CHAPTER 3

State-Owned Enterprises

Introduction

State-owned enterprise (SOE) corruption has gained prominence in recent years. High-profile corruption scandals, such as Petróleo Brasileiro S.A. (Petrobras) in Brazil, Sonangol in Angola, Eskom in South Africa, and 1 Malaysia Development Berhad (1MDB) in Malaysia have attracted global attention and put the issue of SOE corruption at the forefront. SOEs manage substantial resources in key sectors. Many are inefficient, operate at a loss, and fail to provide critical public goods and services, due in part to conflicting objectives and mismanagement—and to corruption. Corruption can be detrimental to the SOE itself, to the economy, and to the people who count on them for basic services. The consequences for SOEs are reputational and financial losses, a fall in market value and share price, business disruption and fines, and risk of debarment from markets. For the economy, corruption can damage investor confidence, deter foreign investment, and lead to unsustainable debt or a plunge in stock market value, negatively impacting growth and increasing inequality.

SOEs face similar corruption risks as private companies, but the risks are compounded by the scale of the assets they control, the considerable value of public contracts they award, and most of all their proximity to governments and politics. Corruption risks arise from various sources. SOEs in high-value sectors often enjoy monopoly or quasi-monopoly rights that provide an opportunity for abnormal profit generation, a privileged relationship with the government, and state financial support. This creates incentives and opportunities to extract significant rents. Such mechanisms are often used to benefit political groups and party finances in order to sustain the resource diversion over time. Risks also arise from weak legal and regulatory frameworks; corporate governance weaknesses at SOE levels: a lack of transparency and disclosure over SOE finances compounded by poor financial reporting practices; and limited effective government and citizen oversight. These risks are exacerbated by inadequate technology in SOE operations and weak citizen participation in monitoring SOE performance. Addressing these risks can help combat corruption and improve integrity. Broader shortcomings in overall public sector governance and in the judicial sphere also play a key role, though these are not covered in this chapter.

SOE corruption risks

Monopolies and preferential treatment

Corruption is most rampant where SOEs operate as monopolies or have exclusivity rights and are highly regulated. A 2014 OECD study found that almost two-thirds of corruption instances occurred in sectors such as oil and gas, mining, energy, transportation, and heavy industry.[1] Their size and market structure impede the entry of new players, which in turn creates a privileged relationship between the SOE and the government and regulators. Such relationships allow for discretionary power and decision-making, unmanaged conflicts of interest, and blurred responsibilities between SOEs and their supervising agencies. High-value activities, such as the awarding of rights, procurement of goods and services, commodity trading, licensing, and investment are especially prone to corruption. The dominance of SOEs in smaller markets where the private sector is less able to participate and compete also makes it easier for SOEs to be corrupt.

Preferential treatment by the state gives rise to abuse. Funds for direct and indirect subsidies, debt write-offs and tax exemptions, and compensation for carrying out non-commercial objectives may be siphoned off for personal or political gain. Reliance on state support means that SOEs are less likely to suffer the same consequences of corrupt practices as their private sector counterparts as governments can provide resources to mitigate any damages incurred. SOEs also enjoy easy access to loans from state-owned banks at

preferential rates, even when such loans have no clear rationale. Subject to political interference, state banks themselves may suffer from corruption in the lending process, which can create a possible risk zone for both entities. A 2015 investigation into corrupt practices in Chinese state banks, for example, found that abuse of office and kick-backs played a role in the approval and distribution of non-profitable loans to SOEs.[2] A 2020 study shows that countries with limited transparency and accountability of their natural resource sectors used those assets to secure large resource-based loans (RBLs). The countries with the largest amounts of RBLs in their respective region—Venezuela in Latin America ($59 billion) and Angola in sub-Saharan Africa ($24 billion)—both have poor resource governance scores.[3] Corruption risks are also associated with relaxed anti-money laundering procedures and due diligence practices, where state banks have been used to launder the proceeds of crimes in exchange for bribes.

Gaps in SOE legal and regulatory frameworks

Statutory loopholes and vagueness in legal and regulatory frameworks are an underlying theme to nearly all the risks mentioned below. Gaps and weaknesses are found in key areas, such as state oversight and monitoring of SOEs, the selection of boards and management, board decision-making processes, internal controls/compliance/and risk management systems, information disclosure practices, and policies and procedures for creating an ethical culture. An inadequate legal framework was the case in Brazil, which was strengthened in the aftermath of the Petrobras scandal. Even where adequate laws and regulations are in place, implementation may be limited or formalistic, and compliance may go unchecked. Critical policies, such as confidential reporting programs, asset disclosures, and banning of political financing tend to be rare, while broader anti-corruption legislation may not be actively implemented.

