



Global Witness

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Global Witness investigates the role of natural resources in funding conflict and corruption

- Conflict timber – Cambodia, Liberia
- Conflict Diamonds – Sierra Leone, Angola, Liberia, DRC
- Oil – Angola, Gulf of Guinea, Caspian region

Our work UNEQUIVOCALLY shows unaccountable resource extraction leads to poverty, human rights violations, geopolitical and economic destabilisation

Work of Global Witness in 'failed' or 'shadow' states

- Government absent
- Deliberate use of political and economic disorder to enable collective and highly-organised economic abuses
- State not 'rational manager' but protection racket
- Institutional services as private property than public duty
- Abuses sustained by blaming conflict for social problems
- Business as war – for example, DRC



The problem of the 'Paradox of Plenty'

Natural resources and conflict/poverty

Dependence

Oil

Minerals

Low HDI

✓

✓

Drop in HDI 1990-1998

✓

Poverty

✓

High corruption

✓

✓

Authoritarianism

✓

✓

Likelihood of civil war

✓

✓

Lack of effectiveness

✓

✓

(i.e. rank HDI \ll rank GNP)

High military spending

✓

✓

Low economic growth

✓

✓

High <5 mortality

✓

✓

Child malnutrition

✓

Low life expectancy

✓

Low health spending

✓

Low primary schooling

✓

Low adult literacy

✓

Income inequality

✓

Economic shocks

✓

✓

Oil: the Paradox of Plenty

Time for Transparency (March 2004). 5 case studies: Kazakhstan, Congo Brazzaville, Angola, Equatorial Guinea, Nauru

Global problem in resource-rich-but-poor countries. Billions of dollars in revenues unaccounted-for. Secrecy about revenues paid to governments by oil and mining companies allows this to happen.

💣 December 2000 'Angolagate' scandal

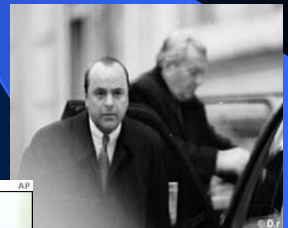
- Angolan Civil War: 1974-2002
- French and Angolan elites benefiting from military procurement deals by siphoning off state funds

Dec 1999

A Crude Awakening

March 2002

All the President's Men



Time for Transparency: Congo Brazzaville

- The Elf Trial. Elf's 'African Strategy': buying off the ruling elite and helping it to mortgage the country's future oil income in exchange for expensive loans. The company even financed both sides of 1997 civil war, as it also did in Angola.
- Congo hugely indebted and seeking access to HIPC. However, legacy of secrecy over oil deals continues with the government continuing to avoid financial scrutiny from the international community and its own citizens (e.g. the Likouala deal).
- National oil company *Société Nationale des Pétroles du Congo* makes a multi-million dollar profit but, according to the IMF, until recently did not pay a single penny of this profit into the government's coffers.
- Under pressure from IMF and donors, recently Congolese government has published information about SNPC & oil revenues.

The Solution: Bringing Transparency to the Oil Sector

- **How to stop corruption by public officials & middlemen and ensure companies are not accused of being complicit with corruption?**
- Oil companies should not tell governments how to spend money but should disclose basic payments to state
- Voluntary company disclosure problematic due to risk of retaliation by elites with a vested interest in maintaining opacity (BP in Angola 2001). Confidentiality clauses in contracts.
- **Need to create a 'level playing field' for companies using a variety of mandatory mechanisms such as listing requirements of securities regulators, international accounting standards etc. to oblige disclosure ⇒ *Publish What You Pay* campaign! (June 2002)**
- Need to capture government receipts and compare 2 sets figures: 'Publish What You Earn'. Levers: non-humanitarian assistance

PWYP Achievements

- 230+ **coalition** members worldwide, two thirds in South.
- **EU Transparency Obligations Directive** with PWYP-related amendment: *The home Member State should encourage issuers whose shares are admitted to trading on a regulated market and whose principal activities lie in the extractive industry to disclose payments to governments in their annual financial report. The home Member State should also encourage an increase in the transparency of such payments within the framework established at various international financial fora*
- World Bank's **Extractive Industries Review**. WB should "vigorously pursue" revenue transparency at both company and country levels" and by partnering with PWYP and the EITI .
- **Investors** statement on transparency in the extractive sectors. 50 signatories, funds collectively representing nearly US \$7 trillion.
- USA: "**Publish What You Pay Act**" & "United States Economic Assistance Conditionality Act of 2004" launched. First aims at SEC disclosure rules solely; second says US foreign assistance to low income oil producers should be conditional on min. transparency

Extractive Industries Transparency Initiative (EITI)

- Launched by Tony Blair at WSSD Johannesburg 2002 to increase transparency over payments by companies and revenues received by governments. Multi-stakeholder forum, governments, extractive companies, NGOs, IFIs. International EITI conference London, June 2003.

