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Enhancing Revenue Transparency in Oil & Gas Company Reporting

The natural resource revenues of a country should be used for the profit of its people and contribute to national development. Securing access to revenue information will make civil society better equipped to hold policy makers accountable for actions on related development decisions — both where companies are based and where they operate. Yet companies and governments need to provide greater and better quality information on extractive industry revenues from oil, gas and mining. Disclosure must include the funds producers pay to governments in return for permission to operate in their countries as well as budgetary data on how states use these monies. Such data will provide citizens with key evidence needed to pressure governments in resource-rich countries to utilise these revenues for the benefit of all.

What is the PRT project?

The Promoting Revenue Transparency (PRT) project is run by Transparency International in partnership with the Revenue Watch Institute. Additional participants in the project include CAFOD, CARE UK, Global Witness, Save the Children UK, Secours Catholique and other members of the Publish What You Pay (PWYP) global coalition.

As an independent civil society initiative, the PRT project complements the EITI approach by using a more expansive set of criteria to analyse the policies and practices of host and home governments as well as companies.

Within this framework, the project's *2008 Report on Revenue Transparency of Oil and Gas Companies* assessed 42 leading companies operating in 21 countries, based on the transparency of their reporting, including payments made to host governments.

'High' performers are considered companies that disclose country-by-country payments to host governments (e.g. taxes and oil profits) as well as accurate information on their operations (e.g. production and costs) and anti-corruption policies (e.g. codes of conduct, whistle blowing procedures and reporting). 'Average' performers are characterised as disclosing payments by geographical area that are made to host governments while 'poor' performers tend to make little information available in any of the assessed categories.

For more information, see: www.transparency.org/policy_research/surveys_indices/promoting_revenue_transparency.

1. Resource wealth and economic development

A country's oil, gas, and mining sectors, also known as the 'extractive industries' (EI), have the potential to produce enormous national wealth. According to recent figures, global oil exports generated nearly US\$ 900 billion in revenue, equivalent to slightly more than half of the national income recorded for the poorest 53 countries.¹

Yet natural resource wealth too often has come as a curse to many countries possessing it. Nearly sixty per cent of the world's poor live in countries endowed with natural resources. Among the developing world, empirical evidence suggests that resource-rich countries are plagued by slower growth, conflicts and civil wars, as evident by the turbulence gripping the oil-rich Niger Delta region.

World Bank data also indicates that oil-reliant economies exhibit strikingly low levels of public accountability and civil and political rights. With substantial oil and gas revenues flowing into the national budget, citizens have scant control over government spending decisions and transparency seems a long-off aim.²

This creates an environment which ultimately could lead to corruption. Corruption in resource-rich countries has meant that oil and gas revenues which should be invested in schools, hospitals, infrastructure and clean water are misappropriated or mismanaged, hindering these countries' development. Human Rights Watch, a non-governmental organisation, has estimated that in Angola more than US\$ 4 billion in state oil revenues 'disappeared' between 1997 and 2002, roughly the entire amount spent on government social programmes in the same period.³

In Nigeria, national and international watchdogs have suggested that corruption is fuelling the country's political, economic and social problems, with substantial sums of oil revenues going missing each year.⁴ While Nigeria's net oil export revenue in 2007 was estimated at US\$ 411 per capita,⁵ most Nigerians continue to subsist on less than one dollar a day.⁶

The country is trying to address the challenges of its resource wealth by requiring the company-by-company disclosure of revenue payments for all firms operating in Nigeria. National legislation passed in 2004 and signed into law in 2007 provides the statutory backing for its implementation in Nigeria. Good practice shows that such a regulatory step can help to better leverage a nation's resource wealth for a country's citizens and development as well as tackle corruption.

2. Ending corruption and promoting revenue transparency

Transparent resource governance is the key to reverse a country's resource curse into a blessing.⁷ Transparency can provide the groundwork for the responsible and equitable management of extractive industries that benefits companies, countries and citizens by:

- ☉ **Supporting public accountability.** It is not possible for citizens to mobilise for change without transparency and access to information. Informed citizens can stand up for their rights and hold public officials accountable for their actions, decisions and use of public resources. For increased accountability to happen there must be sufficient and accurate information about the resources being extracted as well as publicly available and accessible data on the flow of revenues. Yet most of the information on companies' payments for resource extraction rights and on government's use of these revenues remains beyond the public domain and outside citizen scrutiny.

