



global witness

Global Witness Statement to the Extractive Industries Transparency Initiative

Global Witness very much welcomes the leadership shown by the UK Prime Minister and his Government in launching the Extractive Industries Transparency Initiative (EITI). We are struck by the speed with which other participants have joined this dialogue on transparency, and by the rapid recognition that secret deals and opaque revenue management must now end.

Revenue transparency is a fundamental requirement for economic growth in many of the world's poorest countries. Revenues from oil, mining and gas are critically important in about 60 developing or economic transition countries. Of the 3.5 billion citizens in those countries, some 1.5 billion live on less than US\$2 per day, representing over two-thirds of the world's poorest people. The World Bank identifies 12 of the world's most mineral-dependent states and six of the most oil-dependent states as Highly Indebted Poor Countries with amongst the world's worst human development indicators.

In many of these countries, governments do not provide even basic information about their natural resource revenues, nor do multinational resource extraction companies publish information about payments made to governments for access to those resources. Thus the ordinary citizens of the country – who often own the resources under their constitution - have no information with which to call their government to account over the management of those revenues. The pervasive effects of this opacity include massive corruption, entrenched poverty, reinforcement of authoritarian government, and regional instability.

(Several major examples of this problem will be the subject of a new Global Witness report.)

The current *status quo* is a lose-lose situation for all parties. Ordinary citizens are dispossessed and left reliant on donor assistance. Multinational corporations see their legitimate revenues misappropriated and squandered, and are vulnerable to accusations of complicity with corruption and its attendant reputational risk - as was recently pointed out by a consortium of investment managers with some US\$660 billion under management. Money from taxpayers in the North is then required in the form of aid to compensate for state failure in the South, which is inefficient and undermines other attempts to improve governance. The international community also faces instability that in some cases may directly threaten the security of energy supply.

Global Witness is highly concerned, however, that the voluntary approach explicitly proposed by the EITI will not work in those countries where it is most needed. Indeed, the Initiative meets today against a backdrop of an unprecedented number of major embezzlement scandals in the extractive sector involving billions of dollars of financial impropriety in several host countries, and also the largest ever foreign bribery investigation in the US. These cases illustrate how political and business elites have a vested interest in maintaining their cash supply and avoiding transparency.

A voluntary approach to transparency would not be universally adopted, and does not address the magnitude of the problem given that the missing

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money involved may literally mean life or death for the poor and vulnerable in some countries. Global Witness knows of one African oil producer where billions of dollars of oil revenues remain unaccounted for whilst over 300 children die each day of preventable causes.

Global Witness is proud to be a member of the Publish What You Pay coalition of over 120 Northern and Southern NGOs. The coalition has initially campaigned for a broad-based, industry-wide regulatory requirement to disclose net revenues to all national governments through extending existing policy instruments such as stock-market listing requirements, national and international accounting standards, and anti-corruption 'books and records' rules. The coalition believes that a regulatory solution will supersede confidentiality agreements signed with non-transparent governments and thus enable companies to avoid conflict with host governments over their contractual agreements. Any regulatory burden would be minimal because companies already know what they pay for internal accounting purposes, and need only publish those figures.

None of the current revenue scandals erupting world-wide could have happened if multinational companies had been required to publish what they pay.

It is also very important to increase the transparency of government revenue streams from

production sharing agreements and state-owned companies. The EITI principles and reporting schedules are a valuable first step to this end, but must be reinforced by the imposition of appropriate conditionality on relevant bilateral and multilateral development assistance, resource-backed loans from banks, and export credit agency funding. In addition, the World Bank and the IMF should be required to mainstream revenue transparency across their lending and technical assistance portfolios. Requiring resource-rich-but-poor countries to publish what they earn is a logical extension of the fundamental requirement that good governance be attached to aid disbursement as is mandated, for example, by the EU's Cotonou Agreement and the US International Anti-Corruption and Good Governance Act.

Revenue transparency is necessary for development, good governance and international energy security. Without it there can be no accountable government in resource rich countries. The only losers of these proposed regulations would be the corrupt few, who are already wealthy enough to be beyond our sympathy. It is their intransigence that makes the purely voluntary approach of the EITI, while a good first step, an insufficient basis for real change. The international community must require companies and governments to come clean about the revenues generated by natural resource exploitation.

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