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Dear colleagues,

as you know, SOEs play an important role in many countries and generally operate in strategic areas. Some countries have many SOEs, some just a few. Seeing as this is not an economic forum, I will not discuss which of the solutions is better. I would like to focus on the “dark side” of SOEs and how to prevent it from appearing.

Corruption and embezzlement in SOEs can appear in many different forms and activities. Such abuses can be organized by different levels of management. Today I want to focus on a specific level - abuses organized by politicians.

Obtaining control over SOEs is often “the main prize” in elections.

SOEs have money, assets, contracting companies and employment to offer, which is everything needed to gain and maintain power.

The best way to control SOEs is to appoint party members or connected persons to top management positions. Instead of an expert one, to appoint politically suitable candidates, usually with limited managerial experience or sometimes even with no experience.

Such appointed directors are aware of their weakness, they know that they cannot get managerial positions in the open market and will do anything to keep their position, including obeying all instructions from the political parties that had appointed them.

As a result, company assets are used for illegal party funding, awarding contracts to donors or companies connected with politicians, employing a large number of party members or their families in SOEs (a model of creating thankful voters for the future), etc.

Aside from the corruption and abuses risks, these kinds of appointments can affect the successful conducting of companies’ business operations. They can also affect all citizens by creating financial losses in companies and not providing the services they were created to provide in the first place.

The same abuse model can be followed by enterprises owned by local units as well.

There are examples of such abuses all over the world, like the Petrobras case in Brazil, scandals across East Europe and many other countries.

Sometimes “the main prize” is shared between a coalition of parties, e.g., one party takes control over the energy sector, while the other one controls the traffic sector.

Opposition parties strongly criticize abuses of SOEs. However, if political changes occur, the process is repeated with different players. Directors appointed by the previous government are replaced with new ruling party people who then hire their own party members and relatives (the number of employees increases without economic justification), previous contracting companies are replaced with new companies connected with the new political party and PEPs, and so on, and so forth.

What can be done?

In many countries SOEs are mostly joint venture companies or limited liability companies, like any other companies operating in the private sector. Many solutions developed by the private sector can be used by SOEs.

At the same time, SOEs are owned by state and some solutions developed by public administration can be applied to them. Even SOEs' management find that fact to be discriminatory when compared with private companies (like asset declaration system for top executives or the application of the right of access to information laws).

One of the solutions can be designing specialized anti-corruption programs. Such programs can prescribe transparency of all company operations, transparency of all stages of the procurement process and all stages of the recruitment process, therefore establishing an effective system of irregularity reporting and whistleblowing, financial controls and audit, increasing integrity and anti-corruption educations, etc.

Transparency International delivered a very useful document on anti-corruption principles in SOEs. Such a model can be followed.

Special attention should be given to monitoring of implementation of the anti-corruption program, not only by internal structure in the SOEs, but by external control too. I had the opportunity to lead the monitoring team for implementation of the Anti-corruption Program for SOEs in Croatia (it was the first specialized program for SOEs in Europe, and if I am not mistaken, the first in the world as well). As we were monitoring 86 SOEs, we have developed a sophisticated monitoring mechanism. The monitoring was successful, but the key to success was the fact that media and NGOs were included in the process and we provoked high public interest in the implementation results.

Specialized anti-corruption program can be a part of the solution. But what to do with the appointment system as the most difficult problem?

SOEs, like all other companies, have owners with basic shareholders rights, including the rights to elect and remove top management. There is no doubt that it should be the responsibility of the owner.

However, ministers are not the owners of SOEs, they are not Party Owned Enterprises! They are State Owned and ultimately, owned by all citizens.

If we want SOEs to operate in the public interest, as responsible and successful enterprises, we need professionals to manage SOEs.

Therefore the election and the appointment of directors must be based on:

- principles of transparency of the whole process;
- open public competitions for all those interested;
- the principle of choosing the best and most qualified candidates, according to predetermined criteria
- minimizing the political influence on the entire election process

During the nomination process, professional staffing agencies (headhunters) can be used, as well as databases of qualified candidates or authorities that will formally exercise, oversee or audit the nomination process.

Remuneration system should be competitive in the market, fair, results based and transparent.

Finally, the most difficult question remains open. How do we stimulate political parties to give up the politization of SOEs and to establish an effective system that will prevent abuses and corruption in SOEs?

Thank you