

Clientelism in SOEs

Instruments, dilemmas

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Clientelism

In theory, corruption / clientelism / state capture in SOEs have three main avenues:

- A.** Buy goods and products for own use at above market prices (fraudulent procurement)
- B.** Sell goods, services or *assets* preferentially, at below market prices, to various individuals/entities (reverse of A)
- C.** Nepotism / politicization in hiring, firing, management

Clientelism: a project

Project to evaluate sample of SOEs in 4 countries: BG, CZ, IT, RO

- 10-15 each, comparable
- Diversity by sector, level (central / local)
- With / without public service obligations
- % state ownership, listed / not listed
- For profit (competition) / not-for-profit (*regies autonomes*) / quasi-state administration (roads company, research institutes)

Procurement

We need to build instruments in these three areas.

A. Do they apply the general procurement rules? Are there exceptions? Are exceptions justified? Can we measure the deviations from the rules applicable, in practice?

- Can we find creative ways to estimate indirectly the magnitude of the loss from over-estimated procurement (~sector)?

Selling

B. Do they use open, competitive process for selling whatever they produce (or disposable assets) in order to maximize revenues? Are there exceptions for “preferred clients”? Are these exceptions justified? Can we measure the deviations from the rules applicable, in practice?

- Can we find creative ways to estimate indirectly the magnitude of the revenues foregone by below-market selling?

Governance

- C.** Nepotism / parties / clans influence the management and HR policy of the SOEs
 - Is there a common practice to apportion SOEs by party in coalition governments?
 - Are there other networks controlling the SOEs management (by sector, etc)
 - Widespread conflicts of interest (i) inside the SOE; (ii) in relationship with owner-ministry, regulator, etc

