



Extractive Industries
Transparency Initiative

The business case for SOE transparency

State-owned enterprises (SOEs) often own and operate key aspects of the value chain in the mining, oil and gas industries, as explorers, producers, logistics providers, refiners, marketers and private-sector partners.

As SOEs are increasingly corporatising their operations, transparency in financial disclosures has become central to their ability to raise funds, develop new partnerships and improve their accountability to their primary shareholders in government and to citizens as the ultimate beneficiaries.

Global standards and guidelines for SOE disclosures and governance, such as the EITI Standard, can support SOEs develop good practices in transparency, financial management and governance¹.

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SOEs participate in EITI reporting (approx.)

Transparency can:



IMPROVE ACCESS TO FINANCE



ENHANCE MARKET EFFICIENCY



PROMOTE PUBLIC-PRIVATE PARTNERSHIPS



FACILITATE EASE OF DOING BUSINESS



INFORM PERFORMANCE BENCHMARKING



SUPPORT DECISION-MAKING IN THE ENERGY TRANSITION



STRENGTHEN REPUTATION AND TRUST



SHED LIGHT ON COMMODITY TRADING

¹ EITI (September 2018), "Upstream Oil, Gas and Mining SOE Governance Challenges", [eiti.org/document/upstream-oil-gas-mining-soe-governance-challenges](https://www.eiti.org/document/upstream-oil-gas-mining-soe-governance-challenges).

Benefits of SOE transparency

SOEs are increasingly integrating transparency reforms in their business planning. Transparent financial management and relations with the state can yield important benefits for SOEs.



ACCESS TO FINANCE

Transparency of SOEs' financial relations and management can facilitate access to finance, both for SOEs and their government shareholders. Credit rating agencies are increasingly reviewing EITI data on SOEs' financial relations.² According to Jules Tilly of the London School of Economics, "in the post-2008 era, the relationship between fiscal transparency and investor perceptions has strengthened considerably." Tilly's research identified a correlation between fiscal transparency and five-year credit default swaps in 36 countries.³

Investors that track environmental, social and governance (ESG) indicators often draw on sustainability reporting initiatives, some of which reference the EITI (e.g., the Global Reporting Initiative). By adhering to EITI Requirements in their public disclosures, SOEs improve their ability to raise debt or equity financing from public markets and attract strategic investors and partners.



IMPROVING THE EFFICIENCY OF OPEN MARKETS

Transparent financial management of SOEs is key to establishing an open trade and investment environment, which ultimately underpins economic growth. Many governments are increasing their oversight of foreign SOEs operating in their jurisdictions to assess the impact on the competitive landscape. Transparency of SOEs' operations and financial management, both in domestic and international markets, helps clarify their commercial orientation, subsidies which they provide or benefit from, their financial relationship to home governments and their trade and investment policies.



ENHANCING PUBLIC-PRIVATE PARTNERSHIP OPPORTUNITIES

In a sample of 30 countries, national oil companies spent or retained 78% of the nearly USD 1.6 trillion total revenues they generated in 2016, representing a significant sum that was not transferred to national treasuries.⁴ These figures underscore the need for transparent management of SOE revenues. Clarity in SOEs' financial management and relations with their governments enables investors to perform due diligence on prospective SOE partners and helps enhance the credit-worthiness and credibility of SOEs as business counterparts.

2 EITI (August 2015), "Quantifying intangibles", eiti.org/document/eiti-brief-quantifying-intangibles and PRI, "Using the Extractive Industries Transparency Initiative (EITI) to enhance credit ratings assessments", unpri.org/fixed-income/using-the-extractive-industries-transparency-initiative-eiti-to-enhance-credit-ratings-assessments.

3 Jules Tilly (August 2013), "Fiscal Transparency and Sustainability of Public Debts in Times of Crisis: How to Strengthen Investor Confidence?", psj.lse.ac.uk/articles/8/galley/8/download/.

4 Natural Resource Governance Institute (June 2019), "Big Sellers: Exploring the Scale and Risk of National Oil Company Sales", resourcegovernance.org/analysis-tools/publications/big-sellers-exploring-scale-and-risk-national-oil-company-sales.

