



**Trade and Industry Select Committee
Inquiry into the Export Credits Guarantee Department**

**Submission by the “Publish What You Pay” NGO Coalition
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The importance of transparency in the extractive industries

Oil, gas and mining industries are an important source of income for governments of over 50 developing countries. However, in most cases revenues from resource extraction have not addressed the horrific poverty of citizens living in these countries. Extractive industries have also worsened corruption and fuelled many civil conflicts, which has impeded economic growth and development, and threatened business interests. This has been exacerbated by the lack of transparency and government accountability for the management of this income. In Angola, for example, one child dies of preventable diseases and malnutrition every three minutes and three-quarters of the population are forced to survive on less than \$1 a day. Yet every year for the last five years, \$1 billion in oil revenues has disappeared from the Angolan state coffers – about a third of state income.

In order to address this problem, the Publish What You Pay (PWYP) campaign was launched in June 2002 by George Soros and several UK-based NGOs including Global Witness, CAFOD, Save the Children UK and Transparency International-UK. PWYP calls for the mandatory disclosure of oil, gas and mining companies’ tax, fee and royalty payments to governments for every country of operation. The disclosure of payments information by companies is a vital first step to enabling citizens of developing countries who are the real owners of natural resources to hold their governments to account for the management of revenues. However, accountability and transparency will only be fully achieved if governments also publish information on all income received.

The benefits of revenue transparency have been very clearly highlighted in a recent statement by over 45 major British, European, North American and South African investment houses, which manage some US\$6.9 trillion in funds and hold significant stakes in all the main international oil companies. These fund managers consider the lack of transparency a significant business risk and necessary for a more stable investment environment.ⁱ There is also wide international agreement on the importance of extractive industries transparency, best exemplified by the G8 “Declaration on Fighting Corruption and Improving Transparency”ⁱⁱ and the launch of the UK government-led “Extractive Industries Transparency Initiative”ⁱⁱⁱ, a multi-stakeholder initiative that is actively considering in what ways disclosure of company payments and government revenues information could be implemented worldwide.

Revenue Transparency and the Export Credits Guarantee Department

The Export Credits Guarantee Department (ECGD) is committed to corruption prevention, best corporate governance practices, and the encouragement of responsible trade with, and investment in, developing countries, as set out in its Business Principles. Consequently, and

in light of the UK government's commitment to extractive industries transparency as a key avenue for sustainable development and good governance worldwide, the ECGD should require the disclosure of all payments (taxes, fees, royalties and other transactions) as a condition of its support to extractive industry companies seeking to gain access to insurance and credit guarantees. Requiring revenue transparency as a condition for all future export credit financing agreements between the ECGD and natural resource companies is consistent with the department's goal to "ensure its activities accord with other Government objectives, including those on sustainable development, human rights, good governance and trade."

With significant leverage over investments in the oil, gas and mining industries, it is clear that the ECGD has an important role in promoting revenue transparency worldwide by attaching appropriate conditions to all insurance and guarantees provided to companies. Transparency is essential in the ECGD's efforts to contribute to economic growth and sustainable development, achieved through the proper management of revenues derived from these projects by developing country governments. Transparency would also significantly benefit ECGD client companies by protecting them from allegations of complicity with corrupt governmental practices. This will significantly enhance and protect long-term business investments, particularly in the more risky and politically volatile developing countries where financial backing and insurance by export credit agencies is critical.

Conclusion

The goal of revenue transparency is fully consistent with international objectives of accountable government, corruption prevention, business integrity and democratic debate about issues of resource management. Transparency is a necessary condition of good governance, and should be recognised as such by the ECGD and donor governments when allocating taxpayers' money to oil, gas and mining companies operating in resource-rich developing countries. Investment in extractive industry projects should take place only within a coherent policy framework that makes such investments consistent with sustainable development goals. This is a vital first step to ensure that revenues from resource industries contribute effectively to the alleviation of the crushing poverty of ordinary citizens in many resource-rich developing countries.

For more information on Publish What You Pay

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ⁱ Investors' Statement on Transparency in the Extractives Sector, March 2004. See: www.publishwhatyoupay.org

ⁱⁱ Full G8 Declaration is available at: www.g8.fr

ⁱⁱⁱ For information on the EITI, see: www.dfid.gov.uk