Weak ownership arrangements

Corruption risks are higher where SOE responsibilities reside in sector ministries that combine ownership, policymaking, and the regulatory function. Combining these functions creates conflicts of interest, scope for direct interference, and diffused accountability. Even in high-risk SOEs, ministries may not have the incentives and capacity to prevent interference and oversee specialized functions such as audit, compliance, and risk management. Insufficient attention may also be paid to establishing reporting systems to detect corrupt practices or monitor any corruption-related risks within SOEs. While countries such as Malaysia have established centralized ownership structures to address these problems, they too have been unable to prevent opportunistic behavior and promote a culture of integrity.

Politicized boards and management

SOE boards are often appointed by political parties or the highest levels of government. They often include state ministers, party leaders, and politically connected officials who present high risk by virtue of their position and influence. In the case of Petrobras, for example, politically appointed board members helped ensure a regular flow of funding to their respective parties and allies through systematic bid rigging.[4] Competency requirements for such board members often do not meet the qualifications and competencies required of all board members, while verification of a candidate's integrity receives little if any attention. The lack of a structured and transparent selection process based on candidate assessments and shortlisting through independent institutions also makes the process vulnerable to interference and politicizes the outcomes.

Boards comprised of politically connected persons may play little to any role in exercising the duty of care and may instead engage in malfeasance. The Parliamentary Committee Report on 1MDB in Malaysia highlighted the lack of diligence of the board—chaired by the Prime Minister—in adhering to good corporate governance practices in decision-making that led to the misappropriation of public funds. High-value investment decisions were made at short notice without prior risk assessments, adherence to instructions and frameworks for board decision-making and approvals, and documentation of key decisions. In South Africa, a faulty appointment process also revealed the role of politics and private interest groups in board deliberations, which led to the board's violation of the duty of care in awarding a R564 million contract to a company predominantly owned by the son of the President and his close family friends.[5] An informal system of patronage, the lack of adherence to proper decision-making frameworks, and limiting the scope

of key decisions to a few individuals without second reviews increased the scope for abuse. In Angola, as the case study shows, the former President's daughter, Isabel dos Santos, the richest woman in Africa, had been the President of the Board of directors of the oil SOE Sonagol, until she was removed as a result of anti-corruption and investigative efforts.

Risks also arise when the board has no role or only a figurehead role in appointing top management. Contrary to good practice boards which have the power to hire and fire the CEO, the government often directly appoints the CEO and other key executives, often without a competitive and transparent selection process. This diminishes the oversight role of the board and makes SOE operations vulnerable to corruption risk. Lack of oversight by the board and, conversely, a disregard by management for the role of the board, also allows executives to use personal networks to engage in corrupt schemes. The Petrobras and 1MDB cases show that management decisions were often made contrary to the board's guidance or made without the board's consent.

Weak internal controls, compliance, and risk management

Weak internal controls, compliance, and risk management systems facilitate unethical behavior. Such behavior may include unidentified or unmanaged conflicts of interest, frequent gifts and hospitality, failure to perform third party risk assessments, and lack of documentation of contracts and transactions. In the case of Eskom, for example, an inquiry into management practices showed that Eskom did not address conflict of interest by board members even though it was obliged to do so pursuant to the conflict of interest rules.[6] And the Petrobras investigation revealed that 100 or so Petrobras employees, including the CEO, were receiving valuable gifts from 2010 onwards, which were not reported or identified.[7] The lack of an internal risk management function also creates risk. Out of 32 countries surveyed by the OECD on risk management practices, only 52 percent require SOEs to establish risk management capacities and just 18 percent require at least large SOEs to employ risk specialists.[8] The focus, however, appears to be on financial and investment risks rather than on mismanagement and corruption risks.

