

CASE STUDY 7

STATE OWNED ENTERPRISES

Enhancing SOE Accountability in Colombia

A citizen-centric approach to increase efficiency and enhance accountability in the Medellín SOE

Introduction

Poverty and inequality, corruption and chronic violence tormented Colombia in the 1990s. The city of Medellín was one of the most affected, with the homicide rate oscillating between 245 and 400 per 100,000 in the early 1990s. The high murder rates coincided with rapidly increasing rates of all kinds of crimes against property and people, as the criminal justice system nearly collapsed.²³ In an effort to restore peace and advance broader reforms in the country, engaging civil society was a staple part of Colombia's efforts.²⁴ This was important because Colombia already had a very active and engaged civil society.

A profound change process started with important legislative amendments, including changes to the Constitution, followed by all-encompassing reforms, which continue to this day. The new Constitution of 1991 introduced significant revisions, such as the new model of economic development that also targeted the SOE sector. As a result, public utilities were opened to private investment, which also allowed free agent entry and competition. Following that key step, the Colombian Congress strengthened the legal framework for the electricity sector through the issuance of critical laws.²⁵ All these legislative changes provided the foundation on which the Colombian SOEs later built their success.

Empresas Públicas de Medellín (EPM), a commercial and industrial state company wholly owned by the Medellín municipal government, illustrates how sector reforms were successfully introduced in a very challenging environment, which in the 1990s included very high levels of corruption and extraordinary violence. It also shows how these reforms evolved through a long process which originated in legislative changes and continued in a quest to strengthen transparency, citizen engagement, and corporate governance. Indeed, Colombia can be considered as good practice in the area of SOE reforms both in terms of the breadth and depth of its legislative changes and, even more importantly, in terms of implementation—the how of the reforms, not only the what. Although certain challenges remain, EPM showcases the importance of enforcing good standards and putting in place practical tools. What sets EPM apart from its Colombian and Latin American peers is its effective community-based or citizen-centric approach to improve service delivery, increase transparency, and prevent corruption. The transparency that came with this approach and the citizen monitoring tools the Colombians put in place were very effective mechanisms, perhaps even more than pure rules-based anti-corruption policies or traditional corporate governance approaches, which nevertheless remain important.

Fostering transparency in the Medellín SOE

The Empresas Públicas de Medellín (EPM) or the Medellín SOE is providing public utilities—including water, gas, electricity, and telecommunications—in the Colombian city of Medellín. In addition, EPM has a majority stake in and management control of 44 companies in Colombia and five other countries. Since 1957, EPM has included transparency towards the public as one of the basic principles of its business culture. From the start, it appears that there has been

awareness that EPM, although an autonomous body, is also a public service and, therefore, ‘ultimately owned by the citizens of Medellín’.²⁶ This has helped to foster a policy of transparency towards the public, which is kept well informed about its different activities through both the press and other means of communication. EPM identifies citizens as a paramount factor in ‘shielding’ it from political changes or decisions that could affect its sustainability and fosters mechanisms of communication with the community and social control.

This has also been noted by *Corporación Transparencia por Colombia*, the Colombian chapter of Transparency International, which in its 2016 measurement of the

BOX 3.1

About Empresas Públicas de Medellín

EPM is a decentralized municipal entity, created in 1955 as an Autonomous Public Establishment and transformed into an Industrial and Commercial State Company (EICE) of a municipal nature in 1997. As an EICE, EPM has legal personality, administrative and financial autonomy and its own capital while, as a public service company regulated by Law 142 of 1994, its acts and contracts are subject to private law, except when expressly indicated otherwise in the Constitution or the law. EPM’s purpose is to provide public aqueduct, sewage, energy and gas distribution, mobile telephony and other telecommunications services. It can also provide street cleaning services and undertake any other complementary activity related to all these public services and the treatment and reuse of waste. In addition, under its statutes, the company can enter into any type of contract or partnership or form consortia with other individuals and legal entities for the purpose of achieving universality, quality and effectiveness in the provision of public services to its users, fostering general welfare and improvement of the population’s quality of life.

Although the owner of EPM is the Medellín municipal government represented by the Mayor, in practice, the citizens of Medellín consider themselves to be the real ‘owners of the company’.²⁶ Along with the requirements established by the company’s Board for the development of its corporate governance practices, this perception is one of the key factors that has contributed to protect EPM from possible interference in its administration and strategy, with citizens looking out for and protecting the company from interference that could be detrimental to the SOE’s purpose. This has been accompanied by the development of a corporate culture under which citizens consider themselves ‘the DNA of the company’. In fact, as a response to corruption allegations, the civil society created a surveillance committee to observe and control the Mayor’s decisions and actions that could negatively affect the company. Also, a professional union was created with the sole purpose to isolate EPM and shield it from political interference in its corporate decisions. This culture appears not only to have persisted over time, but also to have grown, both in Medellín and the regions where EPM currently provides services.