EITI is country-specific but a country implementing EITI will need to agree to at least:

- Independent audit of oil, gas & mining revenues (private companies & SOEs); publication of payments / revenues in a widespread and comprehensible manner; civil society engagement as participant in design process.
- Development of templates for disclosure of revenue and payment data and commitment to provide technical assistance to host governments.

EITI

- International awareness of importance of revenue transparency & growing recognition that transparency is in the enlightened self-interest of investors and the international community.
- Wide-spread acceptance that investors, companies, host and home country governments and civil society have a role to play.
- Broad acceptance of the EITI model: company should publish what they pay, governments should disclose what they earn, and civil society and IFIs will help to track those revenues into national budgets. Also need for capacity-building support from donor governments and international financial institutions for monitoring.
- Valuable experience from “pilot” countries including Azerbaijan, Nigeria, Ghana, Sao Tome & Principe and Timor Leste.
- Important standards being developed outside but complementary to EITI. World Bank response to the Extractive Industry Review and IMF supplement on resource revenues to existing Manual on Fiscal Transparency.

EITI

- EITI summit in March 2005 to secure EITI's future by legitimising policy products, and the renewal/expansion of commitment to the initiative from different stakeholders.
- Good foundations but pressing issues outstanding.
- Advocates publication on an aggregated, not individual company basis.
- Lack of clear implementation procedures.
- Need to strengthen diplomatic outreach and legitimacy.
- Need for quality control and 'brand protection'.
- Riggs Bank case: misappropriation of Equatorial Guinea's oil money. Actors involved in activities that were at best morally questionable and at worst corrupt and illegal, cited their "participation" in the EITI as a defence.
- US Senate report on Riggs (July 04). FCPA should be amended to oblige companies to publish payments and business deals with EG Government.

EITI

4 models that the UK and other pro-transparency actors could showcase at March 2005 high-level EITI conference

- **An EITI “Implementation Compact”.**
- **A UN General Assembly resolution to underpin the EITI process.**
- **An international treaty following the “Aarhus Convention” example.**
- **Supporting the development of the IMF supplement on resource revenues to its existing Manual on Fiscal Transparency and mainstreaming it through IMF operations.**

PWYP: Future Developments

- **International Accounting Standards Board** Review of extractive sector
- Ongoing US legislative projects & FCPA Amendment

'Publish What You Earn'

Joined-up thinking' on development aid

- Operationalise the anti-corruption and good governance criteria & commitments in international initiatives such as the MDG & the G8 Declaration on Fighting Corruption and Improving Transparency. Also in development policy instruments such as the EU Cotoneau agreement
- Mainstreaming of revenue transparency to make it a key condition on non-humanitarian aid and debt relief to resource-rich-but-poor countries from multilateral and bilateral donors and from IFIs (e.g. Congo-Brazzaville, Angola).
- Resource-backed loans from banks. Banks make huge amounts out of oil-backed loans but have no control over where money goes.

Time for Transparency: Angola

- Angola earns c. US\$4 billion from oil. Set to double in next few years, conservative estimate US\$43 billion windfall 2002 to 2010. Much of this already mortgaged
- Huge amount of income unaccounted for. IMF reports: average of US\$1.5 billion (25% state income) annually from 1996-2002
- Evidence from ongoing French & Swiss judicial investigations of misappropriation of state revenues by high-ranking Angolan officials
- Food aid to displaced people US\$200 million annually; 1 in 4 children dies before age 5 of preventable diseases
- The government continues to seek oil-backed loans at high rates of interest which are financed through opaque and unaccountable offshore structures. A major concern exists that the reconstruction effort will be threatened by continuing lack of transparency

Time for Transparency: Equatorial Guinea

- Although the country's oil boom has resulted in a dramatic increase in GDP, its living standards remain among the worst in Africa
- Major US oil companies are paying revenues directly into an account under the president's control at Riggs Bank, Washington DC. Riggs Bank also managed the purchase of million-dollar mansions for President Obiang and his family
- May 2004: Riggs Bank fined a record US\$25 million for what federal regulators called a "willful, systemic" violation of anti-money-laundering law in failing to report suspicious activities on Saudi and EG accounts
- July 2004: US Senate report on Riggs details possible money laundering and & misappropriation oil revenues through EG accounts & possible complicity with corruption by oil companies. Reports of DOJ, SEC and federal grand jury investigations.

Time for Transparency: Kazakhstan

- **'Kazahkgate scandal'**. Largest-ever foreign corruption investigation in US legal history
- President Nazarbayev and Oil Minister Balgimbayev asked that international oil companies such as Chevron (now Chevron-Texaco) and Mobil (now ExxonMobil) pay fees to middleman James Giffen on behalf of the Republic of Kazakhstan
- The indictment alleges Giffen skimmed money from the deals and sent US\$ tens millions in kickbacks to President Nazarbayev and others through dozens of overseas bank accounts
- Belgian Investigations also uncovered US\$1 billion in state funds that Nazarbayev had placed in secret accounts abroad 'in the interests of the country'