Compared to ministries, SOE procurement is especially vulnerable to corruption and collusion given the scale of assets they control. In addition to public officials using their powers for personal gain, such as accepting a bribe in exchange for granting a tender, SOEs are also susceptible to collusion and bid rigging where bidders determine who should "win" the tender, and then arrange bids to ensure that the designated bidder is selected by the purportedly competitive process. The process may be facilitated by having an SOE insider that provides bidders with the information to rig bids. In Angola, as the case study shows, contracting was deeply affected by corruption and improving public procurement constituted a key element of fighting corruption. Statutory regimes that exempt SOEs from public procurement rules are especially susceptible to corrupt and collusive behavior, as was the case in Petrobras, which enjoyed a more flexible procurement regime at the time when the criminal activities took place.[9] Even where rules apply, competition is avoided through means such as sole sourcing, direct awards, tailor-made bids, or sharing inside information regarding the tender. Additional red flags include single bids, awarding of contracts based on price and not quality, and collusive bids. Clientelist groups may circumvent public tenders and manipulate the process to directly award contracts and channel the funds for their purposes, while audit bodies may not be able to prevent such processes. In South Africa, for example, the boards of Transnet and Eskom created specialized procurement committees, even though procurement is not a board responsibility—established with the sole purpose of giving their members and preferred bidders direct access to SOE procurement budgets.[10] These and other corrupt practices at the board and management level eventually led to the removal of malfeasant and incompetent directors and executives, including criminal charges in several instances.

Illegal behavior also arises from lack of ethics rules, internal reporting mechanisms, and whistleblower protections. Only some jurisdictions have ethics rules for SOEs, while elsewhere SOE staff are expected to adhere to civil service or private sector rules. Staff ability to report misconduct without suffering repercussions came up in both the Petrobras and Eskom cases.[11] In both instances, persons who reported the wrongdoing suffered consequences for doing so. There is virtually no data on confidential reporting practices and is an area where further attention is needed.

Poor transparency and disclosure practices

A common challenge for state auditors and external auditors is getting access to documents, particularly around sensitive information. In Brazil, for example, the Federal Court of Accounts struggled for 20 months to get access to cost appraisal and other key documents from Petrobras to draw conclusions in an urgent audit of work done on the off-shore rig P-57.[12] At the same time, external auditors were also accused of aiding Petrobras in misrepresenting its business and financial operations. Access to information is even harder to obtain when SOEs resort to changing external auditors to conceal information or obtain a desired/positive finding, as for example in 1MDB. In this case, audit firms signed off on accounts without qualifications, although some auditors were let go for not approving the accounts unless more details on specific investments were provided. Moreover, internal auditors may be controlled by management and not able to act as an independent source of information or vigilance for the board.

SOEs also fall short on information disclosure, especially in sectors where corrupt practices are more frequently observed, such as natural resources. The 2017 Resource Governance Index assessed the performance of 74 oil and mining SOEs across 10 governance and transparency practices, including the companies' public reporting practices, audit provisions, and conflict of interest protections. The assessment showed that compliance is poor and the need for improvement is enormous. Only nine of the 74 companies received a "good" score, with many influential SOEs failing.[13] Similarly, in the last quarter of 2016, only half of the 50 sovereign wealth funds assessed by the Sovereign Wealth Fund Institute met the disclosure threshold,[14] while in Vietnam public disclosure of SOE related financial and non-financial information is voluntary, which has led to a predominant practice of non-disclosure.[15] In Georgia, 22 out of the 36 SOEs with significant capital do not even have a webpage.[16]

SOEs may find ways to conceal important information such as major decisions on procurement, quasi fiscal activities, background and remuneration of management and board members, and related party transactions. The types and amount of state financial assistance as well as material transactions with the state and other SOEs are often not reported. And where SOEs do disclose financial information, issues may arise in the quality, reliability, and timeliness of the information due to lack of application of IFRS, inadequate oversight by the audit committee, weak capacity within SOEs to process information, and lack of incentives and penalties to strengthen compliance. Those that report may still not include information on other key areas, such as beneficial ownership and anti-corruption programs. SOEs, including those with significant capital, may not even have a webpage.

