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**THE PETROLEUM  
AND POVERTY PARADOX:  
ASSESSING U.S. AND INTERNATIONAL  
COMMUNITY EFFORTS TO FIGHT  
THE RESOURCE CURSE**

REPORT TO THE MEMBERS  
OF THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS  
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## LETTER OF TRANSMITTAL

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UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC, October 16, 2008.*

DEAR COLLEAGUES: I recently directed minority staff of the Senate Committee on Foreign Relations to travel to a number of natural resource-rich developing countries to assess U.S. and international efforts to address the “resource curse,” the phenomenon whereby large reserves of oil or other resources often negatively affect a country’s economic growth, corruption level and stability. Overcoming the impacts of this curse helps promote U.S. policy goals of poverty alleviation, good governance and energy security.

With the soaring price of oil inflicting economic pain on American consumers, creating vast pools of sovereign wealth controlled by often authoritarian regimes, and jeopardizing gains we have made in poverty alleviation worldwide, the prudent management of energy flows and their revenues has formed a critical nexus of U.S. foreign and domestic policy: failure to secure our interests abroad has threatened prosperity at home.

Paradoxically, history shows that rather than a blessing, energy reserves can be a bane for many poor countries, leading to fraud, corruption, wasteful spending, military adventurism and instability. Too often, oil money that should go to a nation’s poor ends up in the pockets of the rich, or it may be squandered on the trappings of power and massive showcase projects instead of being invested productively and equitably. In some countries, national poverty has actually increased following the discovery of oil.

This “resource curse” affects us as well as producing countries. It exacerbates global poverty which can be a seedbed for terrorism, it dulls the effect of our foreign assistance, it empowers autocrats and dictators, and it can crimp world petroleum supplies by breeding instability. The ongoing rebel attacks on Nigeria’s oil facilities, for instance, are a factor in today’s record high crude prices.

This report argues that transparency in revenues, expenditure and wealth management from extractive industries is crucial to defeating the resource curse. Achieving transparency requires a higher profile in U.S. diplomacy and foreign policy. When oil revenue in a producing country can be easily tracked, that nation’s elite are more likely to use revenues for the vital needs of their citizens and less likely to squander newfound wealth for self-aggrandizing projects. When financial markets see stable economic growth and political organization in oil-rich states, supplies are more reliable

and risk premiums factored into prices at the gas pump are diminished. And as official corruption tempted by oil wealth abates, our foreign assistance dollars can find more fertile ground to alleviate the suffering of the world's most needy.

I hope you find this report helpful as the U.S. Congress contends with the complex challenge of securing stable, affordable energy sources for our constituents, while curbing petro-authoritarianism, corruption, and privation abroad.

Sincerely,

RICHARD G. LUGAR,  
*Ranking Minority Member.*

# **THE PETROLEUM AND POVERTY PARADOX: ASSESSING U.S. AND INTERNATIONAL COMMUNITY EFFORTS TO FIGHT THE RESOURCE CURSE<sup>1</sup>**

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## INTRODUCTION

### FIGHTING THE OIL CORRUPTION CURSE

At present, about 3.5 billion people live in countries rich in extractive natural resources such as oil, gas, solid minerals and timber. With good governance, these resources can generate vast sums to foster growth and reduce poverty. However, many of these countries have weak governance and the revenues have resulted in corruption and conflict.

At the direction of Ranking Member Richard G. Lugar, the minority staff of the Senate Foreign Relations Committee undertook a study of transparency in extractive industries as part of the committee's oversight responsibilities. Transparency is a key issue for promoting United States foreign policy and security interests, including energy security, combating corruption, and delivering the benefits of natural resources production for development. The effort is similar in scope to the "Embassies Grapple to Guide Foreign Aid" study issued in November 2007 and the "Embassies as Command Posts" study completed in December 2006.

Through meetings, site visits and document reviews, staff members tested the viability and efficacy of policy recommendations for improving three levels of transparency: in revenues earned by resource rich countries; in expenditures made by those countries; and in their investment strategies. Staff also examined the impact of international transparency efforts such as the Extractive Industry Transparency Initiative (EITI), the G-8 initiatives, the IMF Resource Revenue Guide, the World Bank Anti-Corruption and Governance Strategy, and others.

Staff drew on information gathered on travel to countries in: Africa (Angola, Chad, Equatorial Guinea, Ghana, Nigeria); Asia (Cambodia, China, Indonesia, Timor-Leste, Vietnam); Europe and Central Asia (Azerbaijan, Kazakhstan, Norway, Russia, United Kingdom); Latin America (Brazil, Chile, Peru); and the Middle East (Iraq, Saudi Arabia, United Arab Emirates). Overseas, staff met with foreign government officials, international organizations,

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<sup>1</sup>This Senate Foreign Relations Committee minority staff study was coordinated by Nilmini Gunaratne Rubin and includes significant contributions from Bradley Bowman, Jay Branegan, Neil Brown, Brooke Daley, Patrick Garvey, Keith Luse, Carl Meacham, Alison McCormick, Ken Myers III, Michael Phelan, and Marik String. The report includes substantial input from Congressional Research Service staffers Danielle Langton and Nicolas Cook.

members of the business community, and representatives of civil society.

In Washington, D.C., committee staff met with officials from the National Security Council, State Department, U.S. Agency for International Development, Treasury Department, U.S. Trade Representative, Commerce Department, Bureau of Land Management, Mineral Management Service, U.S. Forest Service, U.S. Geological Survey, World Bank, International Monetary Fund and Inter-American Development Bank, as well as representatives from non-governmental organizations, advocacy groups, industry organizations, energy, extractive and financial companies, and academics.

#### FINDINGS

The soaring price of oil is dramatically shifting the global economic landscape. In many countries, including the United States, it is hurting growth and inflicting great economic pain. By the same token, it is rapidly increasing the nominal wealth of the oil-exporting nations, including many still classified as underdeveloped (*see* Appendix VI for graphs of leading oil producers and consumers). Unfortunately, there is no guarantee that these countries will enter into a new period of prosperity. In fact, the opposite may well happen.

Paradoxically, history shows that rather than a blessing, oil or natural gas reserves can be a bane for many poor countries, leading to fraud, corruption, wasteful spending, military adventurism and instability. Too often, oil money that should go to a nation's poor ends up in the pockets of the rich, or it may be squandered on grand palaces and massive showcase projects instead of being invested productively. A classic case is Nigeria, now the world's eighth largest oil exporter, where despite half a century of oil production and half a trillion dollars in revenues, poverty has actually increased,<sup>2</sup> corruption is rife and violence persists in the oil-rich Niger Delta. Having endured some of the worst consequences of oil wealth, Nigeria is now taking some of the most deliberate steps to correct the problem.

The Netherlands found its economy sliding instead of soaring after it discovered natural gas in the early 1960s, thanks to a rising exchange rate and a fall-off in manufacturing, a phenomenon now known as "Dutch disease." Even the states of the Organization of the Petroleum Exporting Countries (OPEC) are not immune: as a group, their per capita GNP actually dropped from 1965 to 1998, according to one study. The influx of "easy money" from other extractive natural resource industries, like gold, copper, or gems, can similarly thwart economic reform and devastate economies with primitive fiscal regimes. Governments with authoritarian tendencies can be insulated from domestic and international pressure by the steady stream of extractive revenues, sometimes leading to worse governance over time.

While the "resource curse" damages U.S. foreign policy and humanitarian interests abroad, it also negatively impacts Americans at home. Social unrest, buoyed by perceived injustice in expenditure of oil revenue and use of oil as a currency of conflict, desta-

<sup>2</sup> CIA World Factbook.



bilizes the reliability of oil supplies. Resulting tightening of global markets and attachment of a risk cost premium to oil price inflate prices at U.S. gas pumps and result in a massive wealth transfer out of the United States (see Appendix VII for the composition of U.S. crude oil imports by country). Instability in the Niger Delta, which has shut-in nearly as much oil as there is existing spare capacity in the world, is a case in point of organized criminal and militant activity weighing heavily on global oil prices. Actions to support accountability, transparency and anti-corruption efforts in developing countries with extractive industries such as oil and gas could have a significant impact on the energy market. Where there is instability, there are higher prices. Foreign aid investments to support development in oil exporting regions can help quell discontent and help assure a stable energy supply.

The link between energy security, energy prices, and transparency appears underappreciated within U.S. policy.

Because the resource curse threatens our own security, economic and humanitarian interests, Senate Foreign Relations Committee staff assessed the efforts to help remove it. Looking at more than 20 countries around the world, staff found that while there is greater awareness of the potential dangers from sudden oil and other extractive industry wealth, progress has been spotty at best. Ghana, a recent addition to the list of resource rich countries with the discovery of significant oil reserves beneath its coastal waters in 2007, is a country with a clear view of the potential outcomes of such a discovery. The situation in Ghana will be watched closely around the world to see if forewarning of the pitfalls can serve to effect better governance and cooperative international support in defense of domestic development and economic growth.

To be sure, there is no simple cure, and without political will by the exporting country, little can be achieved. The hurdle for effecting change in several natural resource rich countries is high. Governments flush with cash from spiking commodity prices can be emboldened against reform. But where leaders are ready to face the problem, outsiders can offer important incentives and advice. One key prescription is to promote strong anti-corruption measures and to press for more openness or transparency in how much revenue extractive-rich countries are receiving, and how they're spending it.

The World Bank and the International Monetary Fund have both launched efforts to improve accounting and transparency of extractive industry revenues, to make it harder for government officials to hide corruption—and easier for citizens to demand that the money be spent wisely.

Separately, a number of countries,<sup>3</sup> led by Norway and Britain, along with energy and mining companies and civil society groups, have formed the Extractive Industries Transparency Initiative (EITI), a voluntary program which aims to certify that natural re-

<sup>3</sup>EITI's 11 supporter countries (Australia, Belgium, Canada, France, Germany, Italy, the Netherlands, Norway, Spain, the United States, and the United Kingdom) that have provided political, technical and/or financial assistance and EITI's 23 candidate countries (Azerbaijan, Cameroon, Cote d'Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Kazakhstan, Kyrgyzstan, Liberia, Madagascar, Mali, Mauritania, Mongolia, Niger, Nigeria, Peru, Republic of the Congo, Sao Tomee Principe, Sierra Leone, Timor-Leste, and Yemen) intend to implement EITI criteria and await validation.

source-rich countries, as well as all the companies operating there, are honestly accounting for the funds flowing into their coffers. The leaders of the G-8 industrialized countries at their July meeting in Japan strongly endorsed EITI, as they have nearly every year since 2003.

Yet action falls short. In Vietnam, where 30% of the budget comes from oil, the World Bank, the United States and other major donors have made little effort to support extractive industry transparency. Peru and Equatorial Guinea have signed up for EITI, but major-country donors are not stepping forward to strengthen those nations' capacity to manage massive oil wealth. In Angola, which has the world's highest infant mortality rate, the United States is terminating an assistance program to help the country administer its oil billions. Skeptical Indonesians asked why the United States has not signed up for EITI.

Staff found an urgent need for concerted diplomacy and assistance targeted at budget management, expenditure accountability and reserves fund management. Donor coordination in these areas is rare and current efforts focused at improving economic performance frequently ignore the governance implications of volatile resource income. And China, whose state-backed companies have a large footprint in many developing countries, has not yet engaged on these issues.

U.S. diplomats in several of the countries most threatened by the resource curse are often starved for personnel and resources. These limited means are often directed by Washington toward humanitarian needs, leaving resource management issues on the back burner.

Over time, extractive revenues will level off and eventually dry up. For some small producers that drop in revenue is in the near-to mid-term. It is critical that these countries, with our help, act today to ensure that the revenues are managed and invested wisely so that the people and their future are not impoverished after earning billions in this time of high energy prices. Based on the findings of their work, staff has made a number of recommendations for action by the various parties. Among them:

- The United States should demonstrate leadership internationally. It should sign up for EITI and provide additional financial assistance to that organization's international trust fund. This low-cost move would pay large benefits by encouraging more developing countries to follow. It should explicitly seek to engage China and India.
- The G-8 countries should require that their oil, gas and mining companies publish country-by-country data on their royalty, tax and other payments as part of routine financial reporting, and encourage influential credit rating agencies and commercial banks to take explicit account of a country's transparency record.
- The international donors who give aid to resource-rich countries should focus their efforts on improving revenue management and fighting corruption. Relatively small amounts of aid money could thus help channel large amounts of a country's own funds toward poverty reduction.

- The World Bank and the IMF, which make regular assessments of country performance, should consistently reinforce the importance of transparency and good governance. The regional development banks should step up their efforts on governance and anti-corruption in countries with significant extractive industries.
- The Extractive Industries Transparency Initiative’s secretariat, building on the lessons learned so far, should provide more technical assistance to underdeveloped countries that need help in implementing anti-corruption measures. It should also be more active in promoting and demonstrating the benefits of transparency to both countries and companies.
- Oil, gas and mining companies, which often express support for the transparency agenda, should match their anti-corruption rhetoric with action by voluntarily disclosing more of their payments to countries where they operate.
- Most importantly, the United States, whose attention to extractive industry transparency often appears sporadic and half-hearted, should make this a top priority throughout the administration, with the State Department as the lead agency, coordinating closely with Treasury and USAID. Embassies should develop country-specific transparency advocacy strategies.

Minority staff found many encouraging anecdotes on the benefits of improved transparency. However, there is not yet a compelling body of evidence to prove the case that improved transparency will bring improved governance and economic development. Yet the negative impacts of lack of transparency with the accompanying corruption and ineffectual usage of funds are clear. It is also clear that the United States Government’s integration of transparency into foreign policy is in its initial stages. Innovative public-private partnerships and co-funding with host governments show promise. Initial efforts have been impinged by lack of personnel resources in several embassies, inflexibility in funding, and insufficient coordination among agencies. The potential of U.S. moral support, bilaterally and in multilateral fora, is substantial and will yield results only with the backing of diplomatic resources.

#### RECOMMENDATIONS

Committee staff developed recommendations for the next administration, Congress, the international community and extractive companies to help nations fight the “resource curse” and advance the U.S. policy aims of reducing poverty, improving governance and securing our energy interests.

- 1) The President should put greater emphasis on promoting extractive industry transparency by developing a clear strategy and designating responsibility for implementation of that strategy.
  - a) The President should outline a clear strategy to drive our government’s push for extractive industry transparency from bidding and contracts, through company payments to governments, to budget transparency and ac-

countability of spending. Such a strategy will necessarily draw upon expertise spread across government agencies. The strategy should identify the State Department as the lead coordinating agency and the Bureau of Economic, Energy and Business Affairs as the lead bureau responsible for promoting extractive industry transparency.

b) The President should lead by example and have the United States become an implementing country of the EITI. This move would pay large benefits by encouraging more developing countries to follow.

2) The Secretary of State should exercise more effort on transparency issues, and build on international momentum for extractive industry transparency at the United Nations, at the EITI secretariat and through our embassies.

a) The Secretary of State should elevate U.S. representation to the EITI Executive Board to the Under Secretary for Economic, Energy and Agricultural Affairs. The U.S. has capable representation but at a rank much lower than the representatives from other countries, which limits the ability of the U.S. to secure change.

b) The Secretary of State should clearly inform embassies of the importance of transparency efforts and more vigorously support such efforts in international fora. For instance, besides simply voting for the recently-passed EITI United Nations regulation, the U.S. should have been a co-sponsor.

c) The Secretary of State should develop a tailored extractive industry transparency advocacy strategy, according to the conditions in the host-country. Where appropriate, U.S. Government representatives need to engage directly with extractive country governments to explain the benefits of increased transparency, identify opportunities to promote change, and, where appropriate, encourage them to sign onto EITI.

d) The Secretary of State should review personnel capabilities at embassies in natural resource rich states and fill current lapses in embassy staffing.

e) The Under Secretary for Economic, Energy and Agricultural Affairs should regularly lead coordination meetings of U.S. Government agencies involved with extractive industry transparency and should track agency actions and results.

f) The United States should bolster its support for EITI by immediately depositing its \$3 million contribution to the Multi-Donor Trust Fund.

3) U.S. bilateral assistance in extractive countries should be focused on good governance, transparency and building civil society.

a) Our Ambassadors and country teams should review their portfolios for critical opportunities to build capacity in governance, especially in revenue management, thus leveraging the most valuable additional asset—technical

know-how—the U.S. can bring to bear where financing is not the problem.

b) USAID, along with the Treasury Department and other agencies, should emphasize technical assistance for extractive industry transparency in relevant countries, and EITI implementation in countries that have signed up for the initiative.

c) Coordination between country teams and technical agencies in Washington should be improved and mechanisms put in place so that U.S. Government agencies are able to respond promptly and effectively to requests for technical assistance.

d) As Overseas Private Investment Corporation (OPIC) is already doing, all U.S. foreign assistance agencies (USAID, Millennium Challenge Corporation, ExIm, etc.) should integrate transparency promotion into their oil, gas, minerals and timber programs, projects and policies.

e) U.S. agencies should use public-private partnerships to provide information technology and training for platforms, such as geonavigator and mineral mapping software, to distribute information so that there would be “no excuses” for countries that profess to want to disclose.

f) U.S. bilateral assistance should also expand upon public-private partnerships to engage experts in the private sector for technical assistance.

g) U.S. bilateral assistance should build upon co-funding arrangements for technical expertise where host governments rich in extractive revenues pay the bulk of costs for such arrangements.

4) The Secretaries of State and Treasury should engage China, India and Russia on transparency issues generally and encourage them to become supporting countries of EITI. Indian and Chinese companies are securing extractives contracts around the world, particularly in Africa. If they do not integrate transparency into their operations, they could undermine other international efforts.

5) The Securities and Exchange Commission and the Treasury Department should encourage the International Organization of Securities Commissions (IOSCO) to develop consistent requirements for disclosure of extractive payments by companies to governments so that all the major stock exchanges require the same information. They should also support an International Accounting Standard for disclosure of extractive payments to governments.

6) The international donors who give aid to resource-rich countries should focus their efforts on improving revenue management and fighting corruption. Relatively small amounts of aid money could thus help channel large amounts of countries’ own funds toward poverty reduction.

a) The World Bank and the International Monetary Fund, which make regular assessments of countries’ performance, should be consistent in assessment of countries’

progress on transparency compared to their own professed benchmarks. They also should ensure that their staffing at key posts reflects commitments made to those governments in technical assistance on improved financial governance.

b) The regional development banks should integrate EITI into their operations. Not all of the regional development banks have endorsed EITI and, of those that have, few have fully applied EITI principles in their projects. The regional development banks should condition loans on revenue disclosure and contract transparency.

c) The International Monetary Fund should consistently examine the transparency of extractive industry revenues for all resource rich countries in its Article IV reviews.

d) The International Monetary Fund should actively engage and provide technical assistance to resource rich countries to implement the IMF sovereign wealth fund guidelines.

7) The G-8 should show commitment to transparency in action, not just words.

a) The 2008 G-8 report on its anti-corruption accomplishments was a good start but it needs to be done every year at a higher standard of disclosure and contain commitments to improved activity during the next disclosure period.

b) The U.S., in conjunction with the other G-8 nations, should require that oil and mining companies listed on their stock exchanges publish country-by-country data on their royalty, tax and other relevant payments as part of routine financial reporting, and ask credit rating agencies and commercial banks to take explicit account of a country's transparency record.

c) G-8 countries with significant extractives industries should sign up for EITI which would enhance the credibility of the initiative and encourage other countries to join.

8) Congress should support mandatory financial reporting requirements on a multilateral basis. This could be done through the G-8, where repeated endorsements of EITI and revenue transparency have not been followed up with concrete action. The SEC could seek to harmonize such reporting requirements among major global stock exchanges through the International Organization of Securities Commissions.

9) Congress should pass legislation requiring that U.S. foreign assistance to extractive industry dependent countries include significant support for transparency.

10) Extractives companies, which have taken the initiative in some countries but not others, should step up their engagement to promote transparency and be more proactive in public disclosure of revenue payments to foreign governments. Oil and mining companies should voluntarily disclose their extrac-

tives payments to foreign governments. They should publicly endorse transparency in bidding and contracts.

11) Oil and other extractives companies should develop a reporting template for standardized disclosure of payments to be adopted as a global standard. Such a template could usefully be developed in conjunction with the EITI Secretariat.

12) The EITI Secretariat should ensure clear criteria at each stage of progression to avoid the appearance of political favoritism in the implementation of EITI.

a) The EITI board should have a mechanism to issue reports to the UN Security Council and other appropriate bodies.

b) EITI should improve its efforts to clearly delineate, to countries and companies, the benefits of participation.

c) EITI needs to focus more on technical assistance and make available to countries that sign-up for EITI a package of technical assistance to show good will and international support for the countries' success through EITI.

d) EITI must redouble its focus on implementation. While much effort has been dedicated to expanding the roll of EITI countries, a few successful countries could serve as concrete models for the gains EITI could bring.

13) EITI certification criteria should resolutely include reporting by state-owned extractive industries companies. Credit rating agencies should make more explicit the importance of transparency as part of governance structures for indicating credit worthiness.

## DISCUSSION

### THE RESOURCE CURSE<sup>4</sup>

Large amounts of national revenues accrued from the sale of natural resources<sup>5</sup> theoretically should generate wealth for an economy, promote economic progress, and reduce poverty by providing a source of investment capital for socio-economic development. According to many studies, however, a majority of countries that are rich in natural resources and highly dependent on revenues from such resources, notably those in the developing world, have experienced negative economic, social development, and political trends. Surprisingly, they have worse economic growth and poverty reduction records than many peer countries that lack concentrations of natural resource wealth. Furthermore, multiple empirical studies have documented a wide range of negative correlations between development and resource abundance, which collectively have been

<sup>4</sup>The "resource curse" section draws heavily on a background memo entitled "The 'Resource Curse': Literature Survey Paper Summary" prepared by Danielle Langton and Nicolas Cook from the Foreign Affairs, Defense, and Trade Division of the Congressional Research Service.

<sup>5</sup>See Mitchell Rothman, "Measuring and apportioning rents from hydroelectric power developments," *World Bank Discussion Paper No. 419*, July 2000; Lars Lindholt, "On Natural Resource Rent and the Wealth of a Nation A Study Based on National Accounts in Norway 1930–95," *Discussion Paper 281*, Statistics Norway, August 2000; and Ahmad Komarulzaman and Armida S. Alisjahbana, "Testing the Natural Resource Curse Hypothesis in Indonesia: Evidence at the Regional Level," *Working Paper in Economics and Development Studies*, No. 200602 Department of Economics, Padjadjaran University, August 2006, *inter alia*.

dubbed the “resource curse.”<sup>6</sup> The resource curse is the product of multiple factors<sup>7</sup> including:

- Dutch Disease,<sup>8</sup> an economic scenario in which revenue inflows from a dominant export commodity cause the exchange rate to appreciate, making imports cheap, and undermine domestic production and economic growth by decreasing relative competitiveness
- Crowding out of factors of production (land, labor, capital) by a dominant commodity export industry
- Enclave development, in which a dominant industry, such as an oil or mineral sector, develops independently of the wider economy, and does not breed cross-sectoral growth, diversification, or investment.
- Long term declines in national terms of trade due to dependence on revenues from a dominant export commodity in a context of static or declining prices for the commodity, or declining production yields.
- Attempts to boost ailing domestic industries in commodity-dependent countries with low levels of economic diversification by enacting uncompetitive or otherwise ineffective industrial policy responses using such tools as import substitution, subsidies and trade protectionism. These policy responses cause domestic industries to become even less competitive and decline further.
- The negative effects of commodity price and revenue volatility on incentive structures related to policy and investment decision-making and consumption patterns.
- Increases in state borrowing using future national natural resource wealth as collateral, often involving the expenditure of disproportionately large amounts of credit to meet short term needs.
- Growth of often ineffective, state-centric economic policy-making when there is access to large extractive industry revenues.
- Increases in incentives for corruption and political rent-seeking when large commodity revenue streams are available.
- Opaque contracting and market processes in extractive industries, especially in the oil sector, spur and enable corruption

<sup>6</sup>Sometimes more generally known as the “curse of plenty” or, in a term originated by academic Terry Lynn Karl, the “paradox of plenty,” (*The Paradox of Plenty: Oil Booms and Petro-States*, University of California Press, 1997.)

<sup>7</sup>Sources consulted for the following summaries, which do not reflect any of the country cases studies that are common in the literature on the resource curse, include Paul Stevens, “Resource Impact: A Curse or a Blessing? A Literature Survey,” International Petroleum Industry Environmental Conservation Association (IPIECA), March 2003; Jeffrey D. Sachs and Andrew M. Warner, “Natural resource abundance and economic growth,” NBER Working Paper 5398, 1995; Indra de Soysa, “Empirical Evidence for the Resource Curse,” Conference on Transforming Authoritarian Rentier Economies, September; John James Quinn, “The effects of majority state ownership of industry or mining on corruption: A cross-regional comparison,” CSAE Conference Growth, Poverty Reduction and Human Development in Africa, March 22, 2004; John Bray and Leiv Lunde, “Oil And Mining Revenues: From Curse To Blessing For Developing Countries?,” Challenges to Governments, Companies and NGOs Occasional Paper No. 3/04; Thorvaldur Gylfason, “Natural Resources and Economic Growth: From Dependence to Diversification,” CEPR Discussion Paper No. 4804, December 2004; Thorvaldur Gylfason and Gylfi Zoega, “Natural Resources and Economic Growth: The Role of Investment,” CEPR Discussion Paper No. 2743, March 2001; and Thorvaldur Gylfason, “Natural Resources and Economic Growth: What is the Connection?,” CESifo Working Paper No. 530, 2001, *inter alia*.