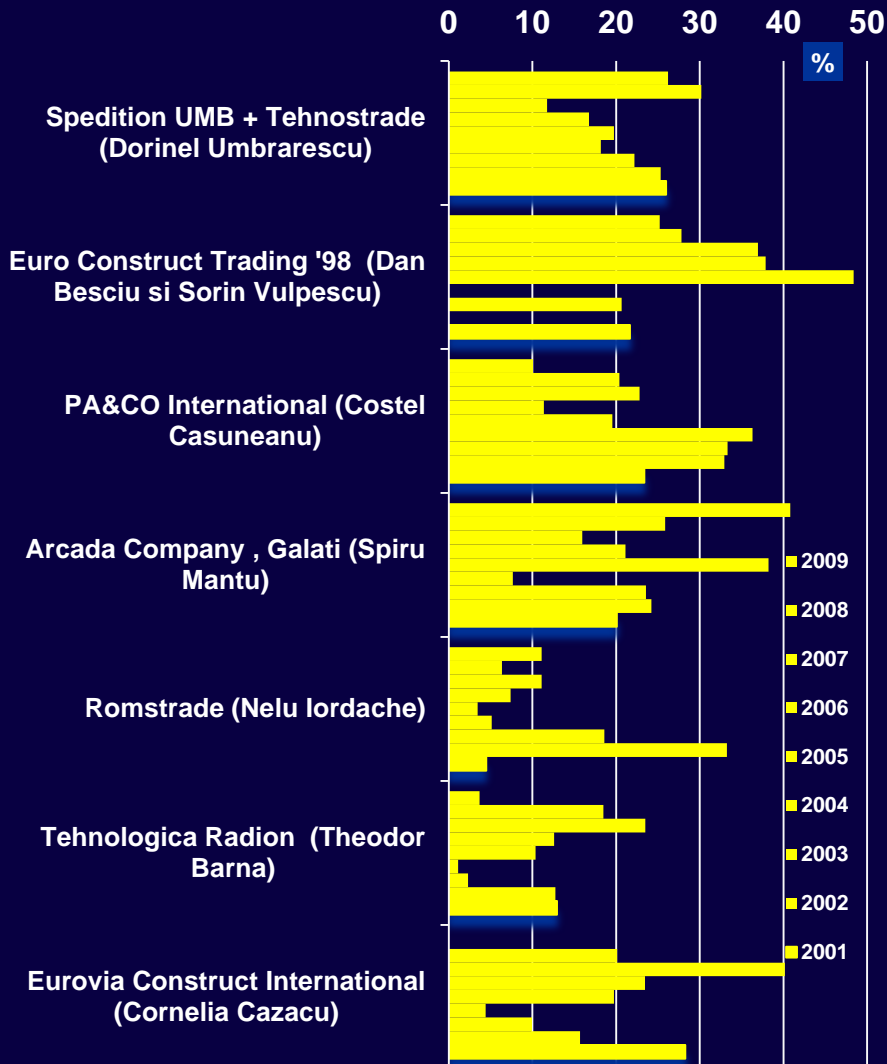
Instruments

A. Procurement:

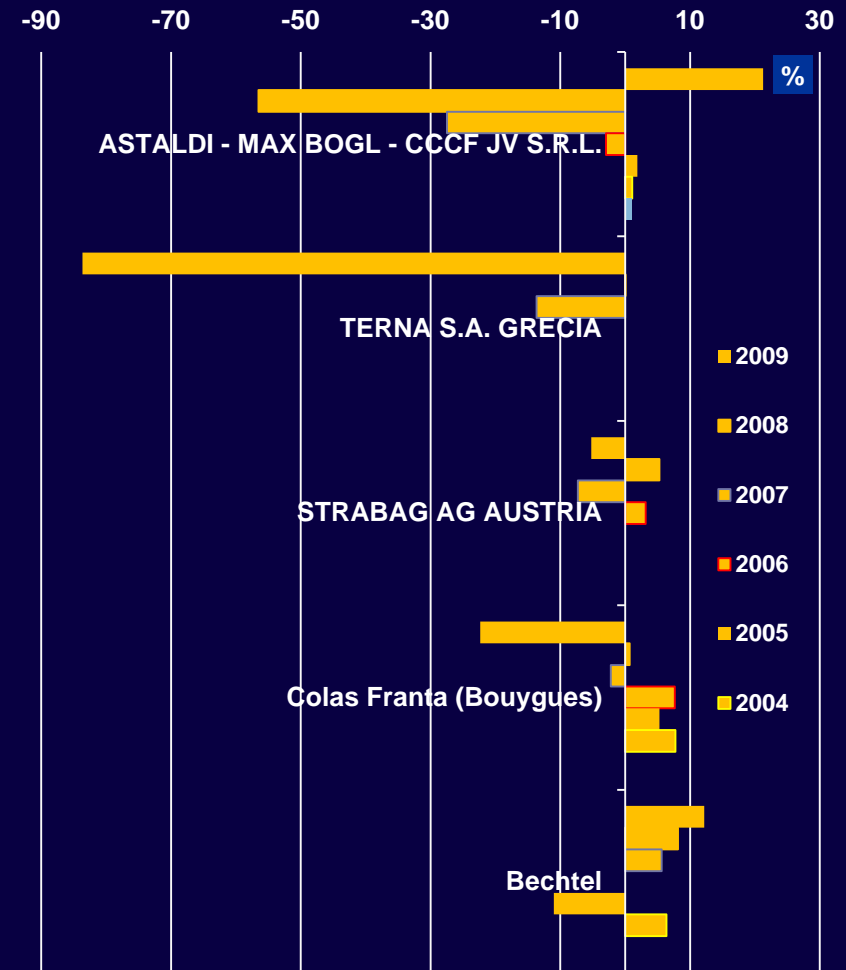
- Unjustified exemptions from the general procurement framework (cases)
- Price benchmarks (above market) using the available data (e-procurement)
- Unusually high profits for their suppliers / contractors

Ex: net profit reported, %

Romanian comp



Multinational comp



Instruments

B. Selling:

- Preferential prices (below market) for selected partners
- Opaque contracts to the same effect, through complex conditions / formulae
- Ex. **Hidroelectrica**: net loss from uncompetitive sales (and some procurement) in 2009, 190 mil Euro
- For 2002-2013: net loss 2.5 bn Euro

Instruments

Other issues with impact in A or B:

- Price distortions for various reasons
- Net social loss through bad policies, rent seeking (are they clientelist by design or not?)
- Regulatory failure (where prices / operations are regulated): poor regulation; unpredictability; political capture of the regulator; dual role of line ministries

Instruments

C. Governance issues (the OECD guide):

- Rationale for state ownership
- SOEs position in marketplace
- Equitable treatment shareholders
- Stakeholder relations
- Disclosure / transparency
- Board appointment & responsibility

Issues, dilemmas

- Can we find robust, objective indicators (i.e. no opinion-based) on A-B-C?
- Similar assessments?

What is **clientelism/capture**? options:

- Narrow definition: clientelism = corruption + some nepotism
- Broader definition: clientelism = bad governance in general, perpetuated through mechanisms A–B–C

Issues, dilemmas

Practical effects:

- Industries which are not economically viable anymore (ex Oltchim): is their very existence an act of clientelism?
- What is the difference between legitimate “industrial policy” and outright *rent-seeking* by particular groups? (ex. natural gas at below market price)
- When is an imbalance between profit and social obligations clientelism?