- ☉ **Leading to less corruption.** Empirical research suggests that transparency is consistently associated with less corruption. For example, countries with a free press have a greater chance of controlling corruption.⁸ In addition, country experiences with public expenditure tracking surveys (PETS) illustrate the potential that access to information has in reducing political and bureaucratic capture, leakages of funds and loss of in-kind resources. A PETS conducted in Uganda in 2001 showed that the publication of data combined with a media campaign and an increase in central government monitoring reduced the diversion of education funds at the provincial level from 80 to 20 percent.⁹

- ☉ **Encouraging good company practices (and profits).** There are striking examples of transparent companies in the extractive industries that are able to raise capital, generate profits and capitalise on subsequent reputation gains. Stakeholders are more likely to trust companies that comply with high standards of integrity and transparency. Investors are increasingly considering socially-responsible corporate management and greater transparency as a way to enhance confidence in the financial markets. Disclosure is also likely to improve a company's image, making it less vulnerable to potential reputational damages. Transparent reporting can serve as an effective and reliable risk management tool for companies, investors and analysts.

Revenue transparency in the oil and gas sector, however, remains the exception rather than the rule, as a recent Transparency International study has shown, particularly with regard to companies' reporting on payments made to host governments.¹⁰ In many cases, even when information is disclosed, the data is made available in a format that makes it difficult to interpret and compare, compromising its relevance, quality and usability. A company's country-by-country disclosure of revenue payments still is not standard practice in the industry.

Yet a handful of companies are leading the way to change their habits and comply with the highest standards of revenue reporting. Their actions show that

What is EITI?

While differing in coverage and approach, a growing number of organisations worldwide are advocating for greater accountability in natural resource management and the transparent disclosure of financial information in the extractive sector.

The Extractive Industries Transparency Initiative (EITI) is at the forefront of multi-stakeholder efforts to increase revenue transparency. It is a voluntary programme that promotes better governance in resource rich countries by requiring full publication of company payments and government revenues coming from the extractive industries.

EITI today has 23 candidate countries which have committed to its principles and criteria. The process to become a compliant country takes two years and the current pool of candidate countries are expected to achieve this status by 2010.

For more information, see: www.eitransparency.org.

What is PWYP?

The Publish What You Pay (PWYP) campaign is a global civil society coalition that helps citizens of resource-rich developing countries hold their governments accountable for the management and distribution of revenues from the extractive industries.

The PWYP campaign is backed by civil society groups in nearly 70 countries worldwide. Coalition members call for the mandatory disclosure of company payments and government revenues from the oil, gas, and mining sectors as well as information on the licensing arrangements and extractive industry contracts that condition them. For more information, see: www.publishwhatyoupay.org.

transparency is possible, even in the most restrictive environments. In such states, company approaches to transparency disclosure is more strongly influenced by their own policies and home regulations than by host country legislation and the operating environment. Mandatory requirements and regulatory approaches are critical factors that contribute to promoting higher standards of reporting across companies, generating a level playing field.

3. Key recommendations

Although important steps have been taken by a few leading companies towards increased revenue transparency, the results are not industry-wide and significant shifts in sector practices remain pending. Recommended changes need to be adopted by companies, home countries (where the businesses are based) and host governments (where the resources are).

To promote revenue transparency on the part of each of these groups, TI recommends the following actions:

- 🌐 **Oil and gas companies** should publish the payments that they make to host governments for extraction rights. They need to report in a standardised format and on a country-by-country basis for all areas relevant to revenue transparency. Companies should act quickly to introduce proactive reporting, rather than wait for mandatory legislation to be passed.