<sup>8</sup>Dutch Disease is an economic problem named after a decline in the Dutch manufacturing sector in the 1970s following a rise in gas exports beginning in the 1960s.



and political rent seeking related to natural resource revenues.<sup>9</sup>

Political commentators in the media have also identified undesirable consequences of resources wealth. Many, for instance, partially attributed Russia's August 2008, military incursion into Georgia to Moscow's new-found ability to act in defiance of international opinion thanks to its oil and gas revenues. Thomas Friedman of the New York Times has argued that there is an inverse correlation in developing countries between oil income and democracy. He wrote that "a whole group of petrolist states with weak institutions or outright authoritarian governments will likely experience an erosion of freedoms and an increase in corruption and autocratic, anti-democratic behaviors. Leaders in these countries can expect to have a significant increase in their disposable income to build up security forces, bribe opponents, buy votes or public support, and resist international norms and conventions."<sup>10</sup>

While the proportion of countries experiencing such a curse is high, a small number of natural resource-rich countries have successfully been able to use natural resource revenues for social investments and policy initiatives that have generated markedly positive socio-economic development, which some have dubbed the "resource blessing." Those countries typically had a strong government structure, oversight mechanisms, rule of law and active civil society before discovering or exploiting their natural resource.

The oil shock of the early 1970's focused attention on the development prospects of oil exporting countries in a context of high oil prices and demand. Later research focused on the impact that large windfall revenues from oil, gas, and mineral revenues had on governments' behavior. When such windfall revenues were available, governments often appeared to take actions that damaged growth and development prospects, and produced regressive public resource allocation outcomes. In many poor, developing countries, such negative effects appeared pervasive and strong, and were often accompanied by increasingly authoritarian and elite-controlled governance, state ineffectiveness, rises in military spending, and in some cases increased conflict, sometimes including civil conflicts.<sup>11</sup>

Increasingly, concern over resource curse effects became the focus of policy reform research and advocacy efforts aimed at assessing the impact of large extractive industry projects on host countries and identifying ways to mitigate potential negative

<sup>9</sup>See Terry Lynn Karl, "Transparency of Extractive Industries: High Stakes for Resource-Rich Countries, Citizens and International Business," Testimony before the House Committee on Financial Services, October 25, 2007; Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor*, June 2003; *Global Witness*, *Time for Transparency: Coming Clean on Oil, Mining and Gas Revenues*, March 2004 and *A Crude Awakening: the Role of the Oil and Banking Industries in Angola's Conflict*, December 1999; *Save the Children*, *Beyond the Rhetoric: Measuring Revenue Transparency—Home Government Requirements for Disclosure in the Oil and Gas Industries*, March 2005; and *Revenue Watch*, *Following the Money: A Guide to Monitoring Budgets and Oil & Gas Revenues*, November 2004, *inter alia*.

<sup>10</sup>Thomas L. Friedman, "The First Law of Petropolitics," *Foreign Policy* May/June 2006.

<sup>11</sup>Such conflicts were alleged to be spurred by contestation over control of national resource wealth; by suppression of political opposition by elites currently in control of the state and its revenues; by discontent over environmental damage caused by resource extraction activities; and by opposition by indigenes of regions where the resource is extracted to the transfer of resulting earnings to other parts of the producing country or to its political elites. Such conflicts are seen as undermining development because they tend to be economically regressive and absorptive of resources that might otherwise be invested in economic development and poverty reduction.

macro-economic and development consequences. With attention to such issues on the rise, many firms began to seek to ensure that their investments and reputations would be viewed as ethical, and to assess whether resource curse effects might pose an inherent threat to the economics of their investment projects. In light of the recognition that the resource curse was either possible or likely in countries on the brink of receiving large-scale extractive industry revenues, the international financial institutions (IFI's) and donor governments began to support various institutional, legal, and other measures to prevent or mitigate the resource curse effects in such countries. These measures also aimed to prevent or mitigate potential damage to or poor returns for donor-backed investment projects.

#### THE TRANSPARENCY CURE

There is no simple cure for the resource curse, and absent political will by the government of the exporting country, little can be achieved. But if leaders are willing, or can be persuaded, to address the issue, economists, policy reformers and the international financial institutions have offered a number of promising prescriptions, most of them based on the principle of transparency. Azerbaijan and Nigeria serve as examples of the importance of political commitment to improved transparency. Political commitment of their presidents has facilitated institutionalization of organizations having positive impacts.

Extractive industry transparency runs from the issuance of contracts to extract oil, gas and minerals, through payments from companies to governments, and on to transparency of government management of the proceeds. The premise of transparency promotion is that a small amount of money can be leveraged by donor governments to ensure that large amounts of money in government coffers are used prudently.

In several countries that staff visited, the rewards of donor-driven transparency efforts were evident. For example in Peru, USAID and the World Bank have partnered in a \$450,000 program to bolster technical capacity for EITI and the broader transparency agenda; with the recent availability of Ministry of Finance budget figures online, a wellspring of support was created for a massive crackdown on public corruption.

Since the passage of the Foreign Corrupt Practices Act, transparency in the dealings of U.S. businesses abroad has been seen to be aligned with long-term U.S. national security and economic interests. Likewise, transparency in extractive industries abroad is in our interests because mineral wealth breeds corruption, which dulls the effects of U.S. foreign assistance; inequitable distribution of mineral revenues creates civil unrest, threatening political and energy instability and adding a price premium to commodities such as oil and gas; and energy rich countries can become emboldened militarily.

Staff found that a strong case can be made that transparency is in the interests not only of the donor community but also of international companies operating in developing countries and of the developing countries themselves. U.S. energy companies benefit when contract and revenue transparency is required in countries of oper-

ation. American oil companies often have the best technical capabilities and operate most efficiently. With a level and transparent playing field, they will have an advantage over firms that resort to shadowy accounting or corrupt practices to gain a foothold in a country of operation. In fact, corrupt firms not subject to international accounting standards have the most interest in maintaining non-transparent operating environments. Moreover, civil unrest can pose a serious threat to the profits of international and national oil companies, as has happened in the Niger Delta for years.

For resource rich countries, a transparent operating environment should also be a matter of self-interest. A good business climate attracts foreign direct investment and can lower the cost of market capital. These countries will also be eligible to secure attractive project financing from the World Bank. Most of all, transparency helps diminish the chances of civil unrest. However, host governments are often unfamiliar with what is required to ensure extractive industry transparency. As staff witnessed, some resource rich developing countries are not stepping up to the plate for EITI. In fact, several countries that seem to have the highest risk are the most reluctant to sign-up. Staff repeatedly heard country officials cite their lack of capacity to implement transparency reforms as their reason for avoiding the EITI program.

For example, transparency may be the single most powerful weapon the Government of Iraq has to combat its pervasive, systemic corruption. Stability in Iraq depends on denying terrorists safe haven, strengthening the institutions of state to ensure territorial and regional stability, and uniting and reconciling the country's internal divisions. Oil is an absolutely essential lynchpin in reaching these objectives. But, it must be shared equitably and used to the benefit of all Iraqis or it will cause further strife.

In principle, better governance and less corruption thanks to greater transparency should result in a more favorable investment climate, improved fiscal management and ultimately better economic performance. While some interlocutors offered anecdotal evidence to support such reasoning, at this early stage in the progress of extractives transparency, it is difficult to find conclusive empirical data showing that greater transparency for resource rich countries leads to higher GDP growth. However, it is clear that transparent countries have better credit ratings and pay lower interest rates as a result. Staff noted that anecdotal evidence indicates that transparency is positively correlated with development indicators such as life expectancy and infant mortality.

#### THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE <sup>12</sup>

The major international transparency effort is the Extractive Industries Transparency Initiative (EITI) which aims to strengthen governance by improving transparency and accountability in the extractives sector. The EITI sets a global standard for companies to publish what they pay and for governments to disclose what they receive.<sup>13</sup>

<sup>12</sup>Most information from EITI documents or website, except for that on the U.S. role in EITI, which is based on previous CRS research and a conversation with a State Department official.

<sup>13</sup>EITI website <http://eititransparency.org/>

EITI is an effort initiated by the United Kingdom in 2002 following advocacy efforts by a non-governmental effort called the Publish What You Pay campaign. This campaign seeks the mandatory disclosure of taxes, fees, royalties and other payments by oil, mining and gas companies to governments. The objective of EITI is to encourage and aid efforts by governments to require the public release of accurate information regarding all types of such extractive industry state revenue receipts. EITI efforts seek to achieve that goal for all countries rich in extractive industry commodities like oil and gas, particularly those in the developing world. EITI also seeks to encourage other countries to endorse, fund, or otherwise support such efforts.

Key EITI goals are to promote public fiscal transparency and political accountability; prevent revenue-related corruption; promote the prudent use of national natural resource wealth to support sustainable economic growth, development, and poverty reduction; and avoid negative socio-economic impacts resulting from mismanagement of such wealth. EITI's revenue data release requirement is intended to provide citizens and civil society groups with basic but crucial information necessary to effectively monitor government stewardship of natural resource revenues; hold decision-makers accountable for the use of public funds; prevent various "resource curse"-related phenomena; and signal investors that a given country offers a transparent, rule of law-based business environment. EITI also supports efforts to establish and foster partnerships between governments, civil society, and the private sector in EITI signatory countries in order to ensure cooperation and effective, shared efforts by these stakeholders to achieve accountability.

*Operation.* Members of the EITI are governments, companies, civil society groups, investors and international organizations. The primary mechanism for implementing EITI is a voluntary agreement signed by a country to abide by EITI principles and criteria contained in the EITI Validation Guide. Once a country voluntarily signs on, reporting by all extractive companies operating in that country becomes mandatory.

A signatory country must implement four sign-up criteria as certified by the EITI Board. It must formally commit to implement EITI goals, work with civil society, and private sector stakeholders to meet those goals, and appoint an EITI country implementation leader. It must also produce an implementation Work Plan approved by a country's EITI stakeholders and issue certain other documents. It then becomes a Candidate country. There are currently 23 EITI candidate countries: Azerbaijan, Cameroon, Cote d'Ivoire, Republic of Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Kazakhstan, Kyrgyzstan, Liberia, Madagascar, Mali, Mauritania, Mongolia, Niger, Nigeria, Peru, Sao Tome and Principe, Sierra Leone, Timor-Leste, and Yemen.

A Candidate country has two years to fully implement all EITI requirements and processes listed in the Validation Guide. Core requirements are that a Candidate country government appoint a credible, independent administrator; publish and disseminate information on all state revenues from the oil, gas and mining sectors; and substantively engage with its national stakeholder group. If it

is certified or “validated” by an EITI Validator<sup>14</sup> as having fulfilled these goals, it then becomes an EITI Compliant country. To remain compliant, it must continue to implement EITI validation procedures and attempt to improve its EITI and resulting transparency processes by implementing lessons learned during validation.

No countries have been validated by EITI yet, though there is expectation that Azerbaijan and Nigeria will be validated in the next year.

*Organization and Funding.* The EITI process is supported by a small Secretariat headquartered in Oslo, Norway and is accountable to the EITI Board. It is made up of a head, four policy advisers, a communications manager, an executive secretary, and a three person administrative support staff. The Secretariat oversees implementation activities generally and provides advice to and consults with implementing countries; houses and disseminates information about EITI, country compliance activities, and the implementation process; and promotes revenue management and transparency practices. In September 2006, an ad hoc entity, the EITI International Advisory Group (IAG), presented a range of policy recommendations on promoting EITI, assessing EITI country compliance, and creating EITI processes and organizational structures and functions. One recommendation was that the initial Secretariat staff serve for up to three years, for a term ending in October 2009. If taken up, it is unclear what will happen to the Secretariat.

EITI is financed, in part, through a World Bank-administered, primarily donor government-supported Multi-Donor Trust Fund (MDTF). The activities funded by the MDTF are approved by a Management Committee made up of the World Bank and DTF-funding governments that have provided over \$0.5 million to the MDTF. The MDTF supports efforts by implementing countries to meet the EITI criteria, although such countries or their bilateral donors must fund their own EITI activities wherever possible. EITI principles are also being promoted in World Bank country programs generally. The EITI Board meets several times a year to consider and recommend EITI procedures and strategies for consideration by the biennial EITI Conference. The Board also oversees and directs the Secretariat and assesses the EITI compliance status of implementing countries and firms. Its members are chosen by the EITI Conference based upon proposals from EITI implementing and donor countries, and civil society groups and private sector entities party to EITI.

United States support for EITI has included repeated pushes for it to be taken up in G-8 forums (on G-8 commitments, see below) and in bilateral diplomatic engagement advocates that countries participate, endorse, or fund EITI. On occasion, the U.S. helps countries undertake steps to comply with EITI requirements. The United States also participated in the EITI International Advisory Group (IAG).

The United States is an active member of the EITI Board, but has not funded the activities of the EITI secretariat or contributed to the MDTF. Thus, it is not a member of the MDTF Management

<sup>14</sup>A firm selected from a small pool of qualified firms that were chosen by the EITI Board through an international competitive bid process in 2007. There are currently seven qualified Validators.

Committee and has no influence over the distribution of the trust's funds. That may change in FY 2008 because the State Department plans to provide \$3 million in Economic Support Funds (ESF) to the MDTF, in compliance with the joint explanatory statement accompanying P.L. 110-161.

In FY 2006 and FY 2007, respectively, the United States allocated \$1 million in bilateral economic support funds (ESF) for use in assisting countries to implement EITI. The United States also funds a wide range of other transparency and accountability efforts that may support EITI goals, but are not necessarily dedicated specifically to EITI implementation.

Within the Board, key U.S. goals are to ensure that the Secretariat focuses on assisting Candidate countries to undergo EITI validation and become Compliant countries and that it not engage in "mission creep" activities, such as broadening the types of commodities (e.g., tropical forest wood) covered under EITI. A second goal is to work with the Secretariat to define a set of recommended legal documents and structures that would govern and more clearly define the roles of various EITI entities.

EITI currently lacks a charter and formal legally binding rules. This makes it difficult for the U.S. delegate to the Board to formally undertake some functions, such as participating in the "direction" or governance of the Secretariat when acting as a member of the EITI Board, due to U.S. legal requirements that govern U.S. participation in international organizations. Establishing a charter would also clarify the roles and relative powers regarding EITI governance matters held by the Board and the Secretariat. Also, U.S. representation at the EITI board is at a lower level than other board members. These factors give the U.S. an arms-length relationship to EITI that contributes to the perception that the United States is a reluctant participant in the extractives transparency movement generally.

A common criticism of EITI is that it only addresses revenues from extractive companies to governments and is not useful in ensuring that revenues are not lost to corruption or ineptitude after they are received by the government. Staff at the EITI Secretariat are sensitive to this criticism but say that, while their program may not be the full answer to extractive industry transparency, it is a critical part of the solution.

Now that a number of countries have signed up for EITI, committee staff believe that the EITI Secretariat should focus more on the actual implementation of EITI. Staff recommends that the Secretariat develop a standardized disclosure procedure so that EITI country information is comparable. This would enable international companies to set up consistent systems and would prevent resource-rich countries from having to "reinvent the wheel" by setting up country specific disclosure procedures.

In general, staff was surprised that in a number of resource-rich countries, there was not enough information about the benefits of extractive industry transparency and little awareness of EITI within governments, some U.S. embassies, and with bilateral donors. A senior minister in one country remarked that he thought G-8 members had given up on EITI since they did not talk about it anymore.

## UNITED STATES

The United States government, at the G-8 and in other fora, formally supports the EITI and other transparency and anti-corruption measures, such as the OECD anti-bribery convention and the U.N. Convention Against Corruption. One of the five “key objectives” for U.S. foreign assistance is to ensure that recipient countries are “governing justly and democratically,” which for developing countries means that foreign aid is directed to “support policies and programs that accelerate and strengthen public institutions and the creation of a more vibrant local government, civil society, and media.” Through USAID and other agencies the U.S. funds programs related to good governance, rule of law, capacity-building for fiscal management, etc. And the United States has for 30 years, under the Foreign Corrupt Practices Act, outlawed bribery of foreign officials by American corporations even while, for much of that time, European firms were allowed to write off bribes as a regular business expense. Most recently, in the summer of 2008 the State Department, under a provision of the FY2008 State appropriations bill, issued new guidance to embassies to revoke or deny visas to high-level foreign officials involved in extractive industries corruption. In September 2008, the U.S. voted for a pro-EITI resolution at the United Nations.

Nonetheless, staff found that U.S. Government attention overseas to “resource curse” matters is sporadic, and that support for extractives transparency measures often appears half-hearted. At the State Department, there is no clear direction from the top to make the issue a priority. Staff found, for instance, that in some countries, including Cambodia, and Nigeria, U.S. embassy and AID personnel were actively promoting EITI and other anti-resource curse measures, while in other countries U.S. engagement on these specific issues was absent. For example, transparency is critically important in Equatorial Guinea, yet the United States has extremely limited personnel and financial resources dedicated to the issue. Meanwhile, directed funding—often to specific programs—reduces flexibility to respond to transparency-promoting opportunities and frequently distracts the attention of our embassies.

The U.S. representative on the EITI board is the State Department’s Director of the Office of International Energy and Commodity Policy while other countries send representatives two or more ranks higher, at the level of deputy assistant secretary. Rank matters in international diplomacy, as does ability to demonstrate management authority over a breadth of issues in the area, such as budgeting and revenue management. Staff found unpersuasive State’s argument that a higher-level official would not give EITI sufficient attention. At the EITI board, the U.S. has concentrated on what outsiders consider arcane legal issues rather than more substantial matters, such as technical assistance for countries seeking to implement the reporting and accounting requirements.

The U.S. only recently committed to donate to the EITI Multi-Donor Trust Fund at the World Bank, and there is some perception that until 2005, the Bush administration was dragging its feet on EITI because of oil company opposition. Following a legislative directive to deposit \$3 million with the EITI Multi-Donor Trust

Fund, the Senate Foreign Relations Committee received a notice on July 31, 2008 from USAID stating its intention “to obligate \$2,976,000 in FY 2008 ESF to contribute to the Extractive Industries Transparency Initiative (EITI) Trust Fund.” The committee has expressed strong support for this funding.

Similarly, the U.S. appeared reluctant at the United Nations, where a resolution was introduced in support of EITI, which its backers hope will have a similar impact to the U.N. resolutions supporting a certification system for “blood diamonds” that helped lead to the successful Kimberley Process. The U.S. voted for the resolution in September 2008, when it was passed, but did not join Britain, Italy, Germany and France (among others) as a co-sponsor. Deputy Secretary of State John Negroponte, in an earlier communication informing the committee that the U.S. would vote in favor, gave no specific reason for declining co-sponsorship. In a separate communication with the committee, State officials called the resolution “premature” and not “useful.”

The U.S. has supported the repeated G-8 endorsements of EITI, but follow-up has been weak. The recent “Accountability Report: Implementation Review of G-8 Anti-Corruption Commitments” details U.S. support for a number of good governance and transparency initiatives at the World Bank and other development banks, and notes the anti-corruption component in many of the Millennium Challenge Corporation’s activities. But with respect to EITI, it states only, “The United States provided a total of \$990,000 in FY06 funds to support civil society participation in EITI implementation in Peru, Nigeria, and the Democratic Republic of Congo, and FY07 funding provides for approximately the same level of support.”

Some elements of the government have wholly embraced extractives transparency. The Overseas Private Investment Corporation (OPIC), for instance, signed on to EITI principles in 2006 and incorporates EITI into its project selection and design. It will not, for example, finance a project if the host country prohibits disclosure of revenues and contracts. Although only a handful of OPIC’s projects are in the extractives field, staff found OPIC to be an excellent example of how U.S. agencies should be integrating EITI.

Staff found that the Treasury Department’s Office of Technical Assistance (OTA) has made important contributions to transparency efforts and has potential for greater reach. Funded partially by Treasury funds and partially by other U.S. assistance programs, OTA helps host governments improve financial management, develop clear budgeting procedures, and in general build the populace’s confidence in government fiscal processes. It sends resident advisors to work directly in a ministry of finance to develop the needed systems and procedures. Staff found that this could be highly useful for resource-rich developing countries needing assistance in managing and accounting for revenues. While OTA has worked in such countries as Chad, Nigeria and Azerbaijan, it does not have a specific focus for extractive industry countries. Staff found several constraints on OTA advisors doing more work in extractive industry countries, including a small budget and difficulty in finding countries with sufficient political will and commitment to undertake recommended reforms. The biggest single constraint



appears to be that neither OTA nor the Treasury Secretary has made extractives transparency a priority. Doing so would raise the U.S. profile on the issue and contribute to U.S. policy objectives of reducing resource-related corruption, enhancing the effectiveness of U.S. foreign aid, and improving energy security.

Staff identified a number of other government agencies that have international programs that could be brought to bear on various parts of the extractives “value chain.” For example, the U.S. Geological Survey helps assess world-wide deposits of non-fuel minerals, helping to make the global market more transparent; the Minerals Management Service provides foreign technical assistance on oil leasing procedures and revenue management; and the U.S. Forest Service provides assistance to countries combating illegal logging through such means as satellite monitoring and wood certification. However, staff found that these various programs are undertaken with little coordination or strategic direction, and few officials involved in them had even heard of EITI, much less used it to inform their policies. Staff found that neither the State Department nor USAID nor the Treasury Department nor the National Security Council has the lead on extractives transparency. Staff found that without more forceful and vigorous direction, U.S. progress in battling the resource curse, improving energy security and enhancing global stability will fall short of its potential.

During their travels, staff also heard many foreign officials ask why the United States itself has not signed up to have its considerable oil and gas revenues (the U.S. is the world’s third largest oil producer) “validated” by an outside party as the developing countries are required to do under EITI. Technically, the United States is not a “resource rich”<sup>15</sup> extractive industry country because extractives revenues make up a relatively small part of its government revenues and exports. Because EITI involves some infringement of sovereignty, such skepticism is to be expected. Staff were further told that even some countries which have signed up for EITI feel it is being imposed upon them by the West, which doesn’t play by the same rules.

Staff found that compliance with EITI’s reporting requirements should be fairly easy because the U.S. Government already collects and publishes nearly all the required data. Bureau of Land Management and Minerals Management Service (MMS) officials said that all the terms of leases are published, including royalty release clauses, all bids, including losing ones, are released, flow data is published, and even proprietary seismic studies are made public after 25 years. Compared to other countries, very little is kept secret in U.S. oil leasing, MMS said. Providing that the agencies involved would not have to change any of their procedures, submitting tallies in EITI’s revenue categories would be inexpensive. By voluntarily agreeing to go through the EITI validation process, the U.S. could take a very low-cost step that would pay large transparency benefits. It would be an important example to developing countries, demonstrate that the U.S. is willing to do what it is ask-

<sup>15</sup> Definition of Resource Rich: 1) average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenues at least 25% over the period or 2) average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25%. Source IMF (2007) Guide on Resource Revenue Transparency, Appendix 1

ing of others, defuse the charge that it is discriminating against poor countries, raise the U.S. profile regarding the transparency agenda, enhance EITI's credibility, and ultimately support reformers in developing countries who want to bring their nations under the EITI regime.

#### MANDATORY SECURITIES REPORTING

United States and multilateral efforts to promote extractive industries transparency are intended to work within the bounds of the political will and technical capacity of the resource-rich countries. With their revenue windfall, some of these nations are increasingly intransigent in resisting outside pressure. This has led some to urge that the U.S. should take steps domestically to promote transparency overseas, much as the Foreign Corrupt Practices Act was U.S. domestic legislation to thwart corruption abroad. One such proposal is to mandate revenue reporting for companies listed with the Securities and Exchange Commission and working in extractives abroad.<sup>16</sup>

Backers of EITI, particularly the extractive companies, have long stressed the virtue of its voluntary nature. Countries are persuaded to join and to submit their books to outside review because it is in their self-interest to do so, not because the developed countries or the IFIs punish them if they do not. (EITI "candidate" countries require all extractive companies operating on their territory, including their own national oil companies, to report revenue, and so far no oil company has refused to comply.) A small number of international oil companies, notably BP and Norway's Statoil, report country-by-country payments even where it is not required.

Those who support a mandatory reporting strategy argue it would expand the benefits of transparency and disclosure to countries currently outside EITI and other voluntary initiatives and would provide useful information to investors. These claims have some merit. Experience with the Foreign Corrupt Practices Act is instructive. After the U.S. Government issued written guidelines for company behavior under FCPA, industry representatives reported that it strengthened the hand of those firms who sought to resist pressure for payoffs or other corrupt acts from host governments and officials. And in general, host governments have not seen this U.S. domestic legislation as violating their sovereignty. In a global environment in which oil and gas resources are coming under increased state control, promoting revenue transparency as a key element of improved governance may also prove useful for investors, as evidenced by this being one component of credit rating scores. Proponents of the SEC approach also claim it would not be burdensome because the companies should have the data readily at hand, nor would it be competitively disadvantageous to U.S. firms since a large number of foreign energy and mining companies have or are seeking U.S. listings.

<sup>16</sup> In mid-2008, members of the Publish What You Pay Coalition proposed to "strengthen" the voluntary element of extractive industries revenues reporting with a mandatory reporting requirement on oil companies. Under legislation they helped draft which was introduced in the House by Rep. Barney Frank (D-MA) as H.R. 6066 and in the Senate by Senator Charles Schumer (R-NY) as S. 3389, all oil, gas and mining companies, American and foreign, with securities listings in the United States would be required to report their payments to foreign governments as part of their regular filings with the Securities and Exchange Commission.

However, staff found that others have reservations about the mandated SEC approach, and in some cases flatly oppose it. Two principal concerns emerged. First, the number of foreign companies covered is not as broad as supporters say, leading to a situation in which U.S. firms are at a competitive disadvantage. More important from an anti-corruption perspective, it could encourage corrupt governments to seek contracts with firms not covered by the legislation, in effect driving the more transparent companies from the field. Some foreign firms could simply delist rather than comply. Second, some believe that such a requirement would undermine rather than strengthen EITI (one interlocutor said it would “kill EITI.”) They argue that producing countries would react negatively to this forced disclosure as an infringement on their sovereignty. They would see it as violating the voluntary aspect that is at the core of EITI and walk away from the initiative.

