Reforming National Oil Companies: Nine Recommendations

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Some national oil companies (NOCs) have contributed heavily to successful efforts to harness benefits from the oil sector and drive broader national development. In other cases, however, NOCs have become inefficient managers of national resources, obstacles to private investment, drains on public coffers, or sources of patronage and corruption. As such, NOC reform—incremental in some cases, fundamental in others—lies at or near the top of the policy agendas of many oil-rich countries.

Building on existing literature, we surveyed 12 NOCs from diverse geographical and operational contexts to distill practical steps that policy-makers can take to make their countries' NOCs more effective and more accountable—to governments and to citizens. Our research resulted in the following nine recommendations for NOC reform:

	Recommendation	Core features
Defining and financing a commercial mandate	1. Carefully define commercial and non-commercial roles. Limit non-commercial activities where sophisticated or expensive commercial activities heighten the risk and cost of conflicts of interest.	• Define a clear commercial strategy, and adhere to it. • Clearly define what the NOC will not do, and enforce consistently. • Limit regulatory role at stage where NOC aspires to true competitiveness.
	2. Develop a workable revenue retention model.	• Navigate competing pressures: NOC needs access to sufficient revenue flows to cover costs, but where NOC has too much control over state finances, it risks becoming a parallel state. • Other things equal, the higher the NOC's investment needs, the higher the justification for it to have autonomy over revenue flows. • Other things equal, the higher the share of overall public revenues passing through the NOC, the lower the justification for it to have autonomy over revenue flows.
	3. Procure external financing by listing some NOC shares on public stock exchanges or issuing external debt where appropriate.	• Take advantage of capital-raising and corporate governance impacts of markets.
Limiting political interference in technical decisions	4. Define clear structures and roles for state shareholders.	• Limit the number of government shareholders to promote coherent management.
	5. Empower professional, independent boards.	• Make appointments according to well-defined, meritocratic processes. • Emphasize technical expertise rather than political patronage.
	6. Invest in NOC staff integrity and capacity.	• Adopt strong employee accountability provisions. • Promote training and merit-based promotion. • Restrict conflict of interest. • Encourage learning orientation throughout company.
Ensuring transparency and oversight	7. Maximize public reporting of key data.	• Disclose revenues, costs, revenue flow between NOC and the state, production, plans, results of oil trading and quasi-fiscal activities.
	8. Secure independent financial audits, and publish them.	• Commission audits by skilled independent professionals, and make results available to citizens.
	9. Choose an effective level of legislative oversight.	• Ensure responsibility of NOC and its officials to answer to the legislature without unduly constraining decision-making.

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