Reforms to reduce corruption and strengthen integrity

Reducing corruption risk in SOEs is challenging, and technical solutions must be politically acceptable options given the benefits that flow to the state from their economic activities. Policies designed to improve corporate governance and oversight of SOEs are central to reducing corruption vulnerability, but they are rarely adequate in the absence of political will to tackle corruption in SOEs. This is evidenced in all three case studies: Colombia advanced SOE reforms under the leadership of its President and changed the Constitution; corruption in Brazil's SOEs was directly linked to patronage by top politicians and reforms can only be sustained with political will; and in Angola, it was a change in the administration that gave impetus to deep sector reforms. In conclusion, without strong political leadership to assure that implementation of laws and regulations (de jure) is carried out in practice (de facto), there is a strong risk that corporate governance tools and measures will exist only on paper and have no teeth. Prior to the Lavo Jato scandal—which drew attention due its magnitude—the flaws in Brazil's corporate governance regulations were hidden from view or overlooked. Sustained political support, accompanied by an independent and competent justice system, is essential for making corporate governance and regulatory oversight bodies truly effective and responsive. Effective implementation and enforcement do not happen overnight, and even the small but key steps and changes during one government can be reversed or undermined during the next. Thus, there is a need to think about these reforms as a long-term agenda.

Actions to improve corporate governance are nevertheless critical and target a range of vulnerabilities in SOE oversight and implicate many stakeholders. The menu of options below are not intended to represent purely technocratic fixes in a political vacuum. Rather, they should be considered within the range of what is politically feasible. To varying degrees, they draw on a combination of stakeholders to incentivize integrity within SOE conduct. The first options rely heavily on private sector market discipline, while others rely on the influence of ownership bodies, regulatory agencies, and broader citizen engagement.

- ***Opening up markets to greater competition to reduce monopoly power and market share and incentivize financial and fiscal discipline.*** Opening sectors to competition and allowing private sector participation into sectors and SOEs brings capital and expertise but also helps to reduce discretionary powers and opportunities for corruption. In Colombia, as the case study will show, the new Constitution of 1991 introduced a new model of economic development that included the SOE sector. As a result, public utilities were opened to private investment, which also allowed free agent entry and competition. Requiring SOEs to operate on the strength of their balance sheet without government financing and putting in place a clear framework for identifying and financing non-commercial objectives makes SOEs more disciplined and reduces the scope for corruption. Commercializing and improving lending practices of state banks, and bringing in private capital into the banks, can further limit corrupt activities from taking place. When SOEs are operating in a competitive marketplace and there is no clear rationale for state ownership, such SOEs can be let go and privatized, provided this can be done in a transparent and efficient manner. When state capture is of concern in the SOE sector, this may also affect the privatization process.

- ***Strengthening SOE legal and regulatory frameworks and practices.*** A strong legal framework makes corruption harder to conceal, introduces transparency and accountability at all levels, and puts ethics at the center of business decision-making. As the case study shows, in the aftermath of the Petrobras scandal, the Brazilian Government passed a Law on the Responsibility of Federal State Companies (Law No. 13.303/2016). The law introduces a code of conduct and ethics for management and staff, sets forth requirements for board and management appointments, strengthens the internal control environment, and increases transparency around contracting and procurement.[17] Other countries have enacted new SOE laws (Afghanistan, Ethiopia) or ownership policies (Norway, Sweden) to establish

key governance principles and measures to improve integrity and transparency, including the introduction of ethics rules and employee position requirements. A wide range of countries require SOEs to adopt corporate governance and ethics codes which contain principles and guidance on ethical behavior, acceptable and unacceptable benefits/gifts, and accountability mechanisms. Monitoring and promoting compliance are key to ensure implementation.

- ***Building the commitment and capacity of state ownership entities.*** To better exercise ownership rights and to shield SOEs from political interference, countries such as China, Colombia, Malaysia, and Peru have established specialized ownership units. As per the OECD's 2019 Anti-Corruption and Integrity Guidelines for SOEs, such entities should themselves have high standards of integrity and have the right skills and staff to oversee specialized functions, such as audit, compliance, and risk management. Such entities are increasingly recognizing the need for: internal corruption risk mapping; third-party corruption due diligence; stronger accounting controls; training of management and staff; and periodic reviews of such systems. A core function is to monitor and assess implementation, sanction SOEs for non-compliance, and refer the matter to law enforcement as needed.