Staff concluded that establishing mandatory reporting requirements on a multilateral basis would be preferable to the United States doing so unilaterally, providing it is clear that it would not undercut EITI. This could be done through the G-8, where repeated endorsements of EITI and revenue transparency have not been followed up with concrete action. The SEC could seek to harmonize such reporting requirements among major global stock exchanges through the International Organization of Securities Commissions.

#### ADDITIONAL MULTILATERAL EFFORTS

##### *Extractive Industries Transparency Initiative Plus Plus (EITI ++)*

Building on EITI’s revenue transparency agenda, the World Bank has sponsored a program called EITI++ which is designed to cover the entire breadth of the resource chain, from extraction, to other stages such as processing, managing revenues, and promoting sustainable and efficient utilization of resource wealth. EITI ++ seeks to support committed governments, notably in Africa, in implementing good policy and practice throughout the whole process of natural resource utilization.<sup>17</sup>

EITI++ would address criticism that EITI is focused on only one part of the revenue chain—company payments to governments. However, the name EITI++ has generated confusion about how it will work with EITI. Such confusion is understandable, since the World Bank’s EITI++ program is not at all related to the EITI organization. Some countries have wondered if it is worth signing up for EITI given that EITI++ is being launched.

Staff universally considered the revenue-reporting element of EITI as limited and the potential value of broadening EITI to include the elements of EITI++ as an essential next step in achieving the intended improvements in governance and outcomes for developing countries.

##### G-8

While the G-8 cannot directly impose honest government, their actions to support accountability, transparency and anti-corruption efforts in developing countries with extractive industries such as oil

<sup>17</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21727813pagePK:64257043piPK:437376theSitePK:4607,00.html>

and gas could have a significant impact on the energy market. Where there is instability, there are higher prices. Foreign aid investments to support development in oil exporting regions can help quell discontent and help assure a stable energy supply. While the G-8 has made more than twenty transparency commitments over the past five years, there is a clear failure to implement. Rhetoric without action is not sufficient for responsible diplomacy or policy.

In order to maintain credibility, the G-8 countries must meet the very standards that they press for the world. Russia is the only G-8 country reliant on extraction of oil and gas for a significant part of its economy. While Russia, as a G-8 member, has supported the extractive industry transparency initiative (EITI), it has failed to enlist. Some in Russia have argued that the country does not participate in EITI because the initiative is mainly for developing countries while others note that, given Russia's status, EITI should be a reasonable standard that it could reach and surpass.

In fact, the rest of the G-8 should also sign up for EITI and subject themselves to the transparency required. As discussed in the United States section of this report, given the level of disclosure already practiced in the United States, that would be an easily achievable goal.

The G-8 issued an accountability report on their anti-corruption efforts following the 2008 Summit that serves as an initial step towards transparency, which should be expanded and given much greater detail in the future. It is hardly comprehensive, and its lack of detail makes it hard for parliaments and civil society to hold their leaders to task.

As noted in the mandatory reporting discussion of this report, the G-8 countries should develop harmonized listing requirements for extractive companies to disclose their payments to governments. Also, G-8 financial regulators could encourage influential credit rating agencies and commercial banks to take explicit account of a country's transparency record in making their evaluations of credit-worthiness and sovereignty risk.

#### *International Monetary Fund*

The International Monetary Fund (IMF) first published the Guide on Resource Revenue Transparency (the IMF Guide) in 2004 as a supplement to its other publications on fiscal transparency, the Code of Good Practices on Fiscal Transparency (the IMF Code) and Manual on Fiscal Transparency (the IMF Manual). The purpose of the IMF Guide is to provide more specific guidance to countries that are rich in natural resources so that they can implement the practices on fiscal transparency described more generally in the other volumes. The IMF Guide focuses on natural resource revenues because they tend to be large and more complicated than other types of revenue and are often associated with poor governance and weak economic growth. Furthermore, the IMF Guide is used as a framework for the IMF to assess fiscal transparency in resource-rich countries under the Reports on the Observance of Standards and Codes (ROSCs). The IMF and the World Bank undertake ROSCs, at the request of member countries, to summarize the extent to which they observe certain internationally recognized

standards and codes. Fiscal transparency is one of twelve areas in which ROSCs are performed.

The IMF Guide provides detailed fiscal transparency “best practices” for resource revenue management, including examples of national experiences. It also discusses work being done by other international agencies, including the EITI, and incorporates this work into its recommendations. It closely follows the format and prescriptions of the IMF Code. It is really an expansion of the Code as regards natural resource-specific issues.

Like the IMF Code, the Guide is broken down into four main parts. These address: (1) clarity of roles and responsibilities; (2) open budget processes; (3) public availability of information; and (4) assurances of integrity. EITI figures heavily into the third part, public availability of information. The first part, clarity of roles and responsibilities, focuses on the legal framework governing the relationship between the government, national resource companies (NRCs), and international companies. It offers guidance for the basic legal framework, including the allocation of resource rights, tax and revenue issues, ownership of NRCs, and intra-government revenue sharing. In each case, countries are encouraged to proceed with the specific laws that work best under their existing legal framework, but they are also encouraged to make the laws transparent, simple, and leave little or no room for discretion. The second part, open budget processes, recommends transparency of budget processes, integrating any resource-related funds into the overall fiscal policy framework, and planning to smooth the impact of volatile revenue flows to ensure long-term fiscal stability.

The IMF Guide is designed to be a key resource guiding governments’ reporting on financial matters beyond current revenue transactions (the purview of EITI) including spending of such revenue, resource reserves, and debt against resource collateral. The Guide describes the EITI criteria and reporting requirements in this section, and also gives examples of countries that have adequate resource revenue transparency outside of the EITI, such as the Chilean mining industry. The fourth and final part, assurances of integrity, examines some requirements for establishing good practice in areas such as data quality, internal controls, and independent external audit.

Adherence to the IMF Guide is tracked through the ROSCs on fiscal transparency. As of March 2007, the IMF had performed fiscal transparency ROSCs on 86 countries, or about half of its members. The following resource-rich countries<sup>18</sup> have had a fiscal ROSC published on the IMF website: Algeria, Azerbaijan, Cameroon, Colombia, Equatorial Guinea, Gabon, Indonesia, Iran, Kazakhstan, Mexico, and Russia.<sup>19</sup> Additionally, the following EITI candidate countries have had a fiscal ROSC published on the IMF website: Ghana, Mali, Mauritania, Mongolia, and Peru. The following EITI candidate countries have not had a fiscal ROSC published on the IMF website, although they may have had other ROSC reviews: Congo (Brazzaville), Democratic Republic of Congo, Guinea, Liberia, Madagascar, Niger, Nigeria, Sao Tome and Prin-

<sup>18</sup> As defined by the IMF, based on exports and revenues from the years 2000–2005.

<sup>19</sup> For a complete list of fiscal transparency ROSCs, see <http://www.imf.org/external/np/rosc/rosc.asp?sort=topic#FiscalTransparency>.

cipe, Sierra Leone, Timor-Leste, and Yemen. Given the voluntary nature of the IMF resource revenue guidelines, there is no clear tool to encourage resource-rich countries to actually implement them.

The IMF regularly evaluates member countries' economies and fiscal policies in Article IV consultations. Of concern to staff was the uneven examination of extractive industry issues in Article IV reports. In some resource rich countries consultation reports, extractive industry transparency issues were not mentioned at all. In others, the IMF board discussion was inconsistent with the reports. For instance, Angola (\$40 billion in oil revenues in 2007) was recently applauded by the IMF even though an IMF study showed major failures in good governance criteria.

#### *World Bank and the Regional Development Banks*

The World Bank Group undertakes various activities to prevent corruption in all of its projects, including those in the extractive industries. The Extractive Industries Review (EIR) is the World Bank's main tool to address all the potential problems associated with supporting projects in the extractive industries, and preventing corruption figures high on the list.

The World Bank Group management initiated the Extractive Industries Review (EIR) after the Annual Meetings in 2000. At those forums, a group of nongovernmental organizations (NGOs) requested that the World Bank stop supporting extractive industries because they believed the resulting adverse impacts far outweighed any positive development impact. The EIR was an independent review process to evaluate the impacts of World Bank activities in the natural resource sectors, and make recommendations about the future involvement of the World Bank in these sectors. As part of the review process, research was commissioned, project site visits were made, and regional consultations were undertaken with industry, government, and civil society representatives. The EIR advisory group presented its final report to the World Bank in January 2004, and in September 2004 the World Bank Group management issued its final response to the EIR. The Board of Directors agreed that the Bank would conduct an annual review of progress toward achieving the objectives outlined in the management response. The last such review was published in February 2008.

The basic question asked by the EIR was whether extractive industries projects could be compatible with the World Bank's goals of sustainable development and poverty reduction. The EIR found that there could be a positive role for the World Bank in the extractive industries, but only if it was possible for the World Bank to contribute to poverty alleviation through the extractive industries, which could only happen with certain conditions in place. The main conditions necessary for extractive industries to have a positive contribution to sustainable development found by the EIR are: "pro-poor governance, including proactive planning and management to maximize poverty alleviation through sustainable develop-

ment; much more effective social and environmental policies; and respect for human rights.”<sup>20</sup>

The World Bank and its private sector arm, the International Finance Corporation, do not finance extractive activities unless companies commit to making revenues paid to the government transparent. Despite endorsement of EITI from the Asian Development Bank and the African Development Bank, the European Bank for Reconstruction and Development is the only other MDB that requires such a commitment. The remaining regional development bank, the Inter-American Development Bank has not yet endorsed EITI. With the view that the international donors who give aid to resource-rich countries should focus their efforts on improving revenue management and fighting corruption, staff recommends that all regional development banks adopt the World Bank/IFC transparency requirement. Relatively small amounts of assistance could thus help channel large amounts of countries’ own funds toward poverty reduction. Staff also recommends that, when possible, the multilateral development banks promote transparency before the resource revenues actually start flowing from extractive industries.

Staff recommends that the multilateral development banks condition loans on progress on transparency. Staff also recommends that the multilateral development banks promote transparency before the resource revenues actually start flowing from extractive industries.

#### EXTRACTIVE COMPANIES

Energy and mining companies expressed clear interest in supporting transparency in resource-rich countries. One investor noted that “the lack of revenue transparency has translated into a lack of real governance and lack of delivery of services.” Many businesspeople noted that stable governance and concrete improvement in the quality of citizens’ lives led to stability which is critical for the business environment. One person noted “what investors hate most is uncertainty. Transparency and certainty go hand in hand.”

Staff heard from several extractive companies becoming weary of having to serve as de facto host governments, providing social services and looking after countries’ populations, when the government’s elites fail to use newfound wealth to provide social services.

In some cases, extractives companies are being particularly proactive. While still in nascent stages, Newmont Mining in Ghana has joined a public-private partnership with USAID to improve governance of extractive resources at the local level.

Equatorial Guinea provides a stark example of how, under certain circumstances, private industry can markedly improve transparency promotion efforts, including signing up for EITI. ExxonMobil in particular played a pivotal role in advocating Equatorial Guinea’s accession to EITI candidate country status, building knowledge of EITI within the government and civil society, and assisting in persuading officials to attend meetings.

<sup>20</sup> *Striking a Better Balance: The World Bank Group and the Extractive Industries*. The Final Report of the Extractive Industries Review. December 2003.

Some companies enjoy an enhancement in reputation, especially among socially responsible investors, when seen to push EITI; the role of reputation-conscious oil majors was cited as a major impetus for Azerbaijan signing up for EITI.

International energy companies can face difficult choices in balancing a pro-transparency stance and potentially damaging their relations with host governments. Angola is a case in point. While companies have an interest in transparency as relates to bidding processes, contract enforcement, and wider certainty in doing business, Angola with all its flaws is still a relatively attractive investment destination. The 2001 government rebuff of BP's transparency efforts continues to cast a shadow. These companies also face strong competition from a range of international and national oil companies. Yet it is also evident that extractive companies, particularly with backing from their home governments, could be more proactive in transparency promotion. The Foreign Corrupt Practices Act has proven useful. With U.S. Government guidelines for company behavior, the Angolan government has been responsive to this home country regulation.

Some companies are reluctant to engage directly with countries on EITI specifically and even more concerned about raising concerns about government budget transparency, which is currently outside the EITI parameters. They told staff that they did not want to jeopardize their relationships with government officials since there were plenty of other companies without a "transparency agenda" waiting in the wings to secure extractive contracts.

Several groups have called for public disclosure of contracts, and numerous U.S. Government officials and private industry representatives suggested they saw no reason why basic contractual information should not be made public. In some countries, certain information in contracts is understandably considered to be proprietary. Yet provisions related to transfer of funds to the federal government, payments to localities including in-kind contributions, and agreements for governments to take a specified amount of product all should be made public. An international standard for disclosing contractual information should be adopted.

#### RESOURCE REVENUE AND SOVEREIGN WEALTH FUNDS

Significant oil revenues are both a burden and a blessing for oil producing nations. The burden is the necessity to manage and calibrate the proper use and investment of such revenues for the citizens of that country. Resource revenue funds can be a useful tool for countries to manage revenues in a manner that staves off "Dutch disease." For some countries, the establishment of a resource revenue fund allows for more political transparency and third-party surveillance. It may be appropriate for those countries to segregate resource revenues for future generations, thereby insulating money from current political appeals for popular support that are often wasteful. In others, diversion of extractive revenues into a separate account can result in a political fund that is vulnerable to misuse since it is outside the normal budgeting process. What truly matters is that the resource accounts be designed and managed prudently. The IMF is expected to issue best practice guidelines for sovereign wealth funds during the fall of 2008 which



should establish how to design a fund to best benefit the citizens of a resource rich country and to ensure that the funds' external investments are based on economic, not political, considerations.

Of the 21 countries examined by staff for this project, at least 12 had sovereign wealth instruments with various management strategies from conservative low-interest holdings to more outgoing investment strategies: Azerbaijan, Chile, China, Equatorial Guinea, Kazakhstan, Nigeria, Norway, Russia, Saudi Arabia, Timor-Leste, and United Arab Emirates. Many of the other countries had resource revenue funds at the state or community level. The size and management of many of these funds remain opaque and some predecessor instruments have collapsed with little indication of reform or improved management.

Staff found that many burgeoning sovereign wealth funds and local resource revenue funds face absorption capacity problems—they are not equipped to effectively invest their sovereign wealth funds in their own country or abroad.

In some countries, staff identified a lack of political will to successfully manage revenues for future generations. For example, in Chad, the government failed to implement the World Bank-supported Revenue Management Program, resulting in a vacuum of transparency and accountability for oil revenues. In contrast, Timor-Leste has established an Investment Advisory Board to advise the Minister of Finance on investment strategy, performance benchmarks, and performance for its Petroleum Fund, which is audited annually by an internationally-recognized audit firm.<sup>21</sup>

Staff observed, in countries such as Norway and Chile, that successful sovereign wealth funds were operating in countries with strong governance and prudent fiscal management and that transparency has shored up support for these funds' existence. Staff also noted that local resource revenue funds, in countries such as Chad, Nigeria and Peru, lacked the technical capacity to effectively spend their revenues in a transparent manner.

Much attention has focused lately on the impact of sovereign wealth funds on international financial markets and geopolitics. The U.S. Treasury Department estimates that the number of sovereign wealth funds doubled between 2000 and 2005. As oil prices remain well above \$100 per barrel, the incomes of oil exporting nations are soaring. By some estimates, these national investment reserves now hold close to \$3 trillion. Russia has about \$130 billion in its Stabilization Fund, and Abu Dhabi Investment Authority's value is estimated to be between \$300 and \$900 billion. According to Treasury Under Secretary David McCormick, sovereign wealth fund assets are "larger than the total assets under management by either hedge funds or private equity funds and are set to grow at a much faster pace."

While aggressive investment strategies pose certain concerns, sovereign wealth funds have infused helpful liquidity into international financial markets and, in some cases, promoted beneficial local development. Yet they are not ordinary investors because their ties to foreign governments create the potential that they will be used to apply political pressure, manipulate markets, gain ac-

<sup>21</sup> Abraao Fernandes de Vasconcelos, Banking & Payments Authority General Manager

cess to sensitive technologies, or undermine economic rivals. Some observers have argued that the primary goal of sovereign wealth fund managers will almost always be to produce a good return on invested assets. Consequently, they are unlikely to engage in political or economic manipulation. But we have witnessed, in recent years, numerous instances of nations using or threatening to use their energy assets for political purposes.

As Professor Daniel Drezner testified before the Senate Foreign Relations Committee, “the biggest effect of sovereign wealth funds on American foreign policy is their effect on democracy promotion efforts.” He argued that “democratization is a much more difficult policy for the United States to pursue when the target government is sitting on trillions of dollars in assets to buy off discontented domestic groups. Authoritarian governments in the Middle East and East Asia will be more capable of riding out downturns that would otherwise have threatened their regimes.” Drezner added that “looking at the long term, sovereign wealth funds are one component of an alternative development path, suggests a possible rival to liberal free-market democracy. In state-led development societies, governments could use sovereign wealth funds, state-owned enterprises and banks, national oil companies, extensive regulation, and other measures to accelerate economic development, buy off dissent and promote technology transfer. If this model proves sustainable over the long run—and this is a big if—it could emerge as a viable challenger to the liberal democratic path taken by the advanced industrialized states.”<sup>22</sup>

The U.S. Treasury Department has responded to concerns regarding the potential political and economic power of the huge sovereign wealth funds by undertaking efforts to balance the country’s need for foreign investment with prudent safeguards. Domestically, it has been working to improve accountability within the Committee on Foreign Investment in the United States for review of foreign government-controlled transactions, and it is creating a working group on sovereign wealth funds. Globally, the Treasury Department is supporting the International Monetary Fund and the World Bank in their development of voluntary best practices for sovereign wealth funds. It also has proposed that the Organization for Economic Co-operation and Development identify best practices for countries that receive foreign government-controlled investment. In addition, the Securities and Exchange Commission requires that sovereign wealth funds disclose holdings of 5% or more in a public company and the Federal Reserve imposes a number of regulations on sovereign wealth fund investments in U.S. banks.

#### COUNTRY REVIEWS BY REGION

##### *Africa*

##### *Angola*

Angola has an estimated population of 16.4 million and a per capita income of \$2,360. The average Angolan has a life expectancy of 42 years, and the infant mortality rate is estimated at 260

<sup>22</sup>“The Foreign Policy Implications of Sovereign Wealth Funds,” testimony from Professor Daniel Drezner at June 11, 2008 Senate Foreign Relations Committee hearing entitled Sovereign Wealth Funds: Foreign Policy Consequences In An Era of New Money.

deaths per 1000 births. Angola's 2007 estimated oil export revenues were approximately \$44 billion, comprising approximately 72% of its GDP.

Recovering from a 27-year civil war that left the economy in shambles and ended only in 2002, the Angolan government has been focused on consolidating peace among rival forces, demobilizing combatants, resettling displaced populations, and rebuilding devastated infrastructure. These tasks are complicated by stark poverty with only half of Angolans enjoying access to clean water and extreme economic inequality—easily palpable when one travels beyond the capital Luanda's crowded commercial center. Relations with the United States are made difficult by the fact that the U.S. Government supported the political forces now in the Angolan opposition.

Angola has been an oil producer since the 1960s. Despite the devastation wrought by the civil war, the energy sector continued to flourish throughout the war years and left Angola well-positioned to capture the benefits of the last five years of the global run-up in oil prices, although hydrocarbon revenues are expected to soon plateau. On the back of petroleum exports, which totaled an estimated \$44 billion in 2007, Angola has been Africa's fastest growing economy since 2005 and one of the fastest growing in the world at 23.4% in 2007. The primary symptom of Dutch Disease, currency appreciation, has been strongly felt in Angola, with inflation reaching heights of 300% in recent years.

Angola's national oil company Sociedade Nacional de Combustiveis de Angola, Sonangol, has negotiated contracts with international oil companies that allow the government to capture a greater proportion of the revenues as global oil prices rise, which in today's energy markets leaves Angola financially well-positioned compared to many of its peers. In addition to oil, Angola is positioned to become a significant exporter of Liquefied Natural Gas (LNG). Natural gas exports are expected to get a boost in the years ahead when the new Soyo LNG facility comes online. Diamonds are also a big business in Angola, with the parastatal Endiama having control over both production and regulation. IMF data cites over one billion dollars in revenue from diamonds in 2006 from over 9 million carats exported.<sup>23</sup> These two extractive industries dominate Angolan exports (petroleum 95.9 % and diamonds 3.6%), and petroleum exports account for nearly 80% of government revenues.<sup>24</sup>

Transparency is critical for Angola's own ambitions to gain international respect. Macroeconomic reform, economic development, and participatory governance all rely upon improved dissemination of information in order for the government to be more effective and to enable civil society to play a productive role in increasing accountability of Angolan officials. For years, serious concerns have been raised about billions in revenues going unaccounted. Good governance of the country's resources and revenues goes far beyond the issue of transparency. With the reality that extractives revenues will plateau, and eventually dry up, the Angolan government

<sup>23</sup> IMF, "Angola: Selected Issues and Statistical Appendix," IMF Country Report No. 07/355, October 2007.

<sup>24</sup> IMF, "Angola: Selected Issues and Statistical Appendix," IMF Country Report No. 07/355, October 2007.

faces the challenge of leveraging today's resources for long-term economic sustainability.

The most striking illustration of the difficulty of transparency in Angola occurred in 2001, when the Angolan government lambasted BP for making a public commitment to disclose its payments to the government. From that low point, Angola has made impressive progress, most vividly illustrated in monthly Ministry of Finance internet disclosures of exports in revenue and physical quantity from petroleum (block by block) and diamonds. This is a particularly significant step, as related by Endiama officials, given that such disclosure was previously prohibited as a matter of law. The government engages external auditors such as KPMG and publishes at least some of their reports which do include criticisms of the government. Angola participates in Article IV consultations with the IMF, and is undertaking other review mechanisms despite past disagreements. Likewise, the government of Angola has joined with the U.S.G. and World Bank in transparency related technical assistance, and it has joined the NEPAD peer review mechanism.

Angola is not an EITI candidate country, although it has been an observer and has participated in international meetings. One Ministerial-level official commented that he "saw no reason" for Angola to not sign up for EITI, but another explained that its rejection of EITI candidacy was "purely an issue of political sensitivity" based upon the assertion that Angola's domestic politics do not allow for policy and legislation to be driven from the outside. Interviews reinforced public statements that there is not currently political will for EITI candidacy. Nor, according to a senior Angolan official, have G-8 members in the country actively advocated the initiative.

A few interviewees outside the government commented that Angola actually publicizes more information as an EITI observer than do EITI candidate countries. Yet, published data tends to be general or difficult to verify. There is not a clear public consolidated accounting of the variety of revenue streams associated with contracting for extractive rights or for in-kind payments and community investments. Nor are the terms of contracts made public. Signature bonuses up to and exceeding \$1 billion are well-known, but they are not included in regular revenues reporting. There are also widely discussed "back room" agreements related to companies or governments offering bonuses and non-energy related in-kind payments for preferential access in bidding for drilling rights.

International oil companies sometimes have community development funding built into their contracts. Implementation of such projects have to be directed through Sonangol, creating opportunities for corruption while also creating a parallel funding stream not reported in published budget documents.

Angola has made important progress in improving its budgetary process and publicizing its budget, and it is working with the World Bank, IMF, U.K. Department for International Development (DFID) and the U.S. Government in this area. Budget documents are available on the internet, although they lack useful detail. The government is now putting in place a new computerized platform that will facilitate better planning and cross-ministry accounting and will allow monthly budget reports. The Angolan government is considering the establishment of a sovereign wealth instrument,

and it is being courted by major international investment groups. Currently, excess reserves are held in a treasury reserve fund in Angola's National Bank.

Despite the challenges faced by U.S. diplomacy, U.S. interests in Angola are strong, and the Angolan government has made clear their desire for broader cooperation to be built upon the foundation of energy trade. However, the government is keenly aware of U.S. historical involvement in Angola and its anti-reform elements are emboldened by surging oil revenues. The current U.S. Embassy team in Luanda has made remarkable progress in forming a productive relationship with the Popular Movement for the Liberation of Angola (MPLA)-dominated government. Increased activity, particularly in support from Washington, is needed. Staff did not miss the irony that while they can come to Angola with a specific mandate to examine transparency issues, Embassy Luanda reported it was left to terminate its transparency capacity building program due to lack of funds. U.S.G. assistance for good governance in Angola is limited by competition for funds with our humanitarian objectives in the country and constraints on spending set by Congress and the administration. Close to 90% of fiscal year 2008 funding is dedicated to health, humanitarian, and demining activities. The remaining 10% of funds support a broad remit of good governance programs—from supporting elections to transparency to civil society support to judicial reform. Of note was the country team's recognition of the key value U.S. assistance could bring to a nation flush with new wealth but lacking technical and knowledge capacity. Nonetheless, funding for good governance in 2008 decreased, eliminating future funding for transparency programming.

### *Chad*

Chad has a population of nearly 11 million people and average per capita income is \$1,230. Average life expectancy is 50.4 years with an infant mortality rate of 208 deaths per 1000 births. Total hydrocarbon revenues for 2007 were approximately \$1.2 billion, which constituted 17% of GDP, and will be dwarfed in 2008.

Chronic insecurity is the defining feature of Chad, affecting state activity and international involvement. Neighboring Sudan is a haven for rebel forces seeking to bring an end to Chadian President Deby's eighteen years in power and has sent a quarter of a million refugees across the border from the conflict in Darfur. The February 2008 rebel assault on Chad's capital, N'Djamena, virtually stopped all government function and international assistance programs. A "bunker mentality" prevailed which has only slowly started to lift.

