

Coalition Statement on the Revision of the Equator Principles March 2006

The current revision of the Equator Principles¹, a set of voluntary commitments by some of the world's largest banks to condition their financing of projects on the adherence to environmental and social standards, provides an important opportunity for banks to take concerted action to improve accountability in extractive industry investments. Following the lead of the IFC and EBRD, banks should match emerging standards of best corporate practice by requiring revenue and contract transparency from all clients in the oil, gas and mining sectors.²

The extractive industries constitute the major source of investment for many developing countries. To meet growing global energy needs over \$50 billion will be spent by the end of the decade to open up oil fields in Africa, which will see hundreds of millions of dollars flowing into poor countries.³ Revenues from natural resources are paid to host governments in the form of taxes, royalties and other payments and, if properly managed, can provide the means for economic growth, poverty alleviation, and stability. However, lack of transparency over revenue flows has meant natural resource wealth too often translates into corruption, poverty and conflict. Nigeria, for example, has received over \$350 billion in oil revenues over the past 30 years but the percentage of the population living in poverty has increased from 30% to almost 70%, the majority of citizens live on less than \$1 a day and devastating civil conflict persists in the Niger Delta, the country's main oil-producing region.

Institutional investors representing over \$8.3 trillion in funds have stated: "*Companies that make legitimate, but undisclosed, payments to governments may be accused of contributing to the conditions under which corruption can thrive. This is a significant business risk, making companies vulnerable to accusations of complicity in corrupt behaviour, impairing their local and global 'licence to operate', rendering them vulnerable to local conflict and insecurity, and possibly compromising their long-term commercial prospects in these markets.*"⁴ The core business and investment benefits of transparency have also been recognized by the G8, EU, IMF, World Bank and extractive companies themselves.⁵

Given the important role that banks play in financing private sector projects around the world, it is critical that signatories to the Equator Principles now join in the global push for transparency in extractive sectors. Two recent developments provide great impetus for banks to incorporate revenue and contract transparency requirements into the new and updated Equator Principles:

- Following a review of its social and environmental safeguard policies, the IFC now requires extractive industry clients to "publicly disclose their material project payments to the host government (such as royalties, taxes, and profit sharing), and the relevant terms of key agreements that are of public concern, such as host government agreements (HGAs) and intergovernmental agreements (IGAs)" for all new 'significant' projects. Revenue transparency will be a condition of IFC support for *all* extractive industry projects by January 2007. These obligations are set out in the IFC's new Social and Environmental Sustainability Policy. Although the draft of the new Equator Principles published in early March 2006 is based largely on the IFC's new Performance Standards, several important aspects of the IFC Sustainability Policy are recognized parts of the Equator Principles commitment (e.g. IFC categorization process). Hence the updated Equator Principles should adopt the revenue and contract transparency commitments as well.
- The EBRD's new Energy Policy states that it will "require adherence to best international transparency and revenue management standards in projects for production, transportation, distribution and processing of oil, gas, and coal."⁶

PUBLISH WHAT YOU PAY

Extractive companies face enormous risks in untransparent and unstable environments, and these risks are likely to increase as the race to secure new energy supplies moves into ever more remote and volatile regions. Requiring transparency in payments by their extractive sector clients to governments should therefore be a minimum requirement for financial institutions in order to safeguard investments and to prevent them exacerbating corruption and creating conflict. After all, transparency is good for business and good for development.

The Publish What You Pay international coalition, comprised of 300 NGO members from over 50 countries, campaigns for transparency over the payment, receipt and use of natural resource revenues so that citizens can hold their governments accountable for the management of this vital source of income for resource-rich developing countries to prevent corruption and to promote sustainable development.

Contacts

- Sarah Wykes, Oil Campaign, Global Witness, swykes@globalwitness.org or +44 20 7561 6362
- David Waskow, International Policy Analyst, Friends of the Earth USA, dwaskow@foe.org or +1 202 222 0716
- Henry Parham, Publish What You Pay International Coordinator: coordinator@publishwhatyoupay.org or +44 20 7031 0204

Notes

¹ The Equator Principles are supported by 39 banks from 16 countries. In their current form they are based on the environmental and social safeguard policies of the International Finance Corporation (IFC). As such, they do not provide any specific guidance for extractive sector projects. A copy of the draft new Equator Principles is available at www.equator-principles.com.

² Revenue transparency means that all material fiscal payments from a project are publicly disclosed and independently audited. Contract transparency means the publication of key terms and clauses that are material in the determination of fiscal revenues from the project. There is an emerging consensus that disclosure of such information is desirable and that it is ultimately beneficial to both the citizens of the country and to the companies operating there. Several international oil firms, such as Statoil, Newmont and Talisman, are already disclosing payments on a country-by-country basis and contracts have been published for the Baku-Tbilisi-Ceyhan pipeline on the internet.

³ “Bottom of the Barrel: Africa’s Oil Boom and the Poor”, Catholic Relief Services, see: http://www.crs.org/get_involved/advocacy/policy_and_strategic_issues/oil_report_one.cfm

⁴ “Investors’ Statement on Transparency in the Extractive Sector,” F&C Asset Management on behalf of an alliance of European and American fund managers and investment firms. See: <http://www.publishwhatyoupay.org/english/pdf/relstatements/investors.pdf>

⁵ See, for example, “G8 Declaration on Fighting Corruption and Improving Transparency”: http://www.g8.fr/evian/english/navigation/2003_g8_summit/summit_documents/fighting_corruption_and_improving_transparency_-_a_g8_action_plan.html

⁶ The European Bank for Reconstruction and Development (EBRD) published a draft of its new Energy Policy in March 2006. The EBRD states that in requiring adherence to best international practices on transparency and revenue management in EBRD-financed projects: “*this means: in countries which have endorsed the Extractive Industries Transparency Initiative, requiring project sponsors to follow its applicable principles; and in countries which have not endorsed EITI, requiring the sponsors to implement measures that will raise transparency and governance in such projects to levels of good international practice.*” See: <http://www.ebrd.com/about/policies/sector/energy/new.htm>