25+

SOEs are represented in EITI multi-stakeholder groups



IMPROVING THE EASE OF DOING BUSINESS WITH SOES FOR PARTNERS, VENDORS AND SUPPLIERS

International oil and mining companies often seek partners that are reputable and can demonstrate commitment to transparency and accountability when entering into business and joint ventures. According to ENI's internal guidelines, their joint venture partners "shall only be entities who are well-known, reliable and with an outstanding reputation for honesty and correct business practices".⁵

Total has committed to "working only with competent partners that enjoy an excellent reputation".⁶ Transparency in SOEs' financial management and corporate governance gives partners, vendors and suppliers confidence in the consistency of SOEs' internal processes and overall creditworthiness.

The EITI provides a multi-stakeholder platform for a broad range of stakeholders to debate issues on SOEs' financial management, both in terms of regulations and practice. This process can help SOE executives identify and address potential barriers to business relationships. On average, EITI implementing countries have seen improvements in the World Bank's Ease of Doing Business rankings, while the average for non-EITI implementing has declined.⁷

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countries fully disclose transactions from and to state-owned enterprises



CROSS-COUNTRY PERFORMANCE BENCHMARKING

The open and systematic disclosure of SOEs data can provide a benchmark to evaluate performance against other countries. For example, NRGI's National Oil Company Database⁸ compiles information on the production, revenues and performance of 71 national oil companies, and is a powerful tool for comparative analysis of key financial metrics across comparable oil and gas SOEs.

The EITI's global SOE Transparency Network provides a platform for SOEs to engage in peer learning, exchange ideas and the develop emerging global best practice in SOE transparency and governance.



PREPARING FOR THE ENERGY TRANSITION

In some countries, SOEs account for over half of government revenues. With the push for green sources of energy gaining momentum, it is imperative for SOEs to be a part of the conversation in order to ensure they adapt their business accordingly. SOEs have the opportunity to engage with IOCs and other partners on mechanism they can implement in order to mitigate the impact of the energy transition on their revenues.

5 ENI Management System Guideline Anti-Corruption, eni.com/assets/documents/MSG-Anti-Corruption.pdf.

6 Total Business Integrity Guide, total.com/sites/g/files/nytnzq111/files/atoms/files/total_guide_integrite_en.pdf.

7 [EITI 2020 work plan](#), pp.42,49.

8 NRGI, National Oil Company Database, nationaloilcompanydata.org.



ENHANCING SOES' ROLE AS NATIONAL CHAMPIONS AND BUILDING TRUST AT HOME

As custodians of public assets, SOEs should be champions of integrity and transparency. While commercial confidentiality and privacy still need to be observed in specific cases, openness is fundamental for building trust.

Clear public reporting of intercompany transactions with subsidiary and affiliate companies enhances the SOE Board's oversight and control of potentially high-risk transactions. Financial transparency helps to clarify SOEs' roles and responsibilities, including potential conflicts in the SOEs' mandates. It also strengthens SOEs' accountability to the general public as they undertake their dual roles as commercial enterprises and stewards of quasi-governmental functions.

There are often high expectations from the public about what SOEs should be contributing to the country in terms of revenues and employment. There is similarly often a lack of understanding of the constraints SOEs face in performing their dual commercial and state functions. These challenges are often not an indicator of lacking performance by the SOE but may be perceived as such when not fully understood by state actors and the public.

The EITI's multi-stakeholder platform and disclosure requirements can support consultations, debate and communication efforts around SOEs' economic contributions and obstacles to enhanced performance.

"Becoming an EITI supporting company aligns with NNPC's corporate vision and principles of transparency, accountability & performance excellence."

**MELE
KOLO KYARI,
GROUP
MANAGING
DIRECTOR,
NIGERIAN
PETROLEUM
CORPORATION**



INCREASED TRANSPARENCY IN COMMODITY SALES AND SUPPLIERS

There exists a perception that information asymmetry in favour of commodity traders exists with SOEs. Systematic disclosure of volumes of oil and gas sold and the amount of revenue received in exchange can assist SOEs in ascertaining if they are receiving fair value. Such information would boost public confidence in the management of extractive industry revenue and mitigate public expectations.

About the EITI

Our mission is to promote understanding of natural resource management, strengthen public and corporate governance and provide the data to inform greater transparency and accountability in the extractives sector.

By becoming members of the EITI, over 50 countries have committed to disclose information along the extractive industry value chain – from how extraction rights are awarded, to how revenues make their way through the government and how they benefit the public.

Through participation in the EITI, countries agree to a common set of rules governing what has to be disclosed and when – the EITI Standard. In each country that has joined the EITI, a multi-stakeholder group, composed of government, companies and civil society supports implementation of the EITI Standard.

For more information, visit
eiti.org/soe