Chadians are among the poorest people in the world. Prospects for Chadians improved when oil began to flow to world markets through the World Bank supported Chad-Cameroon pipeline in 2003, running from Doba in southern Chad through Cameroon to an off-shore loading platform at Kribi. With surging global oil prices, Chad has thus far realized over \$2.5 billion in revenues from oil production—an amount originally expected to take 25 years to achieve. Although surging global prices create an unexpected windfall now, those revenues will plateau and begin diminishing in the foreseeable future. Although the economy is still one-

third dependent on agriculture, global oil prices are now the principle driver of GDP growth, exposing the country to economic volatility.

Current oil production is from three fields in Doba, which are operated and owned by Esso Exploration and Production Chad, Inc., a consortium led by Esso (ExxonMobil) with Chevron and Malaysia's state-owned oil company Petroliam Nasional (Petronas). Relations with the government are productive but not easy. The government regularly attempts to lodge new fees on oil companies and had a protracted tax disagreement with Chevron and Petronas that led to their expulsion from the country. President Deby has publicly called for Chad to gain a 60% stake in the Esso-led consortium.

Nominally, Chad maintains a surprisingly progressive set of institutions and international agreements for transparent management of its extractive revenues. Chad has a number of institutions built into its government infrastructure that could play useful roles in financial management and auditing. Overall, however, these institutions do not have the political (as opposed to legal) mandate to function effectively and largely lack expertise necessary to fulfill their duties. Transparency in oil revenue reporting is to be commended in Chad. The Esso-led consortium, with the two pipeline owners, publishes expansive reports from job generation, to land use compensation, to environmental impacts. These reports contain quarterly and aggregate payment data broken into general categories of royalties, pipeline income, corporate income tax, and miscellaneous. Conducted quarterly during the construction phase and biannually thereafter, these reports are subject to World Bank verification. Reports are available on the internet and printed in English and French. Although the style of document gives the impression of a public relations brochure, it contains the most thorough reporting found in the five countries staff visited in Africa.

The Chadian government is pursuing candidacy in EITI, yet progress on this too was delayed by the February 2008 conflict. The Chadian government has formally expressed interest in candidacy, and held a World Bank supported conference on the subject in August 2007. This was followed by a December 2007 decree ordering creation of a "high council" to make progress on EITI qualification, but, according to an official, it was delayed due to the February conflict and has not yet gotten back on track. The effort is meant to be coordinated out of the Ministry of Petroleum, but has not received any budget support although it is reported that the African Development Bank may provide financial backing.

In exchange for World Bank participation in the petroleum development and pipeline project, the Chadian government agreed to a Revenue Management Program, as the World Bank's direct involvement in oil revenue management is known, consisting of conditions on management of revenues and guidance on spending of 85% of royalty and dividend revenues (and eventually 100%). Those revenues were to be deposited into an escrow account held at Citibank in London (a prudent debt service mechanism for a risky country), and expenditure projects had to be approved by independent multi-stakeholder College. This arrangement was aimed to minimize opportunities for corruption and spending outside of de-

velopment priorities, and provide for a longer time horizon for revenues.

However, that law was effectively gutted by the President's amendment in December 2005 to eliminate the Future Generations Fund (thus shifting approximately \$36 million to Chad's general treasury) to expand priority sectors to include territorial administration and security, and to shift directed spending in favor of the general treasury. Declaring a breach of contract, the World Bank exercised its rights to halt its activities and freeze the Citibank escrow account in January 2006. With more than the first quarter of 2008 consumed by the February conflict—including the government pulling monies from the country's reserve fund to replenish the military—it is unlikely that the government will meet targets for 2008 agreed in a subsequent negotiations with the Bank. In the judgment of staff, the World Bank should reengage in its revenue management efforts immediately and restore its presence on the ground.

U.S. Government assistance to the country favors humanitarian aid and security cooperation. These are necessary priorities, but U.S. interests in the country will be strengthened by more consistent demonstration of a broader agenda which will also require reinstatement of an economic officer position at the Embassy. Despite the mixed record on revenue management, Chadian officials expressed gratitude that staff visited Chad to discuss topics beyond humanitarian action and security. Skeptical views of Chadian government sincerity to reform are understandable. However, receipt of oil revenues in excess of one billion dollars per year, which could support economic and social development, makes it all the more urgent that the United States seeks to bolster reform-minded individuals and activities in Chad.

#### *Equatorial Guinea*

Equatorial Guinea has an estimated population of approximately 515,000 and an average life expectancy of 50.7 years. The infant mortality rate is 205 deaths per 1000 births and the average per capita income is \$10,150. This is a deceiving statistic given the vast poverty of the majority of Equatoguineans—income is clearly not distributed evenly in the country. The total hydrocarbon revenue in 2007 was an estimated \$3 billion, which is approximately 29% of its GDP.

This tiny African country of Spanish-speaking people is comprised of five islands—the capital Malabo is situated on the island of Bioko—and a sliver of territory, Rio Muni, on the African mainland. With oil export revenues over \$3 billion annually, hydrocarbon export has fundamentally altered Equatorial Guinea's economic environment and dramatically increased its prospects. The means—human resources, processes, and organizations—of translating such massive wealth into economic and social development are extremely limited. The historical record of the government's political repression, corruption, and disregard for service delivery leaves many observers cynical at the prospect for the Equatoguinean government committing to meaningful development, let alone political and social opening. Yet recent overtures of

the country's president and government give reason for optimism, no matter how guarded.

The Equatoguinean government is sharply criticized for near stagnant social development indicators even as GDP has soared. Between 2002 and 2006 the country experienced an average real annual growth of 15.8%. Economic development in Equatorial Guinea has thus far concentrated on major infrastructure. The Equatoguinean government is quick to point out that infrastructure collapsed along with the economy after the departure of the Spanish in 1968 and subsequent authoritarian rule by President Francisco Macias.

Equatorial Guinea exhibited few economic prospects prior to the discovery of the offshore Zafiro oil field in 1995, and rare international attention on the country focused on the dire human rights situation and corruption. Today Equatorial Guinea is the third largest oil producer in Africa, providing a substantial gain of new production and investment in a region increasingly critical for the global diversification of oil sources. With current oil sales well in excess of \$3 billion, Equatorial Guinea now ranks in the global top ten GDP per capita (PPP) at \$44,100. A new state of the art liquefied natural gas (LNG) terminal outside the capital Malabo positions Equatorial Guinea to play an independent and useful role in an increasingly global natural gas market as well.

Transparency is fundamental—albeit a first step—to improving Equatorial Guinea's domestic governance and international reputation, including in the financial sector which the government is relying on for foreign investment and financing. Power, which is synonymous with information about and control over finances, remains highly concentrated under President Obiang. His nod is required for any appreciable progress, and government ministries outside of energy have had little reason to build internal capacity, let alone take initiative to deliver on the needs of its citizens. Nonetheless, President Obiang has signaled incremental devolution of power and greater economic and political openness. The trajectory of improvements is unlikely to be linear, and the extent of his commitment will be tested over time. Yet simply more development projects, including those aimed at meeting social needs, will not be sufficient for President Obiang to demonstrate genuine change in the governance of his country. Transparency in Equatoguinean accounts, budgeting, and expenditures are minimum threshold markers for change. In fact, opposition leaders largely agreed with this statement, affirming transparency's importance on the same level with free and fair elections.

Equatorial Guinea is an EITI candidate country. EITI's strength in Equatorial Guinea is derived from the fact that Equatorial Guinea's candidacy was made by personal decree of President Obiang, though attention to EITI from the members of his government has been uneven. It is likely helpful that the government coordinator and assistant coordinator also occupy significant positions within the key offices of the Finance Ministry and the prime minister's office, respectively. EITI will be funded from the state budget. Funding mechanisms will need to be closely monitored in order to ensure that government financing does not impinge on the freedom of associated civil society groups to operate. In the short-term,



international assistance in funding for civil society is likely to be necessary.

In terms of promoting transparency in the extractive industries and EITI in particular, the familiarity of U.S. energy company staff to the Equatoguinean government has allowed the private entities to be effective advocates. ExxonMobil, in particular, played a pivotal role in advocating Equatorial Guinea's accession to EITI candidate country status, building knowledge of EITI within the government and civil society, and assisting in persuading officials to attend meetings. Corporate commitment to continuing progress will be essential for EITI to have impact.

Energy is the only sector bringing significant economic activity to the country, and its income per capita is so large that Equatorial Guinea is not eligible for lending from international financial institutions. International energy companies are required to invest heavily in community projects and have made strong contributions particularly in health and education. The ministries, particularly the energy ministry, have a great deal of say in selecting projects, but projects are carried out directly by the companies. This leaves little value-added in fostering planning and infrastructure capacity to implement projects.

As a member of Banque des Etats de l'Afrique Centrale (BEAC), Equatorial Guinea is legally obliged to deposit excess revenues with that institution, although it is known that government accounts are held in other countries with no official reporting. Currently, there are two separate accounts at the BEAC. The first account consists of the country's primary reserves, which are said to be worth over half of total reserves in BEAC, and another fund sometimes referred to as the "Generations Fund" intended for future government expenditure. Both funds are said to yield less than 3%, and even this is an increase from reforms over the last couple of years. Current data on total reserves is not available. Currently Equatorial Guinea is not in a position to establish and manage its own sovereign wealth instruments, but these are services that could be contracted out in relatively short order and will attract suitors world-wide. This may be an attractive option in order to keep revenues from flooding the economy (a hedge against Dutch Disease-like impacts), and help bring Equatorial Guinea closer in line with international financial norms. The U.S. is in a relatively weak position to offer assistance in this area given the continued unease with how the Riggs Bank episode unfolded, which has hampered further financial activities by the Equatoguinean government in the United States.

A future resource in the nascent stage of development and utilizing Equatoguinean government resources is the Social Development Fund (FSD), an E.G.-U.S. Government cooperative endeavor. Created by a Memorandum of Understanding signed April 11, 2006, the FSD is an agreement for U.S. technical experts to work with the Equatoguinean government in the areas of health, education, women's affairs and the environment. The pace and performance of this endeavor has been closely monitored for Equatoguinean government sincerity. The agreement quickly ran into difficulties due to misunderstanding between the two governments in interpreting the agreement. Not unexpectedly in a coun-

try with severely limited institutional capacity, the Equatoguineans preferred turn-key projects while capacity building and host government partnership were the watchwords for USAID. This impasse, however, is reported to have largely passed. At the time of the staff visit, 45 projects valued at more than \$87 million over three years had been approved but were awaiting final authorizations to proceed. The U.S. Government should continue its firm backing for this program for its development benefits and because it is the first significant devolution of spending authority from the President.

The United States' diplomatic footprint in Equatorial Guinea is miniscule. In 1995, the U.S. embassy was closed and our diplomatic relationship was managed out of Embassy Yaounde in Cameroon. The general sentiment behind closure of the embassy was that the Equatoguinean government showed little reason to hope for progress, U.S. interests were too small, and the costs of maintaining our embassy too high compared to the opportunities available. The regrettable decision to pullout from Malabo has left diplomatic relations on soft ground. The first resident Ambassador since 1995 was confirmed in 2006, and he is supported by just two Foreign Service Officers and one American USAID contractor. Progress has been made in rebuilding understanding between our governments in the last year and half, but many obstacles still exist.

### *Ghana*

Ghana has a population of approximately 22.5 million people and an average life expectancy of 59.1 years. With about 78.5% of the population living under \$2/day, the infant mortality rate is 112 deaths per 1000 births. Ghana has a per capita income of \$2,640. Ghana is a country on the threshold of economic stability and growth. Many Ghanaians fear that the new discovery of oil and its attendant revenues may overwhelm the nascent institutions and positive reforms and derail economic growth. These recent reforms and accompanying economic success have led to predictions that Ghana may, with accelerated growth as a driver, achieve the historic milestones of achieving the Millennium Development Goals and middle-income status by 2015. The growth rate necessary to deliver on such prognostications would have to be fueled by a number of positive inputs including donor assistance, which appears to be waning; non-concessional loans which have been made possible by improved risk perceptions; sustained fiscal responsibility; conservative monetary policy; and continued investment in infrastructure and institutional capacity. Such a future appears to be within their means, according to the IMF, if the 2008 election cycle machinations do not play havoc with their fiscal discipline and the energy crisis of 2006-2007, caused by low rainfall and mounting demand, do not coincide to sap what excess growth the country has generated of late.

Ghana has achieved growth that is the envy of other African countries and has improved governance and policy to achieve remarkable milestones reflected in its eligibility for debt relief, significant private sector loans, a Millennium Challenge Corporation (MCC) Compact, and growing investor confidence. Nonetheless, it remains tarred with a legacy of corruption that has toppled several

post-independence governments and that surveys indicate remains a considerable problem at the national and particularly at the local and district level. Ghana also suffers from challenging institutional capacity hurdles that will require considerable time and technical assistance to build to levels capable of administering effective management and oversight of its extractives, particularly hydrocarbons.

The prospects for Ghana's development were made more evident in May 2007, when the IMF published an extremely positive 2007 Article IV Consultation and predicted that the country could achieve middle-income status by 2015. A month later, after 111 years of exploration, Ghana announced the discovery of an oil field that may contain well over a billion barrels. At this point, Ghana receives little in oil revenues, producing only 700 b/d. By 2010 Ghana expects to be pumping significantly more from the new oil fields and its budget has incorporated gradual increases in revenue beginning in 2009.

Formerly known as the Gold Coast, Ghana also has a long history of mining experience and has relied on significant exports of gold, as well as manganese, bauxite, diamonds and a valuable export cocoa crop to drive its effort toward middle-income status. Many in the country, distressed by perceived over-generosity in contract terms and exploitation by mining companies, believe that Ghana has prospered in spite of extractives, not because of them.

Ghana, an EITI candidate country, has established Ghana-EITI (GEITI) to address transparency in the existing mining sector, since it was formed prior to any substantial oil discovery. GEITI is one of various initiatives working to enable transparency in Ghana. It draws its strength from political buy-in rather than law or institution thus far. In fact many people pointed to the fact that there is already substantial legislation and other institutions that are empowered to pursue transparency and accountability. It was evident to staff that GEITI was accepted across the government but in a rather narrow focus upon the major mining industry and companies. Little reform has been accomplished in the informal/small mine slice of the sector which employs 80% of laborers. GEITI appears to have begun expansion of its mandate to the expenditure side rather than limiting itself to revenue as other countries have. GEITI was quite clear on the necessity of such scrutiny in order to achieve their goal of effective resource revenue governance and management for the country. Nonetheless, despite unanimous GEITI Board concurrence on expenditure scrutiny, this purpose is contingent upon their ability to scrutinize at both national and local levels both of which present their own obstacles. Their efforts to date have been primarily directed at the local level where they believe the most immediate problems exist.

GEITI and associated stakeholders are at a point where they must decide whether or not to institutionalize by statute, as Nigeria has done, or to make themselves more independent from government. There is considerable political support under the current administration behind GEITI, with representation from key offices, including a representative from the Vice President's office who said: "the fact that I am here shows the political importance of this work; I can take recommendations to the Presidency."

Despite Ghana's considerable accomplishments in establishing macro-economic stability and improving budget management, Ghana faces daunting challenges to ensure that oil revenue is managed in a manner that will benefit current and future generations. As a young democracy with large trade and fiscal deficits and extensive infrastructure and development needs, Ghana will be challenged to exercise fiscal discipline and strike a balance between current and future spending.

The overall control of the petroleum sector is vested in the Ministry of Energy, but it is the state oil company, the Ghana National Petroleum Corporation (GNPC), which has practical authority over the sector according to laws established in the 1980's. GNPC has been granted exclusive responsibility for commercial petroleum operations as well as regulatory and enforcement responsibilities. Petroleum agreements are subject to cabinet and parliamentary ratification. Some Ghanaian officials believe that "the technical capacity does not exist anywhere else in the government to effectively manage GNPC's current responsibilities." The officials further noted that Ghana would require significantly more engineers and hydrocarbon expertise. The U.S. Government and international community have many reasons for supporting the stability and sustainability of Ghana's economic and political improvements. Traditional U.S. Government assistance in Ghana emphasizes health and education programs, and the MCC programs helpfully broaden assistance, in particular to agriculture which is vital to building up ahead of potential Dutch Disease impacts once oil revenues start to flow. Beyond concurrence with Ghana's Growth and Poverty Reduction Strategy, the U.S. Mission Strategic Plan already identifies Democracy and Governance as the primary focus in our assistance strategy. However, the resources to adequately meet that priority are extremely limited. As Ghana's economy accelerates, foreign assistance will continue to diminish. Education and health are sectors that Ghana can and should fund from its own resources. U.S. assistance should fill critical gaps in those important sectors while concentrating efforts to build technical capacity for government institutions to manage and guide government policy-making and decisions and deliver effective oversight. Oversight will also require substantial investment in civil society. Ghana has a head start but will be scrutinized closely both by its own citizens as well as its neighbors, in the hope that the resources become a blessing for the country.

### *Nigeria*

Nigeria has a population of 144 million and a per capita income of \$1,050. Life expectancy is 46.5 years and the infant mortality rate is 194 deaths per 1000 births. About 92.4% of the population lives under \$2/day and the number of people living in poverty has actually been increasing. Estimated oil export revenue in 2007 was \$57 billion, constituting about 34% of GDP.

Nigeria is a key ally and economic partner of the United States. Nigeria plays a major role in advocating peace and democracy in Africa, from helping resolve political disputes in Togo and Cote d'Ivoire to providing peacekeeping forces in Liberia and Sudan. Nigeria is a chief trading partner in Africa for the United States, is

among the top suppliers of oil to the United States, and has the potential to be an engine of economic opportunity in Africa. Its laudable economic reform program has facilitated 7% growth, major debt has been eliminated, inflation is below 6%, while fiscal reserves and the banking sector are strong.

Underscoring the importance of oil and gas to Nigeria, Nigeria's "Energy Minister" is the President himself, and hydrocarbons export is the linchpin of Nigeria's economy. This also points to the potential for political influence—both good and bad. According to the World Bank, oil and gas production account for 85% of government revenues, and 99% of export earnings. The discovery of hydrocarbons in the Niger Delta in 1956 began a prolonged period of oil and gas production that has delivered over an estimated half trillion dollars in income. Yet Nigeria's historical inability to effectively use oil revenues—including \$57 billion in 2007 alone—for broad development speaks against the Nigerian government's goal of being a global economic leader. Soaring global energy prices, persistent instability in the Middle East, and steadily increasing global demand all work to commend Gulf of Guinea oil and natural gas as an attractive source of energy import diversification for world markets. Long at the fore of regional oil and gas production, Niger Delta instability has recently caused Nigeria to lose its lock on production leadership in the region and has roiled global oil markets. Failure to effectively use hydrocarbon revenues for development has propagated Niger Delta insecurity, in turn rendering Nigeria unable to realize the full value of its resources. Shut-in production, stolen oil, and oil and gas lost due to attacks by militant groups onshore and at sea—let alone labor disputes—have removed as much as 1 million barrels of production at various points in time.

Efforts to promote transparency and improved governance of fiscal resources in Nigeria is set against a legacy of manifest corruption, political volatility, and slow institutionalization of regulatory processes and oversight bodies. Corruption and mismanagement by a succession of military governments interspersed by occasional weak civilian governments have been the norm in the 48 years since independence. Corruption is rampant, government procedures are opaque, and new state and federal legislation is needed on public procurement, fiscal responsibility, and freedom of information. Whilst the political environment around elections remains contentious and significant problems of governance persist, Nigeria's institutional capacity to deal with political volatility, judicial confidence, and legal remedy on fiscal issues is notably improving.

The Nigerian economy has been wracked for decades by a failure to effectively manage and account for revenues, especially those from the petroleum industry. However, until 1970 when oil income began to markedly increase, the scope of mismanagement and theft was limited by the national income. At the close of the Biafran civil war, oil income was just \$250 million, but by 1974 due to the OPEC oil embargo it had soared to \$11.2 billion, dominating the economy and lavishing those in power with untold opportunities for malfeasance with little scrutiny. Although the massive income would wax and wane, the mismanagement and theft became entrenched.

In Nigeria's case there are two distinct repositories for the income derived from oil—the Federation Account and the Excess Crude Account. The Federation Account holds funds for use of the federal government, the 36 state governments, and 774 local government councils then draw their respective proceeds for general budget execution. The formula for each governing entity's share is developed by the Revenue Mobilization, Allocation, and Fiscal Commission (RMAFC). According to the formula, the federal government currently receives 48.5% of oil and gas revenue, states receive 24%, and local governments 20%—a minimum of 13% of revenue accruing to the RMAFC account is stipulated to be returned to the oil-producing states. The remaining 7.5% is intended to be set aside but it is unclear for what purpose. The ultimate use of the finances that are distributed at all levels was beyond the means of staff to assess. However, all officials with whom staff spoke echoed the sense that without scrutinizing the budget expenditure side of the federal and state and local levels there would be little chance of reducing waste, fraud and corruption. Budget management is limited, however. In 2003 only 36% of the national budget was met. By 2006 the effectiveness of implementing the budget had improved to 89%, although in 2007 there was a dip to 70% according to government estimates.

Revenues collected above the projected year's budget outlays, or when oil was in excess of the \$54/barrel budgeting benchmark in 2008, flow into the Excess Crude Account. This Account was set-up by President Obasanjo's administration in 2003. Great dissension exists between the federal government and the states as to what should be done with this fund. Some have indicated that despite the federal management of the Excess Crude Account, the Constitution stipulates that the proceeds of natural resources belong to all the states, and thus should be moved to the Federation Account. Others have recommended prudent investment of the Excess Crude Account and use for infrastructure projects throughout Nigeria.

The emphasis on reform of Nigerian governance began during President Obasanjo's term in office and led to significantly more U.S.G. interest in engaging Nigeria. The reform effort was focused on greater transparency and counter-corruption, which included providing investigative mechanisms that could wield considerable authority. President Obasanjo established the Economic and Financial Crimes Commission (EFCC) as well as the Independent Corrupt Practices and Other Related Offences Commission (ICPC). Through high-profile prosecution of corruption allegations, and despite accusations of their use for political ends by the Obasanjo administration, these organizations have served to raise awareness of the prevalence of corruption at the highest levels of the government.

Nonetheless, in late December 2007, after President Obasanjo left office, Nigeria's Inspector General of Police announced the transfer of EFCC head Nhuru Ribadu to the state of Jos to attend a one-year course at a Nigerian policy institute, raising questions of the new government's commitment to reform in its present form. The EFCC was also placed under the authority of the Minister of Justice, possibly limiting its effectiveness. Staff visited with then

acting head of the EFCC, Ibrahim Lamorde, who maintained that “there would be no letdown” in the effective investigation and pursuit of corrupt officials. The EFCC’s momentum does not appear to have diminished though their resources are still limited and their efforts are helping to reveal and remedy a plainly systemic corruption problem. The EFCC’s work has brought information to the fore; what is done with that information and how capable the actors are in making best use of it is an opportunity for international technical and other assistance to help.

President Obasanjo indicated his intent to pursue greater transparency by naming a reform-minded Finance Minister and pursuing implementation of the Extractive Industries Transparency Initiative (EITI). By 2004 Obasanjo had launched the Nigerian version (NEITI), and had established a committee to guide the group called the National Stakeholders Working Group (NSWG), made up of 28 representatives from federal and state governments, civil society and industry. A subsequent call for more civil society representation brought the Civil Society Steering Committee into existence as a consultative body to the NSWG.

The most influential outcome of these formative efforts is the Hart Group audit of Nigeria’s oil industry between 1999 and 2004. The audit issued in December 2006 was groundbreaking for Nigeria in revealing information about the petroleum sector. The most important findings were not specific monetary losses but failed accounting and capacity to account for resource transfer up and down the production line that left broad opportunities for theft. The Hart audit points to the weaknesses in accountability within the Nigerian National Petroleum Company, the Department of Petroleum Resources, and the Federal Inland Revenue Service.<sup>25</sup> Several observers commented that the most remarkable finding was that revenues were largely accounted for and, therefore, that monies were being stolen after they reached the treasury—hence needed emphasis on budgeting, expenditure, and procurement. There is little doubt that billions in income have been lost to Nigerians over the years. Indeed, the NEITI process has produced the unintended consequence of enabling the government to collect on previously missed payments by private industry and has empowered the federal government to respond to blame by states that it is not providing them with sufficient resources. There is validity to the concern that state and local capacity to properly utilize appropriations is wanting.

Of the countries that have now endorsed EITI, Nigeria joins only Azerbaijan to have undertaken most of the essential EITI steps (established multi-stakeholder committees, identified an individual within the government to lead the process, drafted national work plans, selected auditors) and have published audited and reconciled EITI reports. NEITI has been proactive in public outreach “road shows” and has an extended mandate to audit product movement as well as finances. There are some reservations as to whether the independence of the institution will be maintained and whether it will be properly funded. NEITI was in limbo through the presi-

<sup>25</sup> Revenue Watch Institute, Policy Brief, *Leaving A Legacy of Transparency in Nigeria*, April 2007.

dential transition, and only recently was a director named. Observers recognize that the senior official first chosen to chair NEITI, Obiageli Ezekwesili (now at the World Bank), possessed a close working relationship with President Obasanjo, a factor which appears crucial in generating internal momentum behind EITI implementation.<sup>26</sup>

Improved governance of extractive industries resources is fundamental to U.S. Government policy priorities in the country—from poverty alleviation, to improved security environment, to democratic consolidation—as well as in meeting the new President’s goals of electrification, gas development, and Niger Delta conflict resolution. The Nigerian government has substantial financial and personnel resources, but needs technical support. Indeed, requests for such assistance were frequently raised in staff meetings. No economic development effort in Nigeria is more important than the Niger Delta. Insecurity in the Delta hampers Nigeria’s own ability to capture the benefits of its hydrocarbons production, and it is a direct threat to the U.S. economy. The Niger Delta is also of significant international concern should a full-blown conflict emerge causing the collapse of the region which would likely prompt a very difficult and expensive international peacekeeping response. General sentiment in Abuja now seems to be that the situation can only be solved through development instead of military intervention, and the U.S.G. should act decisively to promote this viewpoint. U.S. embassy personnel are unable to visit large areas of the delta due to broad criminality and insecurity that has prompted restrictive security procedures and the high costs of security personnel and transport. Lack of a persuasive strategy for U.S. assistance to the Delta impinges U.S. interests in the country and economic interests in oil prices.