- ***Professionalizing the SOE board of directors and senior management.*** As the cornerstone of anti-corruption and integrity, professionally composed boards can have the most direct impact on building a culture of integrity. Board members must be independent of any outside influence, be competent, possess high integrity, and be selected based on a clearly defined appointment policy to safeguard them from malfeasance. New Zealand, for example, has a structured selection process in place where a specialized advisory body has a formal role in selecting candidates based on qualifications and integrity and a structured and transparent nominations process.[18] Bringing in independent members to strengthen board decision-making and to chair the board's ethics, audit and risk committees can help prevent illicit activity from taking place. Good practice boards also maintain and update a register of conflict of interests and incorporate transparency practices, such as documentation on the voting of board members. They also have the power to hire the CEO through a transparent and competitive process and to hold the CEO accountable for maintaining high standards of integrity. Committed management plays a key role in establishing, implementing, monitoring, and reporting on integrity programs.

- ***Establishing effective internal controls, compliance, and risk management functions in the SOE.*** Brazil, Colombia and various other countries have established policies and structures to manage risks proactively (e.g. confidential reporting, follow-up on reported incidents) and to counter pressure and undue influence while recruiting qualified staff with access to resources and top management structures. Sound internal controls and compliance systems can help manage risk, investigate alleged misconduct, and measure any financial implications. Their role is to lead and oversee the program, initiate investigations, monitor and receive reports from ethics hotlines, and provide guidance to staff. Broader institutional and governance factors may play a role in determining effectiveness of such systems—but strong, explicit, and visible commitment from the board and senior management is essential.

- ***Countering corruption in high-risk activities and operations.*** Key measures include the adoption and implementation of transparent procurement processes and e-GP, including the selection and appointment of third parties; monitoring of contracts and projects; actions on "red flags", such as rush orders or changes in contract specifications after a project has started; and whistleblowing lines for raising concerns about bids and contracts.[19] In Angola, the Public Procurement Law was updated to include lowering the threshold for contracts subject to public tender, the creation of a national procurement portal, and a list of companies certified to undertake construction work for the government. The Law also included a chapter on ethical behavior in the planning and execution of public contracts, including requirements for impartiality and avoiding conflicts of interest, fraud, and corruption, legal compliance and confidentiality. Integrity pacts can help ensure a transparent process with oversight by civil society organizations to monitor compliance. A register can be developed and used for risk assessment and to design the due diligence process for third parties. Strengthening the capacity of SOEs and

procurement agencies to hold corrupt officials to account and ensuring cooperation between various national enforcement agencies are also key to anti-corruption.

- ***Promoting transparency and full financial disclosure, including of SOE debt.*** In addition to financial reporting, SOEs are reporting more non-financial information, e.g. corporate governance and organizational structure, commercial strategy objectives and risk, KPIs and social objectives, engagement with stakeholders and interest groups, and anti-corruption initiatives. A good practice example shown in the case study is the Medellin SOE in Colombia, which promoted a citizen-centric approach to transparency. In the aftermath of the Petrobras scandal, Brazilian SOEs are required to publish annual and interim corporate governance and internal reports, as well as sustainability reports, in line with the Global Reporting Initiative, while providing reasons for non-compliance if not published.[20] Other countries are developing transparency plans that require SOEs to also publish information on the compensation of executive staff, advisors and associates and to disclose risk factors and internal control structures and reports. State auditors are increasingly reporting on both the state's role in promoting integrity and on governance within SOEs, although care should be taken to ensure that such reporting is not used for improper interference in SOE operations. There is growing coordination with banks, financial regulators, and public procurement agencies to verify asset disclosures and provide full reporting. In Angola, the 15 largest SOEs will be required to publish their audited annual reports on the SOE oversight institute's website (IGAPE).

- ***Digitalizing financial and service delivery information to improve the accuracy of information available to the public.*** Digitalization reduces corruption and facilitates advocacy and citizen participation. Service users are best placed to monitor the services on which they depend, due to greater incentives and information, as well as the possibility of face-to-face interaction with frontline providers.[21] In Colombia, EPM, a commercial SOE wholly owned by the Medellin municipal government that provides infrastructure services, created "Puntos fáciles" (Easy points) that are self-service spaces where customers and users can use new technologies to improve experience, facilitate interaction with the company, increase transparency, and reduce corruption. A mobile app gained strength as active users and customers grew by 65 percent from one year to the next. Several private institutions helped to incentivize alliances while promoting effective and transparent programs through informed and participatory citizens. And in the Philippines, an NGO called Concerned Citizens of Abra for Good Government (CCAGG) trains community beneficiaries to conduct audits and monitor project implementation in order to reduce corruption in the construction of public works.

