
- accepting payments that violate applicable laws
- using banks that exhibit a weak anti-money laundering record or other red flags of corruption
- making political contributions

The OECD Guidelines on Anticorruption and Integrity in SOEs provide more detailed guidance on financial management practices, including on following recognized international accounting standards and engaging with oversight bodies such as supreme audit institutions.4

S4.2. Implement thorough and timely payment and contract transparency.

Payment transparency is a pragmatic and well-established tool for discouraging misappropriation.5 However, payment disclosures are less likely to deter misappropriation and facilitate oversight if the data becomes available long after the funds have disappeared.

The SOE should disclose the payments it receives in as close to real time as possible. While adopting a faster timeline, this reporting should otherwise aim to align with existing standards, such as the EITI Standard, specifically by publishing:

- project-level data on payments from exploration and production companies, in line with EU and EITI standards6
- the full text of any exploration and production contracts to which the SOE is a party, which provide the contextual information needed to understand payment data
- sale-by-sale data on commodity sales, as encouraged in the EITI Guidelines for Companies Buying Oil, Gas and Minerals from Governments
- information on loan agreements, including prepayments with traders, that include the loan agreement itself upon signature (particularly the repayment terms, the amount of fees and interest

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5 Hundreds of oil and mining companies have filed “payments to governments” reports, thanks to mandatory reporting regulations in Canada, the EU, the U.K. and other markets. Hundreds more companies and over 50 governments and SOEs have reported payments via the EITI. Recently, several commodity traders and SOEs have also begun to disclose commodity trading payment data.
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to be paid, and the disbursement of funds) and regular updates on the loan’s repayment by the SOE.

S4.3. Guard against cost inflation and commodity price manipulation as common channels for revenue loss.

In many past cases of corruption, SOEs allowed certain politically favored companies to collect undue earnings. Most often, SOEs paid inflated prices for goods and services, or awarded overly favorable terms to commodity traders. The SOE should adopt cost audits and other measures to actively guard against and detect such practices.

S4.4. Support public financial accountability efforts.

In many resource-rich countries, SOEs receive and manage a major portion of public revenues. As a result, public financial management reforms, particularly around accountability and integrity, will benefit from SOE cooperation. However, in some instances, SOEs have withheld data and obstructed reform. To proactively support reform, the SOE should openly engage with stakeholders, including government agencies such as the finance ministry and supreme audit institution, the EITI and Open Government Partnership processes (if applicable), international financial institutions, the media and civil society.

S5. Working with partners, evaluate joint venture anticorruption systems against a set of principles, and adopt measures to address any shortcomings.

SOEs often rely on their JV partners to prevent corruption, especially when partners are the ones operating oil, gas or mining assets. To ensure JV anticorruption systems are working well, the SOE could convene the partners to conduct a review. Section 5 of this guidance presents an aspirational set of principles that JV partners could use to assess their prospective or current approaches to controlling corruption. These primarily address JVs engaged in oil, gas or mineral production, but most would also apply to production sharing contracts or risk service contracts involving SOEs, or to JVs in other business segments such as trading or construction.

A few practical ideas from Section 5 are particularly relevant for SOEs. The SOE can help its JV partners by drawing clear lines between its commercial and regulatory functions, rather than leaving this potential conflict for them to manage. When an SOE is not the JV’s operator, it could require the operator to include in its work plans a dedicated field in which it assesses corruption risks and identifies their risk mitigation approaches. If the SOE seeks to strengthen its compliance function, it could seek support from its larger JV partners as a source of expertise.