Some within the donor community and Nigerian officials indicate that failure to improve governance will undermine sustained development thus thwarting the government’s own ambition to be in the top twenty economies in the world by 2020.

## ASIA

### *Cambodia*

Cambodia is slightly smaller than Oklahoma and has a population of 14.2 million. Average life expectancy is 61.7 years, and infant mortality is about 57 deaths per 1000 births. The average per capita income of a Cambodian is \$1,690 with 77.7% living under \$2/day.

Cambodia still suffers from the legacy of intermittent civil war between 1970-1990, which included U.S. bombing raids, the Khmer Rouge genocide, and a 10-year occupation by Vietnam. The Khmer Rouge having eliminated its educated classes, Cambodia emerged with very low civil and institutional capacity but enjoys relative political stability today with impressive GDP growth of 9.5% in 2007. Cambodian Prime Minister Hun Sen, a former Khmer Rouge commander, is the longest serving prime minister in Asia (23 years), and was recently returned to office in an election that observers

<sup>26</sup> *Civil Society Perspectives and Recommendations on the Extractive Industries Transparency Initiative*, Publish What You Pay/Revenue Watch Institute Report, October 2006.



say failed to meet international standards. Cambodia boasts a generally free press, vibrant civil society, and a multi-party political system, though impunity for political killings, election intimidation, and land-grabbing cases are prevalent. Corruption is rampant in Cambodia (one USAID-funded study concluded that “only 25% of potential tax was collected from the private sector in 2005”). Staff heard repeatedly that many government officials’ salaries are so meager that they are forced to take second jobs or resort to bribes.

Cambodia views itself in competition with its regional rivals Vietnam and Laos and is aware that it could be left behind. On the economic front, Cambodia is focused on further developing its successful garment industry, expanding tourism, beginning to exploit its hard minerals and recently-discovered offshore oil resources, fighting endemic corruption, and petitioning donors for debt forgiveness.

Though Cambodia is believed to have significant deposits of gold, copper, bauxite, oil, and natural gas, no commercial exploitation is yet underway and no significant revenues are being created. Whereas timber was formerly a revenue-creating industry, it has come under great scrutiny by the NGO community for corrupt practices, and all timber exports have since been banned.

In 2002, Chevron was granted a petroleum agreement for offshore exploration near the Thai border and successfully located deposits in the Pattani and Khmer basins in 2005. The deposits are in small pools, as opposed to a single reservoir, and it is still unclear how viable extraction will be. Moreover, the Pattani basin lies in the Overlapping Claims Area with Thailand, and negotiations to resolve the border dispute are ongoing. The Cambodian government has signed agreements for five additional offshore blocks with several international oil companies, whose fiscal terms remain undisclosed; no exploration has yet taken place in these fields. Several onshore exploration contracts have also been signed, particularly in the ecologically- and agriculturally-rich Tonle Sap (Great Lake) basin in central Cambodia, with seismic tests now underway.

Due to these uncertainties, international oil companies and Cambodian officials cautioned against high expectations. Staff is aware of revenue expectations ranging from \$60 million/year (Cambodian National Petroleum Authority) to \$150 million/year (Cambodian Ministry of Economy and Finance) to \$1 billion/year (Congressional Research Service) to \$1.7 billion/year (Global Witness) from the oil and gas sector if extraction goes forward, with fields coming online in 2011-2012 at the earliest.

Several international mining companies, including BHP Billiton and Oxiana, have signed mining exploration contracts for copper, iron, gold, and bauxite, but no revenues are yet being created. No international bidding occurs for mining concessions, and the concessions themselves are not disclosed. Cambodian Ministry of Mines officials told staff that private companies could release whatever they wanted, but the Ministry of Mines would not divulge any contract details.

Cambodian Prime Minister Hun Sen has often noted that corruption and lack of transparency have inhibited growth but few tangible anti-corruption measures have been undertaken. Many analysts agree that the government has pushed anti-corruption meas-

ures with little zeal, usually only far enough to keep donor money flowing in. For example, international donors and civil society have been united in advocating passage of an anti-corruption law that has been in the works for 13 years. It has ultimately stalled in the Council of Ministers because of its misgivings about an overzealous anti-corruption commission, provisions requiring a declaration of assets held by government officials, and harmonization with the penal code. Instead, the Council of Ministers has created a weak anti-corruption body, which international donors have ceased funding. As is often the norm in foreign assistance debates, U.S. officials maintain that other international donors have no leverage over the government on these issues because other donors have consistently provided increasing amounts of direct budget support despite Cambodian obstinacy on anti-corruption measures.

Staff found that all Cambodian officials were well-versed in the EITI concept and, in general, positively disposed to the broad principles of EITI. However, officials were hesitant because of the present lack of revenues, failure of Asian peers to sign up, and a severe lack of technical capacity to implement an EITI-like regime. Cambodia has sent delegations to Norway, East Timor, and Azerbaijan to study their experience with oil wealth.

Cambodia is the third largest recipient of U.S. aid in Southeast Asia. Officials from the U.S. Embassy to Cambodia were very familiar with EITI, and Ambassador Mussomeli appears to have made advocacy of EITI a U.S. priority in Cambodia. Transparency, anti-corruption and natural resource management seemed to touch on most high priorities of the U.S. Embassy. As one U.S. official noted, "You have to approach every issue here from an anti-corruption angle."

The U.S. Government has been part of the international coordinating group for passage of the anti-corruption law and had a lawyer at post to provide counsel on the law; USAID worked in a similar capacity to provide technical assistance for the drafting of a freedom of information act. The Embassy has also trained 22 journalists in investigative reporting to help expose corruption. USAID launched the Mainstreaming Anti-Corruption for Equity (MAE) program in 2006, which builds public capacity to police mismanagement of public land and resources.

The U.S. Government has no programs that directly deal with extractive industry capacity building, though the MAE program has brought together several NGOs interested in transparency in extractive industries. These NGOs formed a group called Cambodians for Resource Revenue Transparency in January 2008, which is still harmonizing its positions on many critical issues of revenue management.

### *China*

With a land mass slightly smaller than the United States, China has approximately 1.3 billion people. The infant mortality rate is approximately 21 deaths per 1000 births, and average life expect-

ancy is 73 years.<sup>27</sup> The per capita income of the average Chinese is \$44,050.<sup>28</sup>

China is still a developing country, despite its GDP ranking fourth in the world after only thirty years of reform. China's land is crucial to food production, yet China has only 9% of the world's arable land and 22% of the world's population. China is also short on fresh water due to its large population; fresh water per capita is less than one fourth of the world's average. According to government officials, China's top policy priority is to focus on the peaceful and equal development of relations with other countries in terms of culture, politics, and trade and improving the standard of living within China.

In 2006, China's GDP from extractives totaled \$152.7 billion, and employment in these industries was 7.84 million. China's extractive industry production amounts to less than 5% of the country's GDP due to the incredible size of their economy. China produces significant amounts of the following commodities: iron ore, mercury, tin, antimony, manganese, tungsten, aluminum, lead, zinc, molybdenum, gold, uranium, copper, vanadium, lead, and magnetite. Last year, China produced around 2.3 billion tons of coal, making it the world's largest producer and consumer of coal, as well as the world's largest producer of tin. China's natural gas supply, however, is less than 1% of the world's total production and aluminum is only 2% of the world's total. China's extractive industries have recently boomed in order to satisfy its large population as well as the rest of the world's demand: China's 2006 growth rate of output was 49% for coal, 77% for oil and gas, 42% for metal and ores.

China's total oil production in 2007 was 3.9 millions of b/d and their consumption was 7.58 million b/d. They ranked 5th in 2007 in both total oil production and crude oil production, as well as second in consumption.<sup>29</sup>

According to an official from Shanghai Institute of International Studies, a think tank in China, most extractive revenues go to the central government since most of the companies are State Owned Enterprises (SOE). The companies can help the local governments develop water, electricity, housing, schools, and transportation in order to sustain their economic development and create a good investment environment for foreign direct investment. The SOEs have a monopoly over the extractives industry and pay a tax to the government for their rights. World Bank officials noted that the mining industries are usually small and locally operated, and therefore, the revenue goes into the local economy; however, the central government is attempting to consolidate this industry. One government official stated that some of the inland provinces are rich in natural resources and develop those industries for their benefit. One stated that most of the fiscal revenue in the local government of Wuhan goes towards helping the local people through cultural exchanges and educational development. The extractive

<sup>27</sup> Figures for life expectancy and infant mortality throughout this report are from the United Nations Development Program, Millennium Development Goal data (<http://www.undp.org/mdg/>).

<sup>28</sup> Figures for per capita income are from the World Bank, World Development Indicators (<http://web.worldbank.org>).

<sup>29</sup> "China Energy Profile" Energy Information Administration August 2008.

revenues are reportedly not invested in China's sovereign wealth fund.

China stated that it has just begun SWF investment and is in an experimental stage. China claims it has suffered the loss of billions of U.S. dollars, stressing that SWFs are simply for commercial interest and that it is up to the corporations themselves on what sectors they make investments in. China established its SWF, the China Investment Corporation (CIC) on September 29, 2007, with an initial investment of \$200 billion.<sup>30</sup> China currently has over \$1.5 trillion in foreign exchange reserves, and therefore allegedly created the CIC to improve the rate of return and to get rid of excess liquidity.

CIC has been criticized because the initial investments were apparently political in nature, even though the top management denies these claims. Concern has grown from U.S. officials about the large amount of money in CIC as well as potential investments in major U.S. investment banks like Citigroup. The Fund has invested in U.S. Treasury bonds and, on December 19, 2007, the CIC purchased "around 9.9%" of Morgan Stanley which amounted to \$5 billion. Morgan Stanley stressed that the CIC will have "no special" rights of ownership and no role in corporate management."

World Bank officials said there has been very limited dialogue on EITI with the Chinese government. Since extractives are such a small part of their GDP it would be difficult to apply any serious pressure on China to become engaged in EITI. China would benefit from EITI but it would be too complex to implement because the payments are mostly done at a local level rather than the national level.

The World Bank has been trying to improve budget transparency in China, but representatives said this was difficult and that most successes have been at the local or municipal level. Transparency became more of a key issue following the recent earthquake in China. According to both U.S. officials and Chinese officials, China passed anti-corruption laws in conjunction with joining the WTO and passed anti-bribery laws after becoming a signatory on the UN Convention. The U.S.-China Strategic Economic Dialogue has been the primary forum for U.S. officials to raise issues relating to transparency and economic management with Chinese officials. For example, agreements have been reached to increase energy security for oil importing countries in the event of a supply disruption by cooperating with one another and in conjunction with the International Energy Agency. Other agreements include civil aviation to approve non-stop flights between the two countries and tourism agreements. U.S. officials asserted that they have engaged with China on supporting transparency through their investment in resource-rich companies, though it is not clear if these discussions have resulted in any changes. The United States and China have discussed consumer product safety, intellectual property rights, and working to expand U.S. exports to China. As U.S. embassy officials explained, transparency will continue to expand, but at China's own pace; the U.S. has little leverage to push these types of issues.

<sup>30</sup>China's Sovereign Wealth Fund information came from Michael Martin's January 22, 2008 CRS report.

In the end, Embassy officials said that the most important thing is consistency.

### *Indonesia*

Indonesia has a population of over 230 million. Annual per capita income is \$3,580 while the percent of the population living under \$2/day is 52.4%. Indonesia's total revenue from hydrocarbons in 2005 was \$15.8 billion which was 5.5% of GDP.

The Asian financial crisis severely affected the Indonesian economy, causing per capita GDP to plummet. The economy has since bounced back with increasing foreign investment, but growth is expected to slow to 5.9% in 2008 from 6.3% in 2007, due predominately to increasing fuel and food prices. Indonesia still faces issues of corruption that deter further foreign investment, but the nation has taken substantial steps to promote democracy.

In 2006, Indonesia was the 21st largest oil producer. As an oil producer, Indonesia has been on the decline. This reduced profile as an oil producer led Indonesia to recently announce its withdrawal from the Organization of Petroleum Exporting Countries (OPEC) at the end of 2008. Indonesia was responsible for approximately 1.3% of the world's daily oil production in 2006 with 1,005,810 b/d of petroleum crude and condensate; in 2007 Indonesian production fell to 912,000 b/d. Indonesia's proven oil reserves are approximately 4.44 billion barrels, according to official data.

However, there is great untapped potential in gas reserves. Indonesia ranks eighth in world gas production and is the world's second largest LNG exporter, with proven reserves of 88.5 trillion cubic feet (Tcf) in 2006. Proven reserves fell 9% in 2006 compared with 2005. Indonesia produced 2.97 Tcf in 2006, down 1% from 2005. Indonesia lost its status as the world's largest exporter of LNG to Qatar in 2006. Indonesia produced 22.4 million tons of LNG in 2006, the same year the government announced a policy to re-orient natural gas production to serve domestic needs. As a result, Indonesia's share of the world LNG market has shrunk from 18.8% in 2004 to 14% in 2006. Rapid rates of new production in Qatar, Australia and Russia are likely to continue to erode Indonesia's position.

Indonesia is the largest exporter of thermal coal and also has large deposits of copper, gold, nickel, and silver. Mining investment fell almost 66% from 1998 to 2005, largely due to regulatory uncertainty. Mining policy challenges include resolving conflicts between mining and forestry laws to prevent disputes with local communities that cause additional financial burdens to mining companies.

Oil and gas revenues are channeled to the Non-Tax Revenue Department, Ministry of Finance and are audited internally with an external auditor working through the Indonesian audit board (BPK). Hydrocarbon revenue is included in the national budget and re-allocated according to separate formulas for oil and gas to the regional governments. Due to devolution of power and revenue authority to regional governments, a persistent problem has been the misunderstanding of the calculations of oil and gas revenues by sub-national government officials, which has led many regional administrations and their citizens to overestimate the value of future

transfers. To clarify the regions' share of oil and gas revenues, the Ministry of Finance began the practice in 2005 to issue a yearly decree estimating the allocation of oil and gas revenues to all of the provinces, regencies, and cities. Indonesia does not have a sovereign wealth fund (SWF). There is consideration of establishing a SWF from the "SOE pooling fund." However, it is not yet clear how the SWF would be structured.<sup>31</sup>

The prospects for development of a long-term environment conducive to transparency and combating corruption in Indonesia are uncertain. Since transition to democracy in 1998, Indonesia has made progress in anti-corruption reform, notably with institutional reform during the Yudhoyono administration. Yet, while a plethora of transparency and anti-corruption initiatives have been launched by Indonesian governmental leaders, with the encouragement of civil society, progress is slow.

Since ascending to the top office in Indonesia, the President has continually pressed on the corruption front, and can point to "over 100 public officials, including governors, regents and former ministers, (having) been jailed for corruption since . . . 2004." However, the recently released United Nations Development Program (UNDP) Asia-Pacific Human Development Report, "stresses that while anti-corruption efforts too often focus on exposing the 'big fish,' it is 'small fry' corruption, which causes more day-to-day suffering and could severely hamper the Region's goal of achieving the Millennium Development Goals—the eight internationally—agreed targets aimed at halving poverty by 2015."<sup>32</sup> In March of this year, the Indonesian Parliament (DPR) passed a "Freedom of Information" act which reflects the Indonesian government's commitment to transparency. While passage of the law reflects commitment to transparency, actual implementation of the law will be the long-term test.

Indonesia is not an EITI candidate country. Timeliness of action by President Yudhoyono advancing EITI will be an integral determinant as to whether EITI, and other transparency initiatives, gain momentum so that the people of Indonesia may realize direct benefit from extractive industries. There appears to be a general lack of information in the public sphere on how EITI works. EITI-related reforms were part of the massive 2008-2009 structural reform package released by Coordinating Minister for Economic Affairs Dr. Boediono before he became Central Bank Governor. Implementation of these reforms remains uncertain.

USAID is funding over \$100 million of transparency and good governance projects in Indonesia, and as possible, enlists other donors to contribute and participate in the projects. U.S. Attorney General Mukasey recently visited Indonesia where he was able to view U.S. Department of Justice (DOJ) programs already in place. Along with Indonesian Attorney General Hendarman Supandji, Mr. Mukasey signed a Memorandum of Understanding (MOU), providing \$750,000 in U.S. Government assistance to help establish an anti-corruption task force at the Attorney General's Office (AGO),

<sup>31</sup> *Ibid*

<sup>32</sup> "Tackling Corruption, Transforming Lives," United Nations Development Program, June 12, 2008.

modeled on the U.S. AGO's Anti-Terrorism and Transnational Crimes Task Force.<sup>33</sup>

### *Timor-Leste*

Timor-Leste has a population of approximately 1 million people. The average life expectancy is 59.7 years, and the infant mortality rate is 61 deaths per 1000 births. The total hydrocarbon revenue for 2005 was \$116 million or 38.8% of GDP.

Timor-Leste was created in May of 2002, following independence from Indonesia. During the secession movement, an estimated 75% of the population was displaced and nearly 70% of all buildings, homes, and schools were ruined by a campaign of violence carried out by militia groups following their 1999 vote for independence. Between 1999 and 2002, over 5,000 (8,000 at peak) UN peacekeeping troops were sent to help rebuild the nation. Conflict again broke out in March 2006 resulting in another UN peacekeeping mission in Timor-Leste and the resignation of Prime Minister Alkatiri. Violence again erupted surrounding the April 2007 presidential elections, and in February 2008, one of the leaders of the March 2006 violent protests, Major Reinaldo, led an unsuccessful assassination attempt and coup against the elected President and Prime Minister. Violence and peacekeeping troops have been persistent forces in defining the newly independent nation, not only due to military-related violence but also gangs of unemployed youths. Unemployment and underemployment are thought to be as high as 70%. According to a 2007 estimate, inflation is approximately 7.8%.

In 2000, as Timor progressed toward independence under UN auspices, complex and politically controversial negotiations began with Australia regarding overlapping claims on gas and oil resources of the Timor Sea. The result was the signing of the Treaty on Certain Maritime Arrangements in the Timor Sea (CIMATS) on January 12, 2006, which increased Timor-Leste's share of hydrocarbon revenues from 18% to 50% for the Greater Sunrise oil field. In the years 2005–2006, Timor-Leste earned a combined \$360 million in hydrocarbon revenues. Timor-Leste is also currently receiving revenue in a 90%-10% sharing agreement (in favor of Timor) from an earlier agreement on the Bayu-Udan field, which contains approximately 400 million barrels of oil and 3.4 Tcf of gas.

According to World Bank reports, revenues from oil and gas already comprise 50% of the country's GNI and supply more than 90% of its government revenues. All of this is derived from offshore, upstream development, with downstream processing done in other countries. It is the hope of many Timorese, including the Timor-Leste government, that Timor-Leste will soon receive revenues from downstream (refining, processing and gas liquefaction). The most likely near-term possibility for this is an undersea pipeline from the Greater Sunrise gas field to the shore of Timor-Leste,

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<sup>33</sup> U.S. Embassy, Jakarta, June, 2008.

with a Liquefied Natural Gas (LNG) liquefaction plant and tanker port to process the gas and ship it overseas.”<sup>34</sup>

“Oil and gas revenues are expected to accelerate sharply in coming years. Petroleum Fund assets have the potential to exceed \$12 billion by 2020.”<sup>35</sup> Hydrocarbon revenues are channeled into the Petroleum Development Fund, which was established in 2005 and is managed by the Banking and Payments Authority (BPA). The BPA is a distinct autonomous public entity, accountable directly to the Prime Minister. The highest decision body of the BPA is the Governing Board. The BPA does not receive instructions when making decisions that relate to areas under its responsibility, e.g. approving licenses for banks or insurance companies. The Petroleum Fund Law provides clear lines of responsibility between the BPA, the Ministry of Finance and the Parliament.<sup>36</sup>

The assets of Timor-Leste’s Petroleum Fund are approximately \$3 billion. The return on the Fund for the year to March 31, 2008 was 9.1%. During the first quarter of this year, the capital of the Fund grew from \$2,086.16 to \$2,629.96 million.<sup>37</sup> The BPA continues to invest all funds received according to the investment mandate agreed with the Ministry of Planning and Finance in which a benchmark index of United States Treasury Securities with maturities up to five years is specified together with defined performance measures.<sup>38</sup> The BPA continues to invest all funds received according to the investment mandate agreed with the Ministry of Planning and Finance.<sup>39</sup>

Timor-Leste President Jose Ramos-Horta noted that credit for establishing the Petroleum Development Fund should be given to the Norwegians, the World Bank and the IMF, which have provided advice to the government of Timor-Leste on this project. He also praised former Prime Minister Mari Alkatiri for his initiative in setting up the fund. It produces quarterly reports that are released to the public.

The Petroleum Fund law gives the Minister of Finance authority to make investment decisions after receiving advice from the Investment Advisory Board (an advisory body set up to advise the Minister on issues related to investment strategy, performance benchmarks, and performance of the investment managers). The Petroleum Fund is audited annually by an internationally-recognized audit firm (presently Deloitte), and the BPA and Minister of Finance audit offices also conduct regular auditing, required every six months.<sup>40</sup>

Leaders of Timor-Leste are committed to transparency in governance. One example is a special project informing the public as to the success of individual Cabinet members with budget execution. Unfortunately, the limited capacity of GOTL institutions point to weaknesses in fiscal policy, including budget execution and program implementation and monitoring. The government does not

<sup>34</sup>“Sunrise LNG in Timor-Leste, Dreams, Realities and Challenges,” A report by La’o Hamutuk, Timor-Leste Institute for Reconstruction Monitoring and Analysis, p. 3, February, 2008.

<sup>35</sup> Economics@ANZ, Timor-Leste, June 2007.

<sup>36</sup> Abraao Fernandes de Vasconcelos, Banking & Payments Authority General Manager.

<sup>37</sup> Quarterly Report, Petroleum Fund of Timor Leste.

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*

<sup>40</sup> Abraao Fernandes de Vasconcelos, Banking & Payments Authority General Manager.



have the capacity to fully and completely fund and plan these projects, and large amounts of funds have been carried over from year-to-year and there is no clear tracking system for how the money is spent.

Timor-Leste has signed up for EITI and is an outstanding model of implementation. Former Prime Minister Mari Alkatiri announced Timor-Leste's commitment to EITI in 2003 and consulted with Norwegian officials, among others, to determine the best way forward. The former Prime Minister has conveyed his hope that Timor-Leste develops an EITI program that is "a Norwegian plus model."<sup>41</sup> Currently, Timor-Leste EITI does not include mining as there is presently no mining activity in the country. However, "we have left room for mining to join the Working Group in the event there is an activity in that area."<sup>42</sup>

However, more recently, concern has been expressed regarding the Timor-Leste government's plans to reportedly increase government spending in the next budget by over 120% to assist in subsidizing high food and fuel prices. "Opponents say these subsidies risk dampening East Timor's nascent non-oil economy."<sup>43</sup>

U.S. objectives in Timor-Leste include strengthening the country's democracy and free markets. U.S. foreign assistance primarily supports job creation through accelerated economic growth and strengthening key foundations of good governance, with particular emphasis on developing a functioning justice system and professional media sector.<sup>44</sup> While U.S. officials have not been actively promoting EITI in Timor-Leste, part of USAID's portfolio encourages greater transparency in government. U.S. advocacy for EITI is unnecessary given the full endorsement of the project by top levels of the Timor-Leste government as well as key parts of the business community. There is opportunity for the United States to express its support to the civil society players who are on the front lines, interacting with Timor-Leste officials. Along with AusAid, USAID is funding a project to strengthen independent media in Timor-Leste. There is specialized training for journalists from local media outlets and organizations, to help the media produce and distribute high quality news to as many people as possible.<sup>45</sup>

### *Vietnam*

Vietnam has a per capita income of \$3,300. Vietnam's total hydrocarbon revenues in 2005 were approximately \$3,878 million, or 7.4% of its GDP for the year. Vietnam's population is 84 million with a life expectancy of 73.7 years and an infant mortality rate of 19 deaths per 1000 births.

Vietnam is a market-oriented Communist country, not unlike its neighbor China. It launched a similar opening up (*doi moi*, or "renovation") process in the mid-1980s, stumbled in the 1990s amid the Asian financial crisis, and has since experienced high economic growth rates, 7.3% annually for a decade, coupled with improved relations with the United States. Its 15-year economic growth and

<sup>41</sup> Interview between Keith Luse and Mr. Alkatiri, June 17, 2008.

<sup>42</sup> *Ibid.*

<sup>43</sup> "East Timor Ignores Economic Warning," BBC News, July 31, 2008.

<sup>44</sup> U.S. Embassy, Dili, May, 2008.

<sup>45</sup> USAID News Release, "USAID, AusAid Sign Agreement to Continue Supporting Independent Media," March 26, 2008.

poverty-reduction record has been called “a spectacular success story” by the World Bank. Competition with China is a driving force. The signing of a bilateral trade agreement with the U.S. in 2001 and especially entry into the WTO in January, 2007, marked a major shift in international perceptions and resulted in an unexpected influx of foreign direct investment (FDI), remittances and development assistance. That, combined with soaring world food and energy prices, has led to raging inflation, expected to top 30% this year (after averaging 5% annually for much of the decade.)

