

CHAPTER 4 – www.eisourcebook.org

Transparency and Accountability

Knowledge Core

TINA There is no alternative. Investors and governments in resource-rich countries have now no choice but to engage with evolving new international norms and standards on transparency and accountability. Legal norms are being adopted in the home states of many large extractives firms that require them to meet transparency standards. Governments are increasingly becoming engaged with the requirements of the Extractives Industries Transparency Initiative (EITI).

Why? The poor record of governance in many resource-rich states and its damaging effects on their development have encouraged a consensus around ‘transparency’ as a policy response. The guiding idea behind these new norms, standards and legal rules is that if more information is available to the public, governments and extractive industries will become more accountable and resource revenues will be better spent, to the advantage of the countries concerned. It has become a cornerstone of Good Practice which EI companies increasingly have to comply with or face strict penalties.

In light of the large sums of money involved with EI sector activities, it is hardly surprising that it has led to high and pervasive levels of corruption all along the EI Value Chain¹. Advocates of greater transparency argue that it provides safeguards against many of the powerful incentives for corruption, such as high entry costs, the multiplicity of parties involved, technological complexity of resource development, complex revenue accounting and traditions of sector secrecy². Transparency and accountability are now thought to be critical to combat this and permit the efficient and prudent management of natural resources and their revenues throughout the activities along the EI Value Chain. For that reason, the *Source Book* treats it as

¹ MacPherson and MacSearraigh (2007) explain the ways in which corruption appears in the links along the Value Chain in the hydrocarbons sector: Corruption in the Petroleum Sector, in JE Campos and S Pradhan (eds), *The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level*, pp 191-220. The World Bank, Washington D.C. The scale of corruption in developing countries has been estimated at around US\$500 billion a year in a study by the Center for Strategic and International Studies. This goes beyond the EI sector however: *The Costs of Corruption* at <http://www.trust.org/item/20140122080813-9hfpw>.

² There are plenty of studies to support these concerns at www.revenuewatch.org.

a cross-cutting topic. Transparency can limit the opportunities for misuse of power and corruption, while accountability can ensure that those entrusted with the management of public resources are held responsible for their actions or inactions.

Limits to this Focus Transparency is not an end in itself. To be effective, it must be combined with effective stakeholder dialogue in order to achieve accountability. As will be discussed below, improving transparency and accountability requires multiple measures, both voluntary (multi-stakeholder) and mandatory (regulatory). For several years now, global norms and standards have been emerging but wide differences exist in the weight given to them by particular players and in their manner of implementation. Voluntary initiatives led primarily by civil society or international agencies have forged ahead of mandatory measures for many reasons. In the case of both types of measures, questions that arise in the shaping of global norms and standards include the following: (1) what is an appropriate level of contract disclosure; (2) how can host-state and investor-state transparency requirements be balanced; and (3) what is the best way to engage citizens more directly in policy formulation and monitoring processes and outcomes?³

What does ‘cross-cutting’ mean? Transparency and accountability are cross-cutting topics because they apply to all segments of the EI Value Chain. Across the EI Value Chain, these issues are addressed through:

- 1) transparency around the decision to extract;
- 2) transparent and competitive procedures for issuing licenses and allocating mineral or hydrocarbon exploration or production rights in the design of legal, contractual and policy frameworks;
- 3) competent and non-corrupt institutions with clear and non-overlapping mandates in the regulation and monitoring of operations;
- 4) publicly reported, equitable and progressive fiscal regimes that avoid non-published special deals and minimize tax avoidance and evasion in the collection of taxes;
- 5) transparent revenue management; and
- 6) transparent and participatory budgeting based on development priorities with effective sustainable development outcomes in revenue management and allocation.

If there is a lack of transparency at any one point in the EI Value Chain, a spread of misinformation may result, with growing mistrust in the management of the resources. In turn,

³ IMF (2007). *Guide on Resource Revenue Transparency*. Washington, D.C.: IMF Media Services Division, pp. 8-10. Available at: www.imf.org/external/np/pp/2007/eng/051507g.pdf (last accessed 5 December 2013).

this can lead to instability and, ultimately, to conflict. These topics are, therefore, dealt with in the individual chapters on the EI Value Chain as well as in the paragraphs below.

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