- ***Facilitating citizen engagement in holding SOEs to account for performance and providing feedback to management on service delivery issues.*** Facilitating citizen engagement is an effective way to fight corruption. In Colombia, citizen monitoring tools that SOEs have developed can be even more effective than pure rules-based anti-corruption policy or traditional corporate governance approaches (which are nevertheless important). EPM, the Colombian power giant, is a leader in fostering citizen participation although it has not been immune to controversies. EPM overcame challenges through its track record of adopting a community-based approach against corruption and mismanagement. As the case study shows, in response to corruption allegations, civil society in Colombia created a surveillance committee to oversee the decisions taken by the Mayor of Medellin and any action that could negatively affect the SOE. A professional union was also created with the sole purpose of shielding the SOE from political interference in its corporate decisions. The citizen-centric culture appears not only to have persisted over time, but also to have grown, both in Medellín and the regions where the SOE provides services.

Conclusions

As this chapter including the accompanying case studies shows, tackling SOE corruption is critical to reducing negative economy-wide impacts and to creating an environment of trust, transparency, and accountability. Well governed SOEs are better equipped to raise integrity standards and culture, protect their reputation and that of the state, and give confidence to stakeholders. In turn, they are better able to access finance and attract private investment to grow their business. By being more transparent and accountable, they support sustainable development. EPM, the SOE in Medellin, Colombia, is such a case. Indeed, academic research, case studies, and experiences show that companies that adhere to good governance and ethical standards perform better financially in the long run than those without such a commitment, and that companies that take concrete steps to implement ethical values outperform those that do not go beyond a declaration of commitment to business ethics.[22]

Combating corruption and building a culture of integrity is easier said than done and the real challenge is one of implementation. The needed reforms can be politically contentious and challenging to implement, and may not be feasible, or necessary, to put in place all at once. Overcoming the challenges can be difficult but experience shows that it can be done by paying attention to the reform process itself. Phasing or sequencing of SOE reforms based on their political and institutional feasibility can help overcome entrenched interests and provide confidence to policy makers to take further steps. The Angola case study illustrates this. Where opposition is strong, reforms can start with less controversial actions aimed at supporting improvements in SOEs, such as putting independent directors on SOE boards, establishing codes of conduct, and enhancing information disclosure. In the case of Brazil, most of the reforms to date have focused on necessary updates to the legislative framework; going forward, implementation will be key to achieve results and assure sustainability. Supporting improvements in a few key companies could also demonstrate concrete results. Establishing new SOE laws and building institutional capacity may take time, but changes in mindset and behavior are likely to occur as other reforms take hold and create pressures for more reform. And building support for reform among stakeholders and the public can help strengthen SOE integrity.

Finally, reforming governance of SOEs, although necessary, may not always be enough to prevent corruption. Such reforms are often accompanied by additional measures, such as SOE restructuring, which may involve breaking large SOE multi-layered enterprises into smaller business units or bringing opportunities for greater private sector involvement in the operations, management or even ownership of SOEs through PPPs or privatization, when the necessary conditions are being met. Such conditions include reduced or contestable market share and economic dominance; transparency over ownership, operations and finances, including SOE debts; increased capacity for monitoring and oversight; and improved efficiency. The evidence shows that privatization or public-private partnerships have brought big gains for many SOEs, in both competitive and non-competitive sectors, with respect to efficiency, transparency and accountability, and integrity. Gains come from ensuring that the privatization process is done correctly. This means tailoring privatization to local conditions. It also means emphasizing the policy and institutional underpinnings of market operations rather than focusing solely on privatization transactions. This requires developing and protecting competitive markets, creating proper regulatory frameworks before privatization to ensure efficiency and equity, developing social safety nets for those adversely affected, and introducing innovating pricing and subsidy mechanisms to ensure that the poor have access to affordable essential services.

Strengthening transparency of the privatization process is essential and requires a host of measures. Especially important is ensuring that transactions occur without special privileges for insiders or other favored purchasers, so that there is a level playing field with potential competitors. A key lesson is that introducing and enforcing transparency in the sales process is essential to ensure that privatization does not lead to state capture or corrupt transactions. Promoting competition in the privatization process may be the most effective way to support transparency, while also yielding maximum economic and financial benefits. Where privatization or private sector participation is not a viable option, SOEs can still be exposed to capital market discipline through partial listings. Removing barriers to entry and exit is also important, and broader reforms to develop the private sector should continue.