The extractives transparency agenda in Vietnam is only just getting underway. Very few government officials have heard of EITI, and the United States, despite significant interaction on governance and administrative reform issues, is not a player. By contrast, an anti-corruption agenda is in full swing. Corruption is an openly-discussed issue, both in the media and among government officials and donors, though the government has reined in reporters who have exposed malfeasance in the higher reaches of government. The country passed an anti-corruption law in 2005, and has a high-level National Anti-Corruption Steering Committee headed by the Prime Minister himself. There is a long-standing Government Inspectorate which has been given donor support to improve its effectiveness, and the State Audit of Vietnam was given its independence in 2006 and reports to the National Assembly. Nonetheless, Vietnam does poorly on the Transparency International index, ranked 123 in the world, the same as Nicaragua, East Timor and Zambia. At a certain level, state budgets are public: until 1998 they were a state secret, and in 2005, the entire budget was disclosed to the public for first time.

Vietnam is a significant but low-profile oil producer. Vietnam has been a net oil exporter since the early 1990s, and with production starting to slow, the recent boom is largely due to the run-up in oil prices. Staff was told that oil and gas revenues in 2008 are likely to be 140% higher than in 2007. Production in 2007 was about 360,000 b/d, about half that of Malaysia, and a bit more than Thailand, making it Asia-Pacific’s sixth largest oil producer. All of Vietnam’s oil is produced offshore, and many other offshore areas have been unexplored or undeveloped owing to territorial disputes in the Spratley Islands and elsewhere with Thailand, China, Taiwan, and other neighbors. Fields currently under development could come online soon and reverse the production decline, and some believe the unexplored areas are highly likely to contain oil or gas as well.

Natural gas production has been going up as oil production has declined, rising by a factor of four since 2000 to more than 160 billion cubic feet. All the gas, also offshore, is piped onto land for use in electric power or fertilizer plants, and it appears the government will not allow gas to be exported, even though the international oil companies producing it say they could make much more money if they did. Chevron has been trying for 10 years to commercialize a large gas find of 4 Tcf, a resource sufficient to supply 20% of the country’s electricity needs.

Since the mid-1990s, Vietnam has greatly increased its coal production and its exports (mostly to Japan and China). But coal exports are only 1/10 of crude oil exports by value, and by 2013, Vietnam expects to be a coal importer as it increases coal use to meet

growing electricity demand. The major new extractive on the horizon is bauxite (aluminum). Large commercial deposits (world's fourth biggest, by one estimate) have been found in the Central Highlands, but they will require massive infrastructure investments to develop.

The dominant extractives company is PetroVietnam, a wholly state-owned oil company, which through either production-sharing contracts or joint ventures has a stake in all oil production. From its opulent new 19-story headquarters in Hanoi, it controls directly or indirectly most aspects of the petroleum and gas business in Vietnam. On the one hand, PetroVietnam acts like a commercial company: it publishes an annual report, gets loans from international banks, floats bonds on international markets, publishes audits, regularly turns over its profits to the treasury after keeping some for itself, as set by law. On the other hand, much of PetroVietnam's operations remain behind a curtain which few dare to draw back. For instance, when we asked a Foreign Ministry official what were the perceptions of the company regarding corruption, he smiled and shrugged his shoulders: "Not much is known about what goes on there."

Transparency of oil revenues could curb the power of PetroVietnam by giving other power centers in the government a chance to scrutinize, and criticize, its priorities. It could also help improve macroeconomic management with better data on cash inflows into the treasury, and more realistic budgeting. For instance, staff were told that last year the National Assembly kept asking, in the budget, what the projected oil price would be. Finally, the government said that for 2008, they would assume an average \$63 a barrel (at a time when oil was already in the \$80-\$90 range). The extra money does not appear to go through the normal budgetary processes. There appears to be little discussion and no appetite in Vietnam at the moment for a sovereign wealth fund for oil or other extractive revenues.

EITI is unlikely to be adopted anytime soon, for several reasons. First, the concept is still largely terra incognita, and much more education is needed. Second, the government is pre-occupied with the inflation crisis. Third, oil company officials are either not EITI-savvy, or are preoccupied with other pressing issues. Companies are dealing with the fallout of recent demands by China that one major international oil company stop doing exploration work in a Vietnamese block that is also claimed by China. Because so much of Vietnam's promising areas lie in contested waters, this has roiled Vietnam's petroleum community, driving EITI far down the priority list. Fourth, the U.S. is pushing a variety of other transparency and governmental reform issues. Fifth, no other donors, except Norway, appear to be promoting EITI. It is absent from the World Bank and ADB agendas. Finally, EITI's image in Vietnam is hurt by the fact that no other country in the region has signed up.

The overarching U.S. policy toward Vietnam is to continue the process of normalizing relations that only formally began in 1996, after being frozen for many years following the Vietnam War. The main focus is on trade, as the US has quickly become Vietnam's top export market. Promoting governance reform and transparency is

a major USAID focus, and the primary vehicle is a comprehensive technical assistance and capacity building effort for legal reform called “Support for Trade Acceleration II,” or STAR. However, EITI is nowhere part of this effort. Launched originally to help Vietnam meet its obligations under the Bilateral Trade Agreement (BTA) and World Trade Organization (WTO), the project is helping Vietnam cut red tape, develop an administrative procedures law, and implement other reforms to help improve the investment climate, reduce corruption and boost competitiveness. The government of Vietnam has embraced regulatory and administrative reform, under a program it calls Project 30, as an element of its ambitious economic growth strategy, which aims to achieve middle-income country status by 2010.

## *EUROPE AND CENTRAL ASIA*

### *Azerbaijan*

Azerbaijan has a population of 8.5 million people with an average life expectancy of 67.1 years and an infant mortality rate of 74 deaths per 1000 births. Over one-third of Azerbaijan’s population lives under \$2/day. Azerbaijan’s total oil export revenues in 2007 was \$5.27 billion or 20% of GDP.

Azerbaijan is located in a difficult neighborhood along the energy rich Transcaucasian corridor linking the Caspian Sea to Turkey and Russia to Iran. The United States and Azerbaijan have cooperated strategically and economically on energy development and transport, which also has reinforced the sovereign independence of Azerbaijan. President Ilham Aliyev has made commendable progress in the transparent management of oil revenues, establishing Azerbaijan as a global leader in reserves fund management. Yet the ongoing challenges of corruption and issues of poverty pose substantial challenges. Azerbaijan is also locked in a frozen conflict with Armenia over Nagorno-Karabakh.

Fuelled by the oil sector and construction, Azerbaijan’s GDP growth rate for 2006 was, by many estimates, the highest in the world at 34.5%. Several indicators point to an onset of “Dutch disease” in Azerbaijan. Inflation hovers near 1%. Export-driven industries are suffering as the local currency experiences steady appreciation (13% against the dollar in 2005-2006), despite currency interventions of approximately \$1 billion by the Azerbaijan government. In 2006, the Azerbaijan government increased fiscal spending by a reported 80%.

Azerbaijan became one of the first world oil producers after crude was found in the mid-1800s. Since its independence in 1991, its oil sector has again surged as offshore Caspian fields have come online. Azerbaijan’s oil revenues were \$5.27 billion in 2007, constituting 20% of GDP; revenues are expected to climb to \$19.4 billion by 2010, constituting over 43% of GDP. While Azerbaijan has undergone a massive infusion of oil wealth over the last decade, oil revenues are expected to peak in only a few years (2010-2012). Natural gas revenues have the potential to increase substantially over the coming two decades. However, lingering uncertainty over the Nabucco pipeline project leave prospects for development—and price expectations—of Azerbaijani gas unclear.

Perhaps the most important development for the energy wealth outlook for Azerbaijan was the completion of two U.S.-supported pipelines allowing Azerbaijani oil and gas to reach global markets. The Baku-Tbilisi-Ceyhan (BTC) pipeline transports crude oil from the Caspian Sea to the Turkish port of Ceyhan on the Mediterranean, and the South Caucasus pipeline (SCP) currently transports gas to Georgia and Turkey with onward ambition to Vienna. The BTC pipeline should ensure that Azerbaijan remains a major energy conduit for years to come: in 2007, revenues for use of the BTC totaled \$16.5 million for Azerbaijan. These pipelines facilitated investment in new production, and onward routes will be necessary to develop more natural gas production in the coming years. Likewise, trans-Caspian energy transport from Central Asia for onward delivery through Azerbaijan to world markets would provide a stable revenue stream from transport fees.

Azerbaijan is a candidate country for EITI and has been involved with EITI since its inception. Azerbaijan has until March 9, 2010 to complete the EITI validation process. Azerbaijan was the first country to submit EITI reports to be scrutinized by an independent audit firm and is a leader in allowing civil society to help implement EITI. Azerbaijan has submitted a total of 8 reports on its oil and gas revenues to date. Azerbaijan has done a great deal to improve revenue transparency, but it ranks relatively poorly in measures of corruption compared to both its oil deprived neighbors in the Caucasus and even many oil-rich countries in the developing world. However, most estimates indicate that Azerbaijan ranks with Nigeria as making the most progress along the EITI path of oil revenue transparency. Yet as corruption and development challenges in both those countries indicate, revenue transparency will not bring development or political reform. The key question is how that information will be used—and if the government will allow it to be used through civil society, media, and political representation—by the people of Azerbaijan to hold their government accountable.

Several reasons have been posited to explain why a country known for tightly controlled politics and corruption would embark on a relatively progressive transparency agenda. First, Azerbaijan decided to sign up when oil revenues were meager, so the requisite accounting was still at a relatively simple stage. Second, international financial institutions, especially the IMF and World Bank, were very influential in Azerbaijan at the time and convince Azerbaijan to establish the State Oil Fund for the Republic of Azerbaijan (SOFAZ) for macroeconomic stability. Third, Azerbaijan was led by several Western-educated officials, one of whom set up SOFAZ. Fourth, the establishment of the BTC pipeline received much international political attention, which spilled over into general interest in the management of Azerbaijan's oil revenues. Fifth, the primary oil companies were Western majors with serious concerns with their international reputation and, thus, felt greater pressure to push EITI.

In 1999, President Heydar Aliyev created the State Oil Fund for the Republic of Azerbaijan (SOFAZ), a sovereign wealth fund which holds assets overseas in a mix of currencies. As of April 2008, the Fund reported assets of \$3.35 billion. SOFAZ expects \$5–10 billion

in revenue for 2008, up to \$30 billion accumulated in three years, and \$150–200 billion over the life of the fund. Apart from oil and gas sales, SOFAZ receives revenues from royalties payments, investment returns, and rental fees from firms using state property. SOFAZ employs Deutsche Bank and Clariden Bank as external asset managers, and has a domestic staff of approximately 80 persons. SOFAZ' guiding principle, "solving the most important national problems," is laudable if not amorphous. Fund managers indicate a preference for infrastructure projects. In effect, these expenditures represent a funding stream outside the normal budget, and as such receive soft criticism in terms of fiscal management. SOFAZ does not receive revenues from SOCAR, which constitutes SOFAZ' primary weakness in terms of transparency. Despite need for improved expenditure and investment criteria at SOFAZ, it seems most payments made thus far have been applied to projects to improve the lives of Azerbaijanis in real need. The Economist Intelligence Unit notes that SOFAZ has become "the most transparent government body in Azerbaijan." Indeed, managers of the fund are rightly proud of having received a United Nations Public Service Award in 2007.

The United States was a strong proponent of the construction of the BTC and SCP pipelines to diversify dependence away from Russian-controlled infrastructure. The U.S. Government and our allies have a profound interest in extending this project to include nations of Central Asia and Europe. U.S. Government assistance has also been heavily focused on the development of the non-oil sector with over \$7 million targeted for macroeconomic stability, trade and investment, private sector competitiveness, and financial sector reform. The United States has also provided assistance to bolster Azerbaijan's maritime security forces, assisting in oil production security. The emerging orientation of Azerbaijan towards close cooperation with Western countries is a significant strategic achievement richly rewarding to the United States, and provides a strong framework through which the U.S. Government is able to advocate critical governance reforms.

#### *Kazakhstan*

Kazakhstan has a per capita income of \$7,780 and a population of 15.3 million people. Infant mortality is 73 deaths per 1000 births, life expectancy is 65.9 years, and over 16% of the population lives under \$2 a day. In 2005, Kazakhstan brought in approximately \$3.6 billion of hydrocarbon revenue, comprising 6.3% of GDP.

Kazakhstan is the largest energy producer in the Caspian region, having staked claim to vast oil and gas fields offshore. Power in the country is centered around President Nursultan Nazarbayev. Kazakhstan has been a productive partner of the United States in key areas of cooperation, even as it balances the concerns of its large neighbors Russia and China. Kazakhstan's economic growth has been robust, approaching 10% in 2007, and its oil sector accounts for approximately 38% of total government revenues and half of Kazakhstan's exports.<sup>46</sup>

<sup>46</sup>"Kazakhstan: Country Analysis Brief" Energy Information Administration, February 2008.

Kazakhstan is rated by Freedom House as not free, due to increased pressure on civil society. In 2007, President Nazarbayev announced sweeping constitutional amendments to allow him to remain president. Many interlocutors believe that he could easily win any free election, although no elections have yet been so judged. Kazakhstan ranks 73rd out of 177 countries on the United Nations Human Development Index, higher than regional rivals Uzbekistan and Turkmenistan.

Kazakhstan's oil production has boomed since 1999. In 2007, it produced 1.45 million barrels per day of oil, of which 1.2 million were exported. Total reserves are estimated at 40 billion barrels. As the Tengiz field is expanded and when the new Kashagan field comes online, Kazakhstan's oil production is expected to increase dramatically. Kazakhstan also has large natural gas reserves with estimated reserves of 106 trillion cubic feet. Production, most prominently in the Tengiz and Karachaganak fields, was estimated at 1,037 billion cubic feet in 2007, an increase of over 8% on 2006 levels. Kazakhstan consumes most gas it produces but may become a net exporter of natural gas in 2008. The primary conduit for gas is the Central Asian Center pipeline, which is under expansion and travels from Turkmenistan and Uzbekistan through Kazakhstan to connect with the Russian network. Pipeline routes to China are also under discussion.

Kazakhstan is also the largest Central Asian producer of coal, producing 102 million short tons in 2006 and exporting just under 30 million short tons. Kazakhstan also has significant deposits of other minerals, including uranium, chromium, lead, zinc, and others. Next to Canada and Australia, Kazakhstan is the third largest producer of uranium.

Kazakhstan is in the process of considering a range of energy transport infrastructure options to meet and diversify its own export needs and to balance the concerns of the United States, Russia, and China. Most importantly for U.S. Government interests, a recent law authorized shipment of crude oil by tanker across the Caspian to the Baku terminal of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which flows to the Mediterranean coast in Turkey. The United States advocates construction of a trans-Caspian pipeline to diversify Kazakhstan's oil export routes and reduce dependence on infrastructure on Russian soil. Kazakhstan also exports crude across Russia to the Black Sea port of Novorossiysk through the Caspian Pipeline Consortium, a pipeline in need of expansion but seeing little progress in that regard due to Russian concerns; crude is also transported northward to Russia via the Atyrau-Samara pipeline. The Astatu-Alashankou network takes Kazakh crude to China, while Kazakhstan conducts energy swaps with Iran.

Kazakhstan has made many positive strides in the area of fiscal and oil revenue transparency. Kazakhstan endorsed EITI in June 2005 and has until March 2010 to become compliant. It has created a National Stakeholders' Council to coordinate EITI and hosted its first EITI implementation conference with stakeholders in February 2008. To date, Kazakhstan has submitted one Reconciliation Report for EITI in January 2008, but this report came under some criticism for not including all oil companies operating in Kazakhstan.

With oil prices on the rise since 2000, the Kazakhstan government has become more assertive with oil contracts, passing a law in 2007 that allowed it to break contracts with any international oil company with only two months notice and to reserve the right to renegotiate contracts and levy fines against companies found to be in breach. These moves were contemporaneous with contracting difficulties for the exploitation of the Kashagan field. As the Kazakh government asserts a greater stake in the direct operation and profit-taking from the oil and gas sector, the inclusion of Kazmunaigaz in transparency standards should be a particular point of emphasis for the U.S. Government.

In 2000, Kazakhstan set up the National Oil Fund for the Republic of Kazakhstan to manage its oil wealth. As of May 2008, the fund contained approximately \$18 billion and was managed by the Ministry of Finance.<sup>47</sup> From the outset, the Fund has come under criticism from transparency watchdogs for having been set up by presidential decree and not an act of parliament. Oversight of the Fund is carried out by the Management Council comprised of the President, Prime Minister, and members of Parliament. Thus, the President ultimately controls the disbursements, and the public has little involvement.

U.S. assistance to Kazakhstan is highly focused on expanding the non-oil sector of the economy with \$7.7 billion targeted towards private sector competitiveness, financial sector reform, and macro-economic foundation and growth. USAID programs have also helped to develop regional energy markets to link Central and South Asian markets and enable greater energy trade with South Caucasian states, Turkey, Europe, and global markets. Many economic assistance programs are cost-shared between the U.S. and Kazakhstan governments. In the political-military sphere, the United States has agreed to a five-year military plan with the government of Kazakhstan that incorporates funding to boost Caspian security.

#### *Norway*

Norway has a population of 4.6 million people. The average life expectancy for a Norwegian is 79.8 years old and the infant mortality rate is 4 deaths per 1000 births. The total spend on hydrocarbon in 2005 was approximately \$38.4 billion (13% of GDP). The per capita income of Norway is \$43,820.

Norway is seen as the leading country on EITI. Since Norway is a social democratic republic and many of the extractive countries share a similar view of the role of the state, their state-owned oil company seems to have particular influence when suggesting policy actions. Some felt that the Europeans, particularly the Norwegians, could be more effective because they were seen as friendly nations whereas the U.S. was seen as a threatening country with an ulterior motive.

Many refer to the “Norwegian model” as one worth replicating. In Norway, the government was democratic and fiscally disciplined before the discovery of oil. The state, which controls the oil industry, has set up a resource management system which includes an

<sup>47</sup> Goldman Sachs, “In Defense of Sovereign Wealth Funds,” Global Economics Paper No 167.



open budget process, a public long term fiscal policy strategy, and a sovereign wealth fund.

Some in Norway saw sovereign wealth funds as a framework rather than a tool. One noted that “accumulation of cash in a weak institution is not a recipe for success,” while another noted that a fund can help decouple revenues from spending and help a country avoid inflation. Norway’s sovereign wealth fund was first set up in 1990 but the first allocations to the fund were only in 1996. 15-20% of Norway’s GDP goes to the sovereign wealth fund to be used for future generations. Now, roughly 4% of the Fund goes to the government’s budget.

In Norway, transparency is important to retain domestic trust and helps the government stick to an investment strategy even when markets are turbulent. Norwegians stressed that an informed public with a clear sense of ownership was critical. The Norwegians suggest that other countries: 1) devise comprehensive budget policy frameworks so they can see total resources and prioritize; 2) may or may not need to develop a sovereign wealth fund; and 3) build good credible institutions to manage money—regardless if they have a fund or not. They repeatedly stressed that a sovereign wealth fund was no substitute for sound fiscal management.

Most interlocutors stressed the importance of securing support for EITI from the Chinese and Indian governments. It was reported that Chinese companies are already reporting through EITI in Nigeria and Mauritania. A few people suggested that China be brought into the International Energy Agency framework.

### *Russia*

The Russian Federation has a population of 142.4 million. Average life expectancy is 65 years, and over 12.1% live on less than \$2 a day. The average per capita income is \$11,630, and infant mortality is 18 deaths per 1000 births. Russia collected over \$55.8 billion in hydrocarbon revenues in 2005, approximately 7.3% of its GDP.

Russia has been focused on promoting political and economic stability following many years of turbulence. These priorities have resulted in a crackdown on civil society and increased pressure on opposition parties to operate freely. Many interlocutors and observers are cautiously optimistic about the recent election of President Dmitri Medvedev. He has publicly spoken about the need for increased transparency, although he has not provided any details about how he will proceed. He announced the appointment of former President Vladimir Putin as his Prime Minister as soon as he was elected, which has led to some debate about who will lead Russia.

Despite the recent economic recovery, which brought prosperity to some of the Russian people, 15% still live below the official poverty line set by the Russian government (compared to 38% in 1998). Quality of life indicators paint a mixed picture. The population is relatively well-educated and has a literacy rate of nearly 100%, but since the 1990s, the health of the Russian people has been in decline. Russian workers continue to have high levels of under- and unemployment in pockets of the country, although

there is a growing middle class and labor shortages exist in some high-skilled job markets.

The energy sector has been identified by the Kremlin as important to bringing improved living conditions to the millions of Russians who still live in poverty. Perhaps more importantly, many Russians see energy as a means to regain the power and prestige they enjoyed prior to the collapse of the Soviet Union. There are numerous concerns about the way the energy sector is managed in Russia. The government has taken control of much of the country's energy supplies. In addition, the government has moved to nationalize and take control of several private corporations.

Over the last several years, Moscow has used energy as a geopolitical weapon and foreign policy tool on numerous occasions. It has cut off or threatened to cut off oil and gas supplies to several neighbors to intimidate or pressure governments to bend to Russia's will. Targets of this political intimidation have included Ukraine, Georgia, Estonia, Lithuania, Belarus, and Czech Republic.

Some observers are concerned that Russia's energy extraction is inefficient, and could be more productive with newer technology. Others suggest that without significant improvements in recovery and transportation Russia will be hard-pressed to meet its current contract commitments. Many multinational and international energy corporations have expressed skepticism about prospects for success in Russia. Nevertheless, these same entities are quick to add they do not have a choice and must take their chances given Russia's reserves. The investment climate in Russia is reportedly improving, but there have been complaints about limitations on foreign investor participation. Many are hopeful that the recent change in Russia's government may improve the situation.

Russia is a large player in the international oil and gas markets, with the largest proven natural gas reserves in the world. The Russian economy is heavily dependent on oil and gas, which account for 63% of its exports and 50% of total state revenues.<sup>48</sup> From 1999 to 2007, Russia's real GDP grew at an annual rate of 6.7%, and Russia virtually eliminated its public foreign debt, which equaled 100% of GDP in 1999.

Oil and gas revenues first go into a Reserve fund (which was formerly called the Stabilization Fund). When the reserve fund reaches 10% of Russia's gross domestic product in a given year, the additional revenue goes into the National Welfare Fund. In some circumstances, money is transferred from the Reserve Fund to the general budget to cover spending gaps that non-oil and non-gas revenues cannot fill. It is important to note that this system was established this year, it is unclear how well the process will work.

Some interlocutors gave the impression that the Russian government has relatively responsible and transparent fiscal policies, including collecting and spending oil and gas revenues. One interlocutor said that revenues are taxed because they are by nature more transparent, and it is easier for companies to miscalculate profits for the purpose of avoiding paying taxes. The government does not tax profits because it does not trust the companies to be honest

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<sup>48</sup> See CRS Report RL33407 *Russian Political, Economic, and Security Issues and U.S. Interests*, by Stuart Goldman; and CRS Report RL33212 *Russian Oil and Gas Challenges*, by Robert Pirag.

about them. The main problems voiced about the government concern the lack of judicial independence and respect for rule of law in general. These problems increase the risks and therefore the costs of doing business in Russia, and dampen foreign investment. A few interlocutors claimed that detailed budget information is not available from the government, especially for extractive revenues.

Most interlocutors gave the impression that Russia would not readily become an EITI candidate country.<sup>49</sup> Russians consider EITI to be an initiative for developing countries with greater problems than Russia. Even those people who admitted that Russia's problems are very large were hesitant to embrace EITI as a viable initiative for Russia, mainly because they saw EITI as something that merely scratched the surface of Russia's complex governance problems. Furthermore, many interlocutors expressed a sense that transparency in Russia is improving because of international financial market conditions, and pushing EITI would not help move to greater transparency.

An exception to this reluctance about EITI came from Transparency International which has been encouraging EITI in Russia. Reportedly, TNK-BP and Lukoil expressed interest in EITI two years ago and then backed down after receiving no support from the government or other companies. Transparency International representatives said that a briefing from a high-level G-8 delegation could help convince them to consider implementing EITI. The organization is publishing a report on EITI in Russia to raise awareness of how EITI could benefit Russia.

Most of the private sector interlocutors agreed that Russian oil and gas companies, including Rosneft and Gazprom, are becoming more transparent for their own reasons. These companies need to access international capital markets, and in order to do so they need to adhere to a higher standard of transparency. They therefore can get a lower cost of capital, participate in joint ventures with international firms, and be listed on international exchanges. They also want to be considered among the best and biggest companies in the world. There are some concerns that Russian firms could slide back to old practices if economic conditions change and capital markets become looser. Some interlocutors suggested that the more Russian firms become entrenched in international markets, the more difficult it will be for them to backslide in transparency. Others thought that the Russian firms are beginning to see the benefits of transparency in and of itself, and will not go back to being less transparent. Some observers believe that they are as transparent as necessary for international markets, but not necessarily for the Russian public. There are others who believe that Russian firms in the extractive industries are still not transparent by western standards.

Some interlocutors said that as more Russian people become stockholders, and as major Russian pension funds invest in Russian companies, they will demand more information from the companies and this will lead to greater transparency. The Russian people do not hold the companies or government accountable because

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<sup>49</sup>EITI sets a global standard for companies to publish what they pay and governments to disclose what they receive in the extractive industries. More information can be found at <http://www.eitransparency.org/>.

current economic conditions are so much better than just a few years ago. Russian firms want to be held to the same standards as firms around the world, but they do not want to be held to higher standards. They understand that Russia has a reputation for corruption, but they do not want to be punished for it by being required to jump through hoops that western firms can bypass.

Energy, including transparency issues, is a standard agenda topic in meetings between the U.S. and Russians. Presidents Bush and Putin was discussed it in April in their meetings at Sochi. Under the Framework Agreement the two presidents signed the US and Russia will initiate a number of economic dialogues. Moscow and Washington have made good progress in the government-to-government dialogue and energy transparency was discussed at the inaugural meeting in late April in Washington. The next meeting is scheduled for September in Moscow and energy will again be on the agenda.