- 🌐 Both **home and host governments** should introduce relevant legislation mandating country-by-country revenue reporting:
 - **Home governments** should regulate and require reporting of oil and gas resource flows for all revenue transparency areas related to the operation of their companies, both at home and abroad.¹¹
 - **Host governments** should publish how much money they receive from multinational companies. They should require all companies operating in their territories to make public all information relevant to revenue transparency and lift the confidentiality clause that currently covers most oil and gas contracts.¹²

- 🌐 **Independent regulatory boards** should also introduce transparency standards as part of the accounting and stock exchange listing requirements in use.

- 🌐 **Companies and regulatory agencies** should adopt a uniform global reporting standard to improve accessibility, comprehensiveness and comparability of reporting on all areas of revenue transparency

- 🌐 **Civil society groups** should monitor and demand accountability from governments for oil and gas revenues produced in their respective countries.

As these recommendations show, transparency is a shared responsibility among everyone. Companies need to work with governments and civil society to promote transparent reporting and should set the tone through their business practices. At the same time, host country governments need to be accountable for the use of their natural endowments. They must lead the way on enacting legislation that guarantees a more equitable use of their resource wealth. 🌐

This TI Policy Position is based on the recommendations presented in the TI report, *Promoting Revenue Transparency: 2008 Report on Revenue Transparency of Oil and Gas Companies*.

To learn more about this report and project, contact Francois Valerian (fvalerian [at] transparency.org) or visit: www.transparency.org/policy_research/surveys_indices/promoting_revenue_transparency.

For additional information on this policy position and others in the series, please contact Craig Fagan at the TI-Secretariat: [plres \[at\] transparency.org](mailto:plres[at]transparency.org).

TRANSPARENCY INTERNATIONAL

Telephone

+49-30-343820 -0

Fax

+49-30-347039 -12

International Secretariat

Alt-Moabit 96

10559 Berlin

Germany

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- ¹ The exact figure is US\$ 866 billion and is from 2006, the last year of available data when this paper was drafted. See: US Energy Information Agency: "OPEC Revenues Fact Sheet and major non OPEC Revenues", January 2006: (www.iea.doe.gov/cabs).
- ² Please see "Better governance for development in the Middle East and North Africa", <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/0..contentMDK:20261216~pagePK:146736~piPK:146830~theSitePK:256299,00.html>.
- ³ Please see www.hrv.org/english/docs/2004/01/12/angola6925.htm and www.hrv.org/reports/2004/angola0104/.
- ⁴ According to the Global Corruption Report 2004, Nigeria's anti-corruption commission accused successive dictatorships of embezzling US\$ 400 billion in oil windfalls while it is alleged that former president Sani Abacha alone embezzled US\$ 2 to 5 billion. (Please see: http://transparency.org/publications/gcr/download_gcr/download_gcr_2004).
- ⁵ Source: US Energy Information Agency: "OPEC Revenues Fact Sheet: OPEC Oil Export Revenues", September 2008. (www.eia.doe.gov/emeu/cabs/OPEC_Revenues/Factsheet.html).
- ⁶ Please see: http://findarticles.com/p/articles/mi_qn4158/is_20070131/ai_n17162584 and <http://allafrica.com/stories/200807250063.html>.
- ⁷ Revenue transparency is understood in this context as the publication of financial information that relates to the exploitation of oil, gas and mining industries with the view to increasing the public's knowledge of the scale and scope of extractive industry revenues.
- ⁸ Please see: <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBI/GOVANTCOR/0..contentMDK:21682817~isCU:Y~menuPK:1857736~pagePK:64168445~piPK:64168309~theSitePK:1740530,00.html>.
- ⁹ Please see: www.comminit.com/en/node/69950.
- ¹⁰ Please see TI's 2008 Report on Revenue Transparency of oil and gas companies www.transparency.org/news_room/in_focus/2008/promoting_revenue_transparency.
- ¹¹ Areas of disclosure relevant to transparency include: total amount of payments (in cash or in kind) to host governments or host governments entities on a country by country basis, breakdown of payments recipients by levels of government and between government and state-owned companies, and breakdown of payments between production entitlements, royalties, dividends, profit taxes, bonuses, profit oil, fees, other payments.
- ¹² Please see TI's 2008 Report on Revenue Transparency of oil and gas companies: www.transparency.org/news_room/in_focus/2008/promoting_revenue_transparency.