



global witness

## Bank, Fund must lead on transparency in oil, gas and mining

Revenues from oil, mining and gas are vital to about 60 developing or transitional countries, where more than two-thirds of the world's poorest people are surviving on less than \$2 a day. Twelve of the world's most mineral-dependent states and six of the most oil-dependent are classed by the World Bank as Highly Indebted Poor Countries. These states have some of the worst human development indicators in the world and many have been devastated by conflict.

In many of these countries, governments do not provide even basic information about natural resource revenues to their citizens, who often own the resources under their constitution. Similarly, multinational resource extraction companies do not publish information about what they pay to governments for access to these resources. Citizens therefore cannot call their governments to account over the way this resource income is managed. As a forthcoming Global Witness report will demonstrate, the results of this opacity are pervasive corruption, entrenched poverty, the reinforcement of authoritarian government and regional instability.

The current lack of transparency creates a lose-lose situation for all parties. Ordinary citizens in resource-rich-but-poor countries are left dispossessed and reliant on donor assistance. Multinational corporations see their legitimate revenues to governments misappropriated and squandered and they also risk being accused of complicity in corruption. Taxpayers in the North are called upon to provide aid to compensate for state failure in the South. The international community also faces instability and state failure that in some cases may directly threaten the security of energy supply. Investor concern about these issues is growing, as shown by a recent statement in favour of revenue transparency by 38 major European, North American and South African fund managers who control some US\$3 trillion worth of funds.

The World Bank Group and the International Monetary Fund are in a key position to promote revenue transparency because of their central role in macroeconomic restructuring and their technical expertise. The Bank and the Fund have publicly recognized the importance of the issue and endorsed the UK-led Extractive Industries Transparency Initiative (EITI), which is attempting to promote action by governments and companies on this issue. However, neither organisation has taken concerted action to date.

So far, the EITI has identified the main revenue streams in the resource extraction business, developed a series of templates for collecting data and identified several pilot countries that are willing to begin transparent reporting. The Bank and the Fund must now act to support the Initiative by providing significant technical assistance to participating countries and by incorporating the EITI's disclosure templates into their own fiscal and data disclosure standards. All Poverty Reduction and Country Assistance Strategy processes for resource-rich countries should include the participation in the EITI and a meaningful dialogue within those countries about the disclosure of resource revenues.

However, the voluntary reporting approach proposed by the EITI is unlikely to work in many of the countries where open reporting is most needed, because political and business elites have a vested interest in avoiding transparency so as to cover their own misuse of resource revenues. In Angola, for example, billions of petrodollars are still missing from the state budget whilst more than 300 children die each day of preventable diseases. To overcome such vested interests more effectively, the Bank and the Fund should mainstream a requirement for transparent reporting of revenues across all their engagement with the extractive sector and with assistance programmes for resource-rich countries.

Continued over...

Indeed, an internal evaluation of the World Bank Group's performance in the extractives sector in January 2003 highlights the need for 'a fundamental reorientation of the Bank's work ... away from prioritizing the attraction of new investment and toward capacity building and technical assistance'. The report states that due to the 'links between poverty and poor governance ... increased EI [Extractive Industry] investment is likely to lead to bad development outcomes for many if not most of the Bank's clients.'

A central part of this policy reorientation should be to mainstream a requirement for revenue transparency across the Bank's technical assistance, lending and private sector guarantee portfolios. An August 2003 report by the Operations Evaluation Department on '*Extractive Industries and Sustainable Development*' similarly suggests that the Bank 'should vigorously pursue country- and industry-wide disclosure of government revenues from EI and related contractual arrangements (such as production sharing agreements, concession and privatization terms). It should work toward and support disclosure of EI revenues and their use in resource-rich countries'.

The Bank should also mainstream genuine consultation with stakeholders and civil society into its Poverty Reduction Strategy Process. The reorientation towards a focus on capacity-building could include the Bank acting as a 'clearing house' to facilitate the collection and synthesis of revenue information from companies and governments and its delivery to civil society and investors.

The Bank has already shown leadership on revenue transparency in the Chad-Cameroon Pipeline project. Despite providing only a small percentage of the total funding, it required disclosure and the independent auditing of revenues from the extraction and transit of oil through the Pipeline. However, there have been sobering problems. Institutional capacity to manage oil money has lagged far behind pipeline

construction and money from signature bonuses has been diverted into off-budget arms purchases.

This experience should inform the Bank's future engagement on revenue transparency: unless the Bank is committed to consistent engagement on the issue, it risks being courted when its endorsement is necessary for the credibility of a project and sidelined thereafter.

Although the IMF has a clear policy of promoting budgetary transparency, its engagement with non-transparent, oil rich countries like Angola and Congo Brazzaville has lacked a requirement for the full results of audits and assessments in the oil sector to be published. There has been some progress, in that a sanitised summary of Angola's 'oil diagnostic' exercise has recently been published and that the recent Article IV report on Congo Brazzaville states that transparency could be promoted by 'publication by oil companies of all payments made to the government each year.'

These *ad-hoc* actions now need to be made more systematic if they are to support IMF efforts to promote a code of good practice on fiscal transparency more widely amongst its members. It is troubling that the Fund would consider a restructuring programme without a clear requirement for double-entry book-keeping of oil monies (by companies and governments) in countries like Angola where governance is weak.

Revenue transparency is necessary for development, good governance and international energy security. Without it there can be no accountable government. Unless the Bank and the Fund commit themselves to mainstreaming a requirement for revenue transparency across all their lending, development and technical assistance programmes, they will inevitably fail to address the underlying reasons for poverty and macroeconomic mismanagement in resource-rich-but-poor countries.

Global Witness

tel: +44(0) 207 272 6731, fax: +44(0) 207 272 9425  
www.globalwitness.org, www.publishwhatyoupay.org



global witness