#### *United Kingdom*

The United Kingdom has a population of roughly 60.9 million people. Life expectancy is about 78.9 years old and their infant mortality rate is 5 births per 1000 deaths.

Generally in Europe, there is a growing interest in transparency and governments as a development measure. While the United Kingdom was the first Western country to push transparency in extractive industries as an international initiative, Norway is viewed as the model of prudent management of extractive revenues and is home to the EITI Secretariat. Some sense that the focus on anti-corruption and transparency by the British has diminished in the wake of the BAE scandal and due to less focus on Africa generally. Some say that DFID is not getting political backup on transparency.

The next two years are critical in determining whether or not EITI will really work. A number of people pointed out that the more stable and predictable framework for oil producing countries, the more stable the energy supply. One argument for EITI is that it uses small money to ensure the big money is used well.

Investors became interested in EITI because they saw the “potential for the resource curses to bite the companies” themselves. They see EITI as a tool to promote stability which would in turn reduce work stoppages or supply disruptions. The investors are concerned that there are no definitive studies showing that good governance results in a better cost of capital. They asserted the need for compelling examples of developing countries where extractive resources were put to good use. The EITI process is seen as leveling the playing field for non-corrupt companies. The major oil companies appear more engaged on EITI than the “second-tier” companies and many of the companies that are pushing EITI are companies that had a bad experience with corruption or poor governance.

There is a UN General Assembly resolution supporting EITI, similar to the one passed on the Kimberley Process, that Azerbaijan is spearheading. Many argued that countries like India, China and Brazil will be more likely to embrace EITI. A range of interlocutors suggested that it would be helpful for the US to sign

onto and promote the UN resolution. A number of people praised World Bank involvement with EITI but expressed concern that the regional development banks were not as engaged. They suggested that all the regional development banks, particularly the African Development Bank, incorporate EITI into their projects.

Some suggested that China would be more open to transparency, influence and reputational impacts than many expect. They encouraged the U.S. to develop an engaged approach. Some suggested that the Chinese sovereign wealth fund may become more interested in transparency issues given their exposure to extractive investments. Almost everyone asserted that the wrong way to promote extractive industry transparency with China was to be critical of the country. One person said “finger-wagging doesn’t work.”

Among EITI experts in these countries, the United States is seen as being somewhat supportive of EITI, however, more supportive in policy than in funding. The U.S. has not contributed funding to the EITI because of the legal structure of the EITI Secretariat is not finalized. The U.S. currently has a seat on the EITI board but will give it up shortly in the every two year board rotation. There are three seats on the Board from supporting countries, 5 seats from EITI countries and 5 from companies. The U.S., once its contribution is made to the Multi-donor Trust Fund, will maintain its seat on the MDTF Board which gives funding for EITI capacity building.

The U.S. is viewed by many insiders as a focusing force with EITI. The current U.S. representative to EITI is seen as capable, bright, and active; however, given his rank at the State Department, many think that the U.S. needs a representative with more clout. While U.S. staff at embassies in extractive countries are engaged on EITI, there is apparently little action on EITI with the staff at our embassies in donor countries. Many suggested that it would be very motivating and influential of the United States signed onto EITI as a candidate country. Several interlocutors suggested that the U.S. help encourage companies to make more emphatic attempts to support EITI, increase political will and support capacity building.

In addition, many felt that the U.S. Government, particularly through foreign assistance programs, could do more directly to encourage extractive countries to sign onto EITI by the U.S. increasing or shifting funds for extractive countries for transparency efforts. EITI is consistent with Foreign Corrupt Practices Act so the more compliance of foreign companies to EITI, the more level the playing field for U.S. companies.

## *LATIN AMERICA*

### *Brazil*

Brazil has a population of 192 million, approximately. Average life expectancy is 72.5 years with an infant mortality rate of 27 deaths per 1000 births. The average per capita income is \$5,910, while 21.2% of the population lives under \$2/day. Total hydrocarbon revenues for 2007 were \$87.5 billion or 5 per cent of GDP.

With the recent discovery of two new offshore oil fields (Tupi and Carioca), Brazil is in a position to become a significant political and

economic power not just in the Western Hemisphere, but on the world stage. Brazilians are anxious to be considered a global power independent of South America, an emerging economic market on par with India. However, besides their leadership of the common market area in Latin America (MERCOSUR), membership in other regional agreements, and their work to advance peace in Haiti, Brazil has been reticent to take a larger role in global affairs.

In Brazil, sectors within the country exist that could be defined as first, second and third world, highlighting the tremendous disparity between rich and poor that still exists. Over 50 million Brazilians live in poverty and there are over 600 Brazilian municipalities that have poverty levels similar to some of the poorest African countries. One percent of the population controls 45% of the farmland. In addition, disparity of opportunity and representation in the formal and “white collar” sectors of Brazil’s economy continues for Afro-descendants, as well.

Despite these challenges, Brazil has experienced steady economic growth that reached 4.5% in 2007 as well as a significant rise in exports. Brazil still suffers from high real interest rates but in early 2008 it received an investment-grade sovereign debt rating.

Brazil is rich in natural resources including oil, iron ore, manganese, and others. It has 14% of the world’s renewable fresh water. The Government of Brazil (GOB) has undertaken an ambitious program to reduce dependence on imported oil. In the mid-1980s, imports accounted for more than 70% of Brazil’s oil and derivatives needs; the net figure is nearing zero. The recent discovery of the Tupi and Carioca oil fields could yield reserves upwards of 40 billion barrels. Output from the existing fields combined with the new discoveries could make Brazil a significant global oil exporter by 2015.

Brazil produces approximately 1.59 million b/d of oil and produces 9.37 billion cubic meters of natural gas. In 2007, Petrobras generated revenues of \$41.6 billion from oil and gas (sold internally and externally) and \$87.5 billion from all sales of hydrocarbons. These figures are expected to increase to \$65 billion and \$111 billion in 2008, respectively. 58% of revenues are reinvested directly into exploration and production. Although much of the revenues go to domestic and international development of its oil fields and refineries, as well as R&D, Petrobras paid an estimated \$36 billion to the Brazilian state in taxes in 2007. Although it is listed on Bovespa and is partially publically-owned, the government and the state development bank own 37.5% of Petrobras’s preferred and common shares, and about 56% of the voting shares. In the recently-approved 2008 federal budget of Brazil, state enterprises accounted for \$62 billion of fiscal receipts, Petrobras making up over half that figure.

Brazil is also one of the world’s leading producers of hydroelectric power and a global leader in biofuels—especially ethanol from sugarcane—its production and promotion. Demand for Brazil’s abundant minerals, notably iron ore and bauxite, has been booming largely due to demand from China. All extractive industries are impacted by environmental controls from relevant GOB Ministries.

As a result of potential earnings, at the time staff visited Brazil Finance Ministry officials were expecting President Lula to forward

a legislative proposal to congress establishing an “investment fund” or “fiscal savings fund” of about \$10 to 20 billion, exact timing remains unclear at the writing of this report.

Brazilian Finance officials asserted that Brazil was unique in that the rationale for this fund was not based on commodity revenues, but on its robust reserves and good fiscal position, and therefore was not comparable to other countries’ sovereign wealth funds.

GOB statements that the fund could draw on oil revenues from Petrobras’ recent finds in three to five years to create a \$200-300 billion does not take into account that these fields are not expected to generate revenue in the immediate future. Officials indicated that Singapore had come to Brazil and explained its sovereign wealth fund, and that Brazil’s Finance Ministry had discussed sovereign wealth fund structures with relevant Gulf States, as well. They underlined that reserves were off the table as a funding source for the fund, and that Brazil hoped to increase the primary surplus target by 0.5% of GDP (or about \$13 billion per year) to fund this mechanism.

Brazil is not yet a candidate country for the EITI. The Ministry of Mines and Energy indicated that they would have to have direct feedback from extractive industries to persuade them of EITI’s utility and relevance for Brazil. GOB diplomatic interlocutors felt that the idea had merit but indicated it was important for the U.S. to demonstrate commitment as well if it wished to persuade others. Petrobras, the largest oil company, supports EITI, but EITI reportedly reflects what they are already doing and complements company goals and operations. Both Vale, the largest mining company, and Petrobras are publicly traded, with financial data publicly available on their websites and results submitted to Brazil’s equivalent of the Securities and Exchange Commission (the *Comissao de Valores Mobiliarios*).

Brazil’s use of the phrase “*Transparancia Publica*” (public transparency) is omnipresent in the Lula administration, and a website exists with a transparency portal to track all government spending. Staff is satisfied with Brazil’s transparency efforts regarding earnings revenues since tax revenues are public and accessible on the internet.

Brazil’s relationship with the U.S. has been generally positive although there is relatively little of substance in the bilateral agenda; the Bush administration signed an Executive branch agreement on biofuels, but there is no guarantee that this agreement will continue during the next administration.

Efforts to deepen this relationship could begin with passing into law an improved agreement on biofuels and eliminating the tax on Brazilian ethanol currently in place. Other policies could include, negotiating a Tax Treaty and beginning negotiations for a limited market access agreement with MERCOSURs full member countries (Brazil, Argentina, Paraguay, and Venezuela).

### *Chile*

Chile has a population of 16.3 million people approximately and an average life expectancy of 78.3 years. Chile’s infant mortality rate is 10 deaths per 1000 births and per capita income is \$11,270,

with 5.6% of the population living under \$2/day. Total hydrocarbon revenues for 2005 were \$25.4 billion or 22% of GDP.

Today, Chile has fewer pressing domestic problems than in its recent past, and the bureaucracy and markets generally function well. Private property and the rule of law are respected and the public actively demands accountability of its officials. When cases of corruption do arise, they are denounced and investigated.

Chile is a leader among upper middle income countries on measures of competitiveness and quality of life. Chile has embraced globalization and is highly dependent on international trade, having become an active participant in the Doha round of trade negotiations. Between 1990 and 2006 the poverty rate fell from 38.6% to 13.7%; the indigence rate from 12.9% to 3.2%.

Chile is the world's leading copper producer and exporter, constituting about 35% of world output. Chile also produces molybdenum, gold, and silver. Copper production and investment in Chile increased sharply during the 1990s and the consequent increased production seems to have been responsible for a large drop in the international market price.

Since 2002, (at the time this report was written) the copper price has resumed an upward trend, mainly because of growing demand from the large Asian economies. The Chilean copper mining sector is both state-owned and privately owned, so Chile benefits from receiving fiscal resources directly and through taxes and royalties on private enterprise. High copper prices have led to increased investment in funds to finance pension reform and for economic contingency funds to stabilize the economy during economic downturns. In 2007 copper production by state owned entities was 28.5% and 71.5% by privately owned mines.

Though Chile is a net oil importer, it produced approximately 11,600 billion b/d in 2007. Oil revenues have been relatively steady over the last several years and oil exploration activities in Chile are ongoing in the Magallanes region in the south, the only part of Chile where hydrocarbons have been discovered.

Chile is examining steps to reduce its dependence on foreign oil, including the expansion of research on alternative energy sources, such as wind, solar and nuclear energy. In this regard, staff noted the need for the United States and Chile to pursue exchanges where U.S. scientists and energy professionals can work with the Chilean government, academic and private sector actors to help establish the necessary technical capacity so Chile can develop a sustainable domestically-based energy infrastructure.

Chile is not an EITI candidate country and few government officials were familiar with the EITI concept. However, Chile has a very transparent revenue management system, and staff believes that Chile already has policies in line with EITI. Due to widespread fears of corruption in the copper industry, Chilean officials have taken numerous steps to maintain transparency and improve public confidence in the use of extractive revenues.

To ensure that fiscal surpluses generated by the extractive industry are properly invested, Chile established mechanisms to regulate their use in 2006 through the Fiscal Responsibility Law. Two sovereign funds were created through this legislation: the Pension Reserves Fund (FRP) to cover for future pension payments and the



Economic and Social Stabilization Fund (FEES) to reduce economic instabilities during periods of uncertainty. Chile's Central Bank has hired JP Morgan Chase as a custodial bank to manage these funds and produce performance assessments and reports on the FEES and FRP funds. Reports on these funds and on revenues are published by the Ministry of Finance and readily accessible to civil society and international financial institutions. Reports and recommendations provided by the Advisory Financial Committee are also accessible to the public. The United States has no assistance programs relating directly to transparency or extractive industries with Chile.

The U.S. Government enjoys positive and expanding relations with Chile that are focused on deepening the U.S.-Chile free trade agreement. Breaking with traditional diplomacy, in an example of innovation, Chile has pursued relations with several U.S. states, including California, in the areas of energy cooperation and educational exchange programs.

#### *Peru*

Peru has a population of 28 million. Average life expectancy is 70.7 years with over 30.6% of the population living under \$2/day. The infant mortality rate in 2005 was 27 deaths per 1000 births. The total hydrocarbon revenues for 2007 were \$855 million or 1 per cent of GDP. Per capita income was \$6,080.

Peru is a country in transition following over 20 years of political and economic turmoil. While the Government of Peru (GOP) has earned an enormous amount of revenues from extractive industries, the technical capacity to transform wealth into development remains a challenge. President Alan Garcia took office in July 2006 for a five year term. Although there was initial skepticism because of the economic chaos and hyperinflation that occurred under his first term as a result of his populist policies (1985 to 1990), he has taken steps to get the Peruvian economy back on track and to encourage private investment and exports. He has recast himself as a moderate in his second term and has continued the economic policies of his predecessor, Alejandro Toledo. GDP is expanding rapidly (7% in 2007) due to mining and export growth as well as an increase in private investment. The government has had success with recent international bond issuances, resulting in ratings upgrades.

Peru is rich in natural resources such as iron ore, copper, gold and silver, which make up 3% of fiscal revenue, 1.5% of GDP, and over 60% of export revenue according to the IMF. At the time this report was written, rising mineral prices were contributing to an increase in revenues from exports. Peru is the second largest producer of silver in the world, and the sixth largest of gold and copper. Peru also produces a significant quantity of zinc and lead. The U.S. purchased 23% of Peru's exports, mainly gold and copper in 2007.

Extractive industry transparency is important in Peru because it is still a very poor country despite the massive influx of revenues it is beginning to receive from extractives. Peru is now the only country in the Western Hemisphere that has signed up for EITI. Peru has an extremely complex, yet transparent, system regarding

extractive industry payments to the government. First, half of all mining revenues are by law redistributed back to the regions, where extraction takes place; these revenues are used primarily for social infrastructure projects. The law dictating this process is called Canon law and the resulting revenues are referred to as “canon.”

Given Peru’s increasing exports, vast amounts of resources are being transferred to the regions: in 2007, canon resources totaled 5.1 billion soles (\$1.8 billion). However, the unequal distribution of canon is one of the hottest topics of political debate in Peru.

Second, through the *aporte voluntario* or “voluntary contribution,” 47 out of 49 mining companies give money to a solidarity fund managed by a committee comprised of representatives from NGOs, the mining companies, local governments and civil society. The role of the committee is to decide how to best invest the resources. Experts estimate that in 2008 the fund will generate 540 million soles (\$193 million).

Third, approximately 50% of the bid or tender is invested through a *fideicomiso* (trust fund) into social programs focusing on health and education to benefit the communities where extractive activity takes place. The goal of the trust fund is to ensure that the benefits of extractive company investments are long-term and continue helping future generations of Peruvians. *Fideicomisos* are established during the projects’ exploration phases. The trust fund is administrated through a council made up of representatives from the company, the Government, and civil society.

All of the financial data on Canon law, voluntary contribution, and trust funds are published on the internet. However, staff heard from several people about the contrast in transparency between the large international companies and the smaller domestic companies. Whereas the large international and multinational companies follow international standards and practices regarding transparency, smaller indigenous companies disclose less information.

Peru has also made strides in advancing an anti-corruption and transparency agenda, though a fragmented government structure with four independent sub-national levels of government complicates coordination. A freedom of information law was approved by the Peruvian Congress approximately five years ago. The Peruvian Government and civil society have been increasingly open and forthcoming in sharing information, a few pitfalls notwithstanding. Transparency has also resulted in a massive crackdown on corruption because the country’s budget is now available online through the Ministry of Economy and Finance. Specific information and figures are broken down by years, as well as by federal, region, province, and district. This has allowed government officials to be held to account at all levels in Peru.

Peru became an EITI candidate country in September of 2007. It has until March 2010 to become a compliant country. Peru established an EITI working group in the country comprised of representatives from the Government of Peru, civil society, and extractive companies. Although Peru was one of the first countries to sign up for EITI, the progress toward implementation has been extremely slow. The working group was slow to organize and the companies do not want to release disaggregated figures on their

taxes paid. This is especially true of the medium and small sized companies who are mostly domestic Peruvian companies.

International donors are contributing approximately \$2.2 million for implementation of EITI in Peru. USAID granted the World Bank's International Finance Corporation \$450,000 to set up a well-regarded program to bolster technical capacity to implement EITI. The program will provide assistance to local officials on how to design projects that meet legal requirements and will include a civic oversight component to inform citizens about the measures taken by their authorities. USAID remains in an advisory role for this initiative. The Peruvian Government has also appointed two senior level ministers to sit on the working group, the Vice Minister of Energy and the Vice Minister of Mines.

Apart from this USAID-IFC partnership, the United States has promoted transparency through provisions in the U.S.-Peru Trade Promotion Agreement, which requires regulatory transparency. Regulative authorities must use open and transparent administrative procedures, consult with interested parties before issuing regulations, provide advance notice and comment periods for proposed rules, and publish all regulations. The financial services chapter of the agreement also includes provisions on transparency of domestic regulatory regimes. Other U.S. foreign policy priorities in Peru include promoting democratic governance; countering the transnational threat of narcotics trafficking; and ensuring that the benefits of economic growth reach the poor and marginalized.

Technical capacity could actually be a larger problem than transparency in Peru. Despite the Peruvian Government's reserves (Peru's Net International Reserves (NIR) amounted to 34.78 billion dollars as of July 25, 2008), the Government has no plans for much needed large scale national development projects which would include major transportation infrastructure, roads, rail and ports, to take full advantage of the recently enacted U.S.-Peru Trade Promotion Agreement. In the rural areas, there is a lot of interest and good will, but capacity for the formulation and implementation of basic economic development projects by local governments is lacking. Though the Peruvian Government's system is transparent enough that people can track budget surpluses and put pressure on politicians to perform, local Peruvian Governments do not have the technical capacity to use these surplus funds effectively and the expectations of regular Peruvians regarding their Government are low. This is creating a degree of social conflict and an increasing sense of frustration among the Peruvian people who have not seen ground-level benefits of this economic windfall in the form of services, health, education or infrastructure to improve their everyday lives. This has resulted in a sense of distrust of both the mining companies as well as the national Government. Many Peruvian analysts believe that if the Garcia administration does not show a real improvement in the everyday lives of regular Peruvians in key areas of the country, an anti-free market leader might gain the presidency in 2011 and all the progress that has been made during presidents Toledo and Garcia will be lost.

*MIDDLE EAST**Iraq*

A study by UNDP and the Iraqi Government suggest that one-third live in poverty, while according to Oxfam International, 43% of Iraqis are in “absolute poverty.” Unemployment is calculated from 25-40%, although the Government of Iraq’s (GOI’s) estimate is 17.5%. Infant mortality, measured in 2006 and reported by UNICEF is 37. Per capita GNI is \$2,170. Iraq has an infant mortality rate of 125 deaths per 1000 births. Total hydrocarbon revenue in 2005 was \$8.8 billion, which is approximately 69.5% of GDP. Revenue estimates for 2006 were \$31.3 billion and for 2007 were \$41.0 billion and projected revenue for this year exceeds \$70 billion.<sup>50</sup>

Iraq is emerging from decades of tyranny and corruption that pervaded all levels of government. As the GOI chips away at the complex series of challenges it faces, it remains behind the expectation curve in nearly every measurable aspect. Where competent governance lags, criminality, powerful militias, and incompetence compete to replace the institutions of the Saddam era. Transparency International’s “Corruption Perceptions Index” put Iraq among the worst in the world—only Burma and Somalia rank worse. While Iraq has made some grand gestures, such as joining EITI and working closely on planning with UN and IMF, it has not yet changed. Senior Iraqi officials are not required to declare their income, investments or net worth. Oil terminals are not metered. Anti-corruption officials are undermined in their work by the highest officials in the Government.<sup>51</sup>

Despite the widespread poverty and unemployment, Iraq’s macro-economy shows some health. According to the IMF, over the past year, inflation has fallen from 64.8% at the end of 2006 to 5% at the end of 2007, a rate that has been sustained in 2008. IMF predicts growth in 2008 will be 7%, driven by rising oil prices, economic reforms and surging foreign exchange reserves. Sovereign debt, estimated in 2003 to be between \$125 and \$140 billion, has been cut in half. Fuel subsidies have been all but eliminated.<sup>52</sup>

Attempts to improve financial management through computerizing data and reporting have been hit and miss. The FMIS (Financial Management Information System), an accounting and reporting system has been put in place by USAID for all Iraqi ministries to use. The GOI is using the system and has started to pay for Internet connectivity for all FMIS sites throughout the country. Training continues for the MOF and other government staff. Nevertheless, use has not been standardized and laws and directives are not in place to stipulate accounting procedures.<sup>53</sup> Iraq has established mechanisms to investigate and fight corruption, but they have proven largely ineffective. The clearest reason for this is in-

<sup>50</sup>Oil figures provided by the U.S. Department of State, current as of 23 July 2008.

<sup>51</sup>For more, see JUDGE RADHI HAMZA AL-RADHI, former Commissioner, Iraq Commission on Public Integrity, testimony at House Committee on Oversight and Government Reform hearing “The Status of Corruption in the Iraqi Government.” October 04, 2007.

<sup>52</sup>Bennett, Adam. Senior Advisor, Middle East and Central Asia Department, International Monetary Fund. Statement on the International Compact with Iraq, Stockholm, Sweden, May 29, 2008.

<sup>53</sup>Source: email exchange with USAID staff, May 1-5, 2008.

timidation. Judge Rahdi, Iraq's one time leading anti-corruption official has fled the country for fear of his life.

In 2008, Iraq's crude oil exports have increased from 2007 levels by 22%. Iraq has exported an average of 1.92 million b/d this year, with the bulk (approximately 1.5 million b/d) coming from southern Iraq. Iraq's reserves have long been ranked third in the world, with estimates ranging from 100-116 billion barrels, but with only a small portion of its fields producing. However, great challenges remain to maintain or further boost this capacity. Within the oil industry in Iraq, which accounts for 64% of GDP and 84% of the national budget,<sup>54</sup> smuggling, corruption, looting, and graft are rife; production (lift and transfer) is hampered by decrepit infrastructure, the challenges posed by surface and subsurface water, poor security, corrosion, poor reservoir management, the flight of intellectual capital competency, and more. The World Bank estimates that to simply sustain current levels of production, Iraq needs to invest \$1 billion annually. In 2007, according to end of year data from the Iraqi Ministry of Finance, the Ministry of Oil expended only \$36.1 million of its \$2.5 billion budget.

In May, Iraq's Minister of Oil Hussain al-Shahristani announced that the first five two-year technical service contracts (TSCs) with Royal Dutch Shell, ExxonMobil, Chevron, BP and Total would be signed. These contracts were to have been completed by now, but domestic Iraq politics and the lack of an oil law continue to complicate matters. Iraq is hoping that by using short-term TSCs to reconstruct established fields such as Rumailah—Iraq's largest and the fourth largest oil field in the world—it can increase its oil production by 500,000 b/d and give the political establishment time to finalize a new oil law, and enable actual investment.<sup>55</sup> In the Kurdish region, more than twenty contracts have been reportedly signed, but this has all been done without pledged transparency. No major international oil companies have signed contracts in the Kurdish region.

The international companies have a tremendous amount of leverage—if not than a great deal of influence—when it comes to promoting transparency now in Iraq but they have not been pressing the case. One oil industry executive told staff, “EITI has not come up in talks with the Iraqis. . . .” and stated further that neither the U.S. Government nor the British Government have supported EITI.

Iraq's natural gas reserves, according to the Oil and Gas Journal are 112 trillion cubic feet (Tcf), making it the tenth largest in the world. Probable reserves may be closer to 275-300 Tcf. The EIA's annual report notes that natural gas production has declined steadily over the last 15 years along with oil production and deteriorating processing facilities. According to the January 2007 report from the Special Inspector for Iraqi Reconstruction (SIGIR), the value of the gas that is flared or injected back into wells is approximately \$4 billion annually. Experts suggest that if Iraq captured and piped that gas, it could provide for much of Iraq's domestic fuel

<sup>54</sup>*International Compact with Iraq, Annual Review Conference Report*, dtd 29 May 2008, p. 49.

<sup>55</sup>“Al-Shahristani Expects First Service Contracts To Be Signed In June,” *Middle East and Africa Oil and Gas Insights*, May 1, 2008.

needs and enable Iraq to export crude. Plans to build the necessary infrastructure to capture and pipe the gas have been announced, but so far have been tabled for future consideration. Estimates to build the necessary infrastructure are in the \$2 billion range. The Oil Ministry has not made the investments to capture the gas, whether for domestic use or export.

The Government of Iraq has established a Committee of Financial Experts (COFE) to serve as an independent monitor of fiscal activities. COFE has worked closely with the International Audit and Monitoring Board (IAMB), which is responsible for monitoring the Development Fund for Iraq (DFI), the UN-mandated repository for Iraq's oil revenues. COFE will assume the duties of the IAMB when it and the DFI mechanism are dissolved, which could come as early as January 2009, when the current UN mandate expires. The IAMB and COFE's most recent DFI report, a summary audit of 2007 activities, noted 13.8 million barrels of oil produced but unaccounted for last year.