Source: Empresas Públicas de Medellín. EPM.²⁷

components of dialogue and control, highlighted EPM's commitment to promoting citizen participation in control of its management. In the business transparency assessment 2018, EPM obtained a final score of 89.6/100 average points, standing as a company with a low level of corruption risk. This assessment indicates how well the policies and mechanisms prevent corruption risks, facilitate access to information, and promote spaces for dialogue and participation with the different stakeholders. For more than 10 years, EPM has participated voluntarily in the business transparency assessment promoted by *Transparencia por Colombia* Corporation. The overall goal of the business transparency assessment is to improve transparency and anti-corruption standards and serve as a tool that identifies institutional designs and practices that lead to corruption risks.

In *Medellin Cómo Vamos* (Medellín How Are we Doing?), an annual Citizen Perception Survey on quality of life in different areas and strata of the city, EPM regularly occupied the first or second place of citizen trust. In 2018, 88% of the population had a favorable image of EPM and 77% rated their business management as good or very good.

The implementation process

Corruption has long been a significant problem in South America and Colombia and remains a challenge even today. In 2018, the country ranked 99th out of 180 countries in Transparency International's Corruption Perceptions Index.²⁹ According to the *AmericasBarometer 2017*, published by the Latin American Public Opinion Project³⁰ the perception of corruption in Colombia reached 74.9%. This is also reflected in the World Bank's *Doing Business* which indicated that, in the view of businesspeople, corruption is the factor, which most hampers companies' competitiveness.^{31,32}

In a challenging environment, EPM has had a unique and successful approach to increasing transparency and strengthening corporate governance. Rather than making the anti-corruption agenda a goal in itself, the SOE placed citizens at the center of its policies and focused attention on improving service delivery and maximizing profits. Consequently, the company reached unprecedented success, although it has not been immune to controversy.³³

Strengthening corporate governance

During 2018, EPM evaluated the boards of directors and managers of its companies. The strengthening plans were implemented and executed throughout the year, and the rules of procedure of the international affiliated companies' boards were unified. As of 2020, those rules were in the process of being adopted.

During 2018, EPM's Ethics Committee met, with support from an external advisor. Progress was made in the analysis of "ethical dilemmas", and the adjustment to the organizational structure of ethical management was approved as an opportunity for improvement and to assure the implementation of the Ethical Management Model that began to operate in 2019. Each one of EPM's affiliates defined elements for ethical management, according to their characteristics and dynamics and based on some minimum aspects approved by the EPM's Ethics Committee. A roadmap for the implementation of the Ethical Management Model was designed and adopted with support from donors.

EPM also strengthened the ethical and transparent management practices with suppliers and contractors. In addition to the warning made to suppliers and contractors for making false purchase orders in the name of the company and its affiliates, EPM decided to strengthen the "Zero hour for procurement" strategy. For this purpose, familiarity with the Code of Conduct was reinforced, and relevant information related to the procedure for submitting purchase orders was adjusted and provided to contractors.

In February 2018, the Transparency and Integrity Strategy for small and medium enterprises (SMEs) was launched with support from donors and the Colombian network of United Nations Global Compact. The objective was to strengthen the capacity of SMEs to identify processes susceptible to corruption and implement actions for their protection, in accordance with Law 1778 of 2016. In October 2018, EPM created a Committee to recommend actions when cases of non-compliance with the Code of Conduct for Suppliers and Contractors of Grupo EPM or risks associated with engagement with third parties are detected.

Improving citizen engagement

EPM developed several practices to facilitate its

engagement with citizens. As a base for this engagement, EPM holds a public event that is broadcasted on local television with live questions from journalists and the presentation of its Annual Sustainability Report as well as other community engagement and educational programs.³⁴

In 2019, EPM created a new communication channel called “Transparent Contact” where citizens could report acts of fraud and corruption involving officials and contractors. The initiative sought to prevent and eradicate bad practices and create a transparent working environment. Citizens could make reports through a web page, a free hotline, email, or fax. “Transparent Contact” aimed to improve detection of conflicts of interest, unethical behavior and other types of irregularities, and enable EPM to act with greater speed in responding to such situations.

Since 2019, EMP has enabled other citizen participation spaces by the release of various *participation exercises*,

which are intended to consult and/or inform the public on different relevant matters. For instance, through these mechanisms EPM has asked the public for ideas on how to make EPM a more innovative company and has consulted their opinions on how they wish to receive information regarding high visibility projects.

Providing citizens with digital tools to facilitate access to information, improve experience, and increase transparency

Digitalization reduces opportunities for petty corruption and facilitates transparency, 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.³⁵

In order to improve the experience of customers and provide them with more options, EPM enhanced self-

BOX 3.2

Power Sector Reforms in Colombia and the Success of EPM

Colombia’s experience of successfully advancing reforms in the power sector showcases many lessons for policy makers and practitioners. One of them is related to the country’s ability to reach compromise and accommodate the competing interests of national and municipal governments. Consensus was critical to the successful implementation of an ambitious reform agenda.

Colombia’s power sector has long combined national-level power utilities, controlled by the central government, along with powerful municipal utilities—notably EPM in Medellín and EEBB in Bogotá. Together, these companies accounted for about 40 percent of electricity distribution in the country. There had long been tension over the allocation of roles between central government and municipal actors in the sector, and this came to a head when the sector reform laws of 1994 called for privatizing the utilities. The municipal governments objected, and a compromise allowed EPM and EEBB to remain vertically integrated public utilities if they separated the accounting of their generation and distribution activities and abided by new restrictions on market shares in their activities.

EPM flourished under the new regulatory framework and remains to this day a successful, vertically integrated publicly owned utility and one of the main actors in the power sector. EEBB was unable to turn its performance around and eventually underwent vertical separation and privatization.

Source: WB Rethinking the 1990s Orthodoxy on Power Sector Reform, Flagship Report, June 2019³⁷

service solutions and digital channels. Six spaces were enabled in strategic areas of the city of Medellín, called “Puntos fáciles” (Easy points). These self-service spaces are equipped with technological devices so that citizens can use new technologies with the aim to have a better customer experience and easier interaction with the company. Users can perform up to 20 types of online transactions, which reduces transaction costs and increases transparency.³⁶

During 2018, EPM managed to interact with more than 601,000 people from all over the country, by conducting educational activities with the community. Through the strategies *Por ti estamos ahí* (We are there for you) and *Cercanías* (Surroundings) 80 programs were developed in the country, in which EPM talked with 159,000 people about the provision of residential public services. With the *Cuidamundos* (Take Care of the World) program, EPM interacted with more than 72,000 students, seeking to encourage care for the environment and promote the proper use of public utilities.

Seeking to consolidate EPM as a strategic ally of its corporate customers and leverage commercial offers, various business outreach programs, including academic and regulatory events, were conducted in 2018, in which more than 1,000 employees of government institutions and about 5,000 employees of EPM customers participated. In addition, 300 industrial customers received academic advice and 586 small businesses participated in energy efficiency awareness campaigns.

Reflections

Preventing corruption and increasing transparency in the SOE sector is critical to reducing negative economy-wide impacts and to creating an environment of trust, transparency, and accountability in which SOEs operate. The case of EPM shows that better governed SOEs are better equipped to raise integrity standards and culture, protect their reputation and that of the state, and give confidence to stakeholders, especially investors and consumers. This is critical since better governed SOEs are also better able to access finance through capital markets and attract private investment to grow their business. By being more transparent and accountable, they support sustainable development.

The case of EPM emphasizes several good practices that stand out and from which practitioners and policy makers around the world can learn. These lessons can be easily replicated, especially in those contexts where there is a vibrant civil society and citizens are active and feel empowered to play a role in the quality of the services that the state is providing, as is the case in Colombia. EPM’s corporate culture promoted the idea that the SOE is ultimately owned by the citizens of Medellín, a culture which in turn fosters transparency and helps prevent corruption. Although certain challenges remain, EPM can be commended for its efforts to continuously enable citizen participation through innovative tools, such as the creation of special purpose spaces and channels. Through a range of mechanisms, it is asking the public for ideas on how to make EPM a more innovative company and on how they wish to receive information on subjects of interest.

Here are a few practices that stand out:

1. EPM developed several good practices to facilitate engagement with customers. For example, the corporate governance model of EPM is highly participatory as provided by the Law of Domiciliary Public Services (Law 142 of 1994).
2. EPM’s new communication channel “Transparent Contact” can be used by citizens to report acts of fraud and corruption that involve officials and contractors. This is a multichannel tool that includes a web page, a free hotline, an electronic mailbox and a fax, through which the community may report acts associated with fraud, corruption, or violation of the norms or policies established by EPM.
3. The Medellín *Cómo Vamos* (*Medellín How Are We Doing*) Program is a private inter-agency alliance with the objective of evaluating changes in the quality of life of the city of Medellín from the perspective of its inhabitants. This involves several private institutions to incentivize alliances and promote effective and transparent government through informed and participatory citizens.