Over the past year, the Ministry of Oil has begun to report monthly export figures on its website and in a national newspaper, including export quantities and destinations, and revenues garnered.<sup>56</sup> Furthermore, the Ministry of Finance is publishing quite a bit of fiscal data, including what they are sending to the Kurdish Regional Government (KRG) every month, but there is not the least bit of transparency on the part of the KRG, who some locals say are "selling Iraqi oil down the river." KRG finances are, in the words of one close observer "a complete black hole." This compromises transparency efforts by the central government as well, and U.S. officials and oil companies cannot ignore it forever. Nevertheless, the lack of reliable mercantile infrastructure forces many transactions to continue to occur in cash. In 2006, the GAO estimated that about 10% of Iraq's refined fuel and 30% of its imported fuels were being stolen. Industry analysts quietly question discrepancies between sales and export figures, with some placing Iraq's "slippage" at as much as 200,000–300,000 b/d, although coalition officials have often said that the fuel/smuggling theft problem is less than 10% of fuel supply and much of that stays domestic and is sold on the black market, and so is not often seen as a major problem. The Iraq Oil Ministry's Second Transparency Report "*Smuggling Crude Oil and Oil Products*," also from 2006 provided clear indicators the Ministry is aware of its problems, but it has not issued a subsequent report, suggesting it has made no progress. A U.S. Government official familiar with the reports, stated to staff that indeed, ". . . it's fairly the same story."

Without laws to govern the oil and gas sector, with good governance and overall ministerial capacity wanting, transparency may be the single most powerful weapon the Government of Iraq has to combat pervasive, systemic corruption. A transparent, efficient and equitable legal framework for the management of oil and gas resources is perhaps the most important benchmark under discussion in Iraq. If done right, it could be the genesis for true national unity. In meetings with U.S. and Iraqi officials in Iraq and in

<sup>56</sup> See: <http://www.oil.gov.iq/> for Iraq MO reports and <http://www.state.gov/p/nea/rls/rpt/> for USG reports.

Washington, staff heard no end to the frustration about the lack of progress towards political milestones, including the development of a package of laws to regulate the hydrocarbons industry. Embassy officials and U.S. policy makers recognize this, and must continue to work steadfastly with the parties to ensure this becomes a reality. Nevertheless, as with many things in the new Iraq, it is more important that it is done right than it is done fast. Across the board, progress on political reform is slow because the parties in control of the system benefit from it and a general mistrust among major factions persists. Progress on the hydrocarbons laws is no different.

In addition to transparency, metering would seem a simple and sensible fix. The Iraqi Government has indicated that they are committed to install, fix, and/or regulate oil flow meters at all oil production and distribution facilities by the end of 2007, progress has been slow. Some metering has been installed at oil terminals, such as Basra and the Gulf Oil Platforms, but no metering is being done in the oil fields.<sup>57</sup> U.S. funds supported the installation and renovation of the meters at the Al Basra Oil Terminal, however according to the U.S. Corps of Engineers, “the new meters are still not being used for custody transfer.” The meters are being used to check ship’s ullage readings, which determine the custody transfer amount.<sup>58</sup>

In a February 21, 2008 letter to the EITI Secretariat, the Government of Iraq indicated its commitment to formally sign up to EITI. This action followed several years of Iraqi interest in EITI, including attendance at EITI annual conferences and including it as an economic benchmark in the International Compact with Iraq. U.S. officials that staff met with for this project have reacted favorably towards the Government of Iraq’s actions towards EITI, toward anti-corruption efforts and transparency. But, achieving results will require much more than simple statements.

One U.S. official admitted that extractive industry transparency “is not in the top fifty” of U.S. priorities with respect to Iraq. The Iraqis have not begun to submit reports to EITI or to the IMF, and no financial outlays have been made for EITI.

#### *Saudi Arabia*

Saudi Arabia is home to a population of more than 28 million people. With the price of oil skyrocketing, Saudi oil revenues increased from \$85 billion in 2003 to \$194 billion in 2007, a 128% increase in just four years.<sup>59</sup> In 2007, Saudi oil revenues constituted approximately 52 per cent of GDP. Saudi Arabians have a per capita income of \$16,260, a life expectancy of 72.2 years, and an infant mortality rate of 26 deaths per 1000 births.

Saudi Arabia has seen some political and economic reform over the last several years in response to escalating domestic problems. In 2005, King Abdallah continued his cautious reforms to increase

<sup>57</sup>International Advisory and Monitoring Board on Iraq (IAMB), *Third Interim Report Covering the Year 2007*.

<sup>58</sup>Special Inspector General for Iraq Reconstruction, *Quarterly Report to the US Congress*, April 30, 2008, p. 117.

<sup>59</sup>Saudi Arabia also possesses 240 trillion cubic feet of proven natural gas reserves. This amount represents roughly 4% of the global total, the fourth largest proven reserve in the world. In 2006, Saudi Arabia produced 2.6 trillion cubic feet of natural gas.

political participation through nationwide elections for half of the members of the municipal councils; the remaining members were appointed by the monarch. Terrorist attacks in 2003 also provoked a strong political campaign against domestic terrorism and extremism. Dependence on petroleum output and prices, aquifer depletion, high unemployment among a growing population (nearly 40% of which are youths under the age of fifteen) remain challenges. In reaction to the largely uneducated youth population, the Saudi Government has significantly increased spending on job training and education, infrastructure development, and government salaries.

According to the Energy Information Administration, Saudi Arabia's proven oil reserves are 259.8 billion barrels. This amount represents 22% of the global total, and the largest in the world. In 2007, Saudi Arabia produced 8.7 million b/d of oil with an estimated production capacity of 10.5–11.0 b/d. Oil accounts for 70–90% of Saudi state revenues.

Saudi Arabia releases timely, but not highly-detailed budget information. Overall, the level of transparency in Saudi Arabia is improving but still lacking according to most international standards. The information provided by the Saudi Government lacks important details, and publicly available numbers are too generalized to identify specific programs or even budgets for specific ministries. Furthermore, the lack of specificity and transparency provide an environment where corruption can flourish. According to Transparency International's Corruption Perceptions Index, Saudi Arabia ranks 79th out of 179 countries with a ranking of 3.4 (0 = highly corrupt and 10 = highly clean).<sup>60</sup> From a regional perspective, this rank gives Saudi Arabia the worst ranking of the six members of the Gulf Cooperation Council, including Bahrain, Kuwait, Oman, Qatar, and the UAE. Most observers, though, believe Saudi Arabia is managing this enormous inflow of cash in a relatively responsible manner. The Government has utilized its oil wealth to make qualitative improvements to the country's social and physical infrastructure and has focused its expenditures in five areas: education and manpower development; health and social affairs; water, agriculture and infrastructure; transportation and telecommunications; and municipality services.<sup>61</sup>

Saudi Arabia has expressed no desire to join EITI. Average Saudis express numerous economic concerns, but the relative lack of transparency in the extractive industries does not appear to be a leading source of frustration. While the Saudi Government could clearly improve its level of transparency and could benefit from joining EITI, the Saudis have already taken steps towards additional disclosures. In fact, since June 2006, Saudi Arabia has observed the International Monetary Fund-endorsed standards and codes related to banking supervision, monetary and financial policy transparency, and payments systems.

In December 2007, Saudi Arabia announced its 2008 \$106 billion budget, roughly twice the 2002 budget and Saudi Arabia's largest

<sup>60</sup> <http://www.transparency.org/policy—research/surveys—indices/cpi>.

<sup>61</sup> *Ibid*



in history.<sup>62</sup> In 2007, Saudi Arabia also accrued a \$47.6 billion budget surplus, its fifth consecutive year of budget surpluses. To put this surplus in perspective, it is more than twice as big as Lebanon's GDP and equal to the total value of Qatar's Investment Authority. The Saudis have used a majority of this budget surplus to accumulate foreign assets at the Saudi Arabian Monetary Agency (SAMA) and to reduce debt.<sup>63</sup> SAMA controls approximately \$271 billion in foreign assets (some estimates are as high as \$330 billion). The value of SAMA's foreign assets has increased fivefold since 2003, and with a projected budget surplus for 2008 of more than \$40 billion, this rapid growth in the value of Saudi foreign assets is likely to continue.<sup>64</sup>

The Saudi Government recently confirmed that it plans to launch a more traditional sovereign wealth fund. The Secretary-General of the Saudi Public Investment Fund (PIF), Mansour al-Maiman, says the new fund is expected to begin with an authorized capital of \$5.3 billion, a relatively small sum compared to the current worth of Kuwait's fund of about \$200 billion and of the UAE's fund of around \$500 billion. According to Maiman, the PIF will retain 100% ownership of the new fund, but the fund will feature an independent management team. One of the objectives for the new fund is to improve Saudi Arabia's financial services sector by building a national asset management base.<sup>65</sup> While Saudi embassy officials emphasize the domestic focus of this fund, the fund's desire to maximize long-term returns will almost certainly result in equity investment abroad, including the United States. The fact that Mr. Maiman has cited Norway's fund as a potential model suggests the Saudis may plan to run their SWF in a transparent manner.

While the U.S. and Saudi Arabia have a long-standing bilateral relationship, the U.S. has few tools to press the Saudis for more transparency in its extractive industry. The U.S. would be wise to promote transparency in Saudi Arabia's extractive industries and its new SWF through consistent discrete diplomatic exchanges. Such an approach is most likely to yield positive results without jeopardizing the dollar peg or Saudi investment in the U.S., which are important to the U.S. economy.

#### *United Arab Emirates*

The United Arab Emirates (UAE) has a population of 4.6 million. The average life expectancy is 78.3 years and the infant mortality rate is 9 deaths per 1000 births. The per capita income is \$23,990. Between 2003 and 2007, UAE oil revenues almost tripled, ballooning from \$22.9 billion to \$63 billion or 33 per cent of GDP in 2007.

The UAE is a federation of seven principalities, including the oil-rich capital, Abu Dhabi, and the commercial center, Dubai. The UAE has seen little political reform, but in December 2006, it held limited elections for half of the 40-seat Federal National Council (FNC). Despite these elections, citizens do not have the right to

<sup>62</sup> John Sfakianakis, "And the boom continues. High revenues, robust budget, growth," The Saudi British Bank (12 December 2007).

<sup>63</sup> Sfakianakis, "And the boom continues . . ."

<sup>64</sup> *Ibid.*

<sup>65</sup> "Join the club: Saudi Arabia launch a formal sovereign-wealth fund," The Economist Intelligence Unit (May 1, 2008).

form political parties, and other civil liberties are limited. The UAE enjoys political stability and a robust free-market economy, though challenges in the area of terror financing and human trafficking remain. Despite diversification, oil exports still account for one-third of the UAE's federal budget. Favorable terms for foreign investors and low taxes have helped augment the oil-driven economy, and GDP growth reached approximately 7.4% in 2007. Inflation remains a challenge at 11% in 2007.

The UAE possesses some of the world's largest reserves of oil and natural gas. The UAE enjoys the world's sixth largest proven oil reserves at 97.8 billion barrels, representing 8% of the global total. In addition to the UAE's large reserves of oil, the UAE has 214 trillion cubic feet of proven natural gas reserves. This amount represents over 3% of the global total, giving the UAE the sixth largest proven reserve of natural gas in the world. In 2006, the UAE produced 1.7 trillion cubic feet of natural gas. Between 2000 and 2005, oil and natural gas provided 66% of the UAE's fiscal revenue.<sup>66</sup>

Roughly 90% of the oil and natural gas reserves are located in the emirate of Abu Dhabi. In the UAE, an emirate's resources belong to the emirate as opposed to the entire country so any discussion of extractive industry revenue and the UAE must focus on Abu Dhabi. Numerous foreign energy companies, such as BP, Exxon Mobile, Shell, and Total, operate in Abu Dhabi; however, the Government of Abu Dhabi owns a majority stake in all oil concessions. More specifically, with only a few minor exceptions, the Government of Abu Dhabi owns a 60% stake in oil concessions in the country.

The UAE's record of extractive industry transparency and corruption is mixed. Abu Dhabi has taken some measures to improve transparency and the general trajectory is positive. The UAE has ratified the United Nations Convention Against Corruption but lags behind in implementation. It has not joined EITI, unlike its neighbor Yemen. According to Transparency International's Corruption Perceptions Index, the UAE ranks 34th out of 179 countries with a rank of 5.7 (0 = highly corrupt and 10 = highly clean).<sup>67</sup> In short, while transparency in the UAE is improving, critics suggest that it is not at a level to certify that all extractive revenues are reported or arrive in Abu Dhabi's treasury.

For budgeting purposes, Abu Dhabi's Department of Finance gets a projection of expected oil revenues. When revenues exceed the projected amount, the difference has been sent to the Abu Dhabi Investment Authority (ADIA)—the Government's sovereign wealth fund (SWF). If actual revenues are less than expected, then ADIA covers the revenue shortfall. Recently, since ADIA has done so well with its investments, the Abu Dhabi Investment Council (ADIC)—which focuses on regional and domestic investments—reportedly now serves as the destination for Abu Dhabi's budgetary surpluses.

The large reserves of oil and natural gas controlled by the UAE—combined with the ballooning price of both commodities over the last decade—have resulted in significant budgetary surpluses in

<sup>66</sup>“Implementing the Extractive Industries Transparency Initiative: Applying Early Lessons from the Field,” The World Bank, 2008.

<sup>67</sup>[http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi).

the UAE. Abu Dhabi has directed these extraordinary surpluses to the emirate's sovereign wealth fund.

ADIA represents one of the largest SWFs in the world. While the lack of transparency makes it difficult to accurately estimate the amount of investments owned, ADIA's value is estimated to be between \$300 and \$900 billion. Recently, ADIA paid \$7.6 billion for a 4.9% stake in Citigroup, becoming the biggest shareholder in the world's biggest bank. In September 2007, ADIA also invested \$1.35 billion in the private equity company Carlyle Group, obtaining a 7.5% ownership stake. In order to assuage the fears of some, ADIA agreed to forgo any management role. ADIA and Abu Dhabi officials insist that Abu Dhabi's SWFs seek solely to maximize returns. Some skeptics of this official Emirati line point to the lack of transparency as evidence of ulterior and potentially political motives. Admittedly, the U.S. does not know with any level of accuracy how much the assets of ADIA are worth and cannot identify all ADIA investments in the United States. While Abu Dhabi has worked with the U.S. Department of Treasury in developing a mutually acceptable "philosophy" for the operation of SWFs, Abu Dhabi has resisted Treasury's calls to make specific disclosures or provide a list of investments.

Some commentators have remarked, ADIA's investment in the U.S. economy is a "natural evolution of globalization." Much of the money ADIA is investing in the U.S. is simply a recycling of the trillions of dollars the U.S. has paid for low cost imports and Middle Eastern oil. This dynamic rests at the heart of globalization. If the U.S. seeks to remain faithful to its long-term interest in promoting trade and reducing protectionism in order to gain access to foreign markets, the U.S. must continue to allow foreign investment in the U.S. Allowing foreign investors to invest in the U.S. often involves some level of risk, but these risks are often overblown and exploited for political purposes. The U.S. must balance its national security interests with its desire to welcome the much-needed capital infusion that SWFs like ADIA are eager to provide.



## APPENDIXES

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### Appendix I: Administration Responses to Questions From Senator Lugar

Senators often ask witnesses and nominees follow-up questions, i.e. questions for the record, on topics addressed in hearings. Below are administration responses such questions for the record, selected for their relevance to topics covered in this report.

FEBRUARY 13, 2008—QUESTIONS FOR SECRETARY OF STATE  
CONDOLEEZZA RICE

Senator LUGAR. Funding for the Multilateral Donor's Fund for the Extractive Industries Transparency Initiative was authorized in legislation signed by the President in December 2007. What is the State Department's policy on contributing to the Fund?

Secretary RICE. We support EITI, participate actively on the EITI board and assist with EITI implementation directly through our embassies. Our financial support to date has been:

- FY06—\$990,000 in total funds (\$1 million before rescissions) to support civil society participation in EITI implementation, administered by USAID
- Peru—\$445,000 for catalyzing EITI planning and stronger civil society participation in EITI
- Nigeria—\$445,000 to expand civil society oversight of EITI
- Democratic Republic of Congo (DRC)—\$100,000 to expand civil society and private sector engagement in EITI
- FY07—\$1 million to support civil society participation in EITI implementation. USAID is currently determining the recipient countries.
- FY08—The FY08 funding estimate is \$3 million. The Foreign Operations Conference Report directs that no less than this amount be provided to the EITI multi-donor trust fund at the World Bank; however, the final determinations on the amount and destination of the money are subject to 653(a) negotiations on FY08 allocations.

MAY 14, 2008—QUESTIONS FOR STATE DEPARTMENT DEPUTY  
SECRETARY OF STATE JOHN NEGROPONTE

Senator LUGAR. Chinese companies are playing a growing role in extractive industries (such as oil, gas, minerals and timber) in developing countries. Do Chinese companies operate differently than companies from other countries? If so, how?

Are Chinese companies held to similar anti-bribery standards that U.S. companies are held to through the Foreign Corrupt Practices Act?

Deputy Secretary of State John NEGROPONTE. Overseas investments by Chinese firms in extractive industries are a response to China's rapid economic growth. Like their OECD counterparts, Chinese companies are profit-maximizing corporations whose actions are guided primarily by commercial considerations. However, Chinese companies are bound by fewer national legal restrictions than companies from OECD countries and are not yet party to international agreements on overseas business practices. Many of the Chinese companies engaged in pursuing contracts for extractive products are state-owned or state-operated companies, meaning that the companies receive political support from the Chinese Government for their overseas activities, including tied development aid, and business decisions may take into account some political goals as well as purely commercial factors.

There is no legislation in China that is the equivalent of our Foreign Corrupt Practices Act (FCPA). In recognition of China's importance in global commerce and the need to level the playing field by addressing the issue of foreign bribery, the U.S. and partners at the OECD are hopeful that China will sign the OECD's Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which requires legislation making the payment of bribes a criminal offense and eliminating tax breaks for bribing foreign officials. The desire to address the problem of bribery and corruption is one of the reasons why the OECD has called for Enhanced Engagement with countries like China, with the aim of having these countries adopt common standards on the way to eventual OECD membership.

Senator LUGAR. How is the administration engaging with the Chinese Government on issues around extractive industry transparency? At what level and through what agencies is the engagement? Is the administration encouraging the Chinese Government to support the Extractive Industry Transparency Initiative (EITI)? If so, how?

Deputy Secretary NEGROPONTE. Senior Department of State officials have, on a number of occasions, encouraged interlocutors within both China's Foreign Ministry and the National Commission for Development and Reform (NDRC) to consider China's participation in EITI as a "supporting country." This is the same status that the U.S. holds in EITI. Such support by China would reflect China's growing weight and influence as an important investor in the extractive sectors of many developing countries.

Senator LUGAR. A number of countries are supporting a UN General Assembly draft resolution in favor of EITI—A/62/L.41. Some have suggested that a UN resolution encouraging EITI will help pave the way for Chinese and Indian support for the initiative. Given the administration's support for EITI, does the administration expect to support this resolution? Why or why not?

Deputy Secretary NEGROPONTE. The pursuit of transparency is a high-profile foreign policy objective which cuts across numerous USG departments and organizations. State participates in inter-

national and bilateral efforts such as EITI to encourage resource-rich developing countries, as well as countries that invest in them (including China and India), to implement transparency throughout the extractive industries value chain. Resource revenue transparency contributes to effective use of public resources by enabling oversight. It is encouraging to see that other countries, including those who have proposed and sponsored the current UNGA draft resolution in favor of EITI (A/62/L.41), agree and are willing to encourage increased participation in the initiative. Although the US does not anticipate formally co-sponsoring the resolution, we have no objections to the current wording, and expect that the administration will support it.

JULY 18, 2008—QUESTIONS FOR TREASURY DEPARTMENT DEPUTY ASSISTANT SECRETARY KENNETH PEEL AND NOMINEE FOR U.S. EXECUTIVE DIRECTOR OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Senator LUGAR. What is the European Bank for Reconstruction and Development's (EBRD) current assessment of the Extractive Industry Transparency Initiative (EITI)? How, if at all, is the EBRD currently integrating EITI into their operations? What steps have been taken? What will be your role in promoting EITI?

Deputy Assistant Secretary Kenneth PEEL. The EBRD supports the EITI and is participating in the work of the EITI. For all natural resource projects, the EBRD requires its project sponsors to publicly disclose their material project payments to the host government, regardless of whether the government is a member of the EITI. The EBRD is actively involved in the EITI consultative process, including through providing input into the development of technical mechanisms for reporting (templates, aggregation of data, etc.). The EBRD promotes transparent revenue reporting, as well as increased financial and organizational transparency, with the draft EITI reporting guidelines providing a useful starting point for even greater revenue transparency. The EBRD is working in cooperation with other international financial institutions and the participating private financial institutions to promote governance and transparency initiatives in the financial community. The EBRD is helping to build capacity in countries of operation to enable them to implement the objectives of the EITI. Two countries, Azerbaijan and the Kyrgyz Republic, have been in the forefront on this, and may be among the first countries to achieve full EITI compliance. In Mongolia, the EBRD is helping the country to implement the EITI through its work with mining companies.

My role would be to monitor EBRD activities in this area and also to engage upstream with Bank staff and management to promote the related objectives identified in recent legislative guidance on IFI extractive industry projects. Accountability and transparency are key to the mandate of the EBRD to promote transition to market economies.

Senator LUGAR. Given your current position as Deputy Assistant Secretary for International Development Finance and Debt, what is the Asian Development Bank's current assessment of the Extractive Industry Transparency Initiative? How, if at all, is the Asian

Development Bank currently integrating EITI into their operations?

Deputy Assistant Secretary Kenneth PEEL. The Asian Development Bank (AsDB) endorsed the EITI on February 29, 2008. The AsDB has five member states that have already agreed to comply with EITI principles: Azerbaijan, Kazakhstan, the Kyrgyz Republic, Mongolia, and Timor Leste. All of these countries are at the EITI's "candidate" stage.

The AsDB already promotes transparency and anti-corruption efforts in its projects and its developing member countries through projects and initiatives. These efforts will be strengthened by the endorsement of EITI, which is a natural complement to these existing activities. Also, the AsDB is currently revamping its safeguards policies and our expectation is that extractive industries, and the principles of the initiative, will be part of that.

Senator LUGAR. Also, what is the World Bank's assessment of the Extractive Industry Transparency Initiative? How is the World Bank currently integrating EITI into their operations?

Deputy Assistant Secretary Kenneth PEEL. The World Bank formally supported EITI in December 2003 as a global initiative, which aims to support good governance and transparency in resource-rich countries through the publication of payments and revenues from oil, gas, and mining in a multi-stakeholder process. EITI is achieving strong momentum globally and has become an established standard for transparency. There are EITI programs in 23 candidate countries, 21 of which have active Bank programs. In addition, there are several countries that have publicly stated their intention to join EITI and others who are in contact with the World Bank Group about the EITI process.

The World Bank Group role, led by the Oil, Gas, and Mining Policy Division (COCPO), is to support EITI implementation at the country-level and globally. COCPO's Technical Assistance programs on EITI are supported by a multi-donor trust fund (MDTF). The MDTF seeks to broaden support for the EITI principles and process through the establishment of extractive industries transparency initiatives in countries that have signed on to EITI through programs of cooperation among the Government, the private sector, and civil society. The MDTF is instrumental in funding the EITI work programs and grants in 10 countries and 7 additional programs are in negotiation. The World Bank Group also has special funds dedicated to supporting civil society groups working on EITI through the Development Grant Facility. Following strong U.S. leadership during negotiation of the fifteenth replenishment of the International Development Association (IDA) in 2007, the World Bank expressed a continued commitment to enhance transparency of revenue flows to governments from extractive-industry projects.

World Bank Group support for EITI includes making EITI consultants and advisors available to governments to assist them in implementation and sharing international best practice. The Bank also works with client governments on EITI issues as part of broader Bank-supported programs on extractive-industries reform, natural resource management, and good governance/anti-corruption. Aside from the MDTF, the Bank has also provided financial sup-



port from its own funds to a number of civil society groups involved in EITI implementation.

JULY 18, 2008—QUESTION FOR MS. MIMI ALEMAYEHOU, NOMINEE FOR U.S. EXECUTIVE DIRECTOR OF THE AFRICAN DEVELOPMENT BANK

Senator LUGAR. What is the African Development Bank's assessment of the Extractive Industry Transparency Initiative? How, if at all, is the bank currently integrating EITI into their operations? What steps have been taken? What will be your role in promoting EITI?

Ms. ALEMAYEHOU. African Development Bank (AfDB) President Kaberuka endorsed the EITI in October 2006. Since then, I understand that the Bank has developed an implementation framework to guide the Bank's operations to help African countries improve resource management of extractive industries. The framework is results-oriented and includes both short and medium term measures to help countries strengthen transparency and accountability in the management of extractive industries. The approach includes technical and financial assistance for countries which have demonstrated political will by endorsing the EITI and for those countries participating in EITI++, advocacy and outreach activities to encourage resource rich countries to improve governance, and mainstreaming the EITI principles in the Bank's own natural resources operations. The AfDB has worked with the Liberian Government to develop its EITI work plan, and has assisted Madagascar to become an EITI candidate country. The Bank is also financing efforts by the Central African Republic, Botswana and other countries to become EITI candidates.

I believe that it is very important that every appropriate measure is taken to ensure that all people in resource rich countries benefit from the extraction of resources, and not just a well-connected few.

As U.S. Executive Director, I will actively promote the Bank's involvement in achieving the important transparency and accountability objectives of the EITI in the Bank's borrowing member countries. Furthermore, I would work to block any support by the Bank for the extraction and export of certain natural resources unless the government of a country has in place functioning systems which meet three broad standards on revenue accounting, independent auditing of accounts and transparency.

JULY 18, 2008—QUESTION FOR MR. MIGUEL SAN JUAN, NOMINEE FOR U.S. EXECUTIVE DIRECTOR OF THE INTER-AMERICAN DEVELOPMENT BANK

Senator LUGAR. What is the IDB's current assessment of the Extractive Industry Transparency Initiative? How, if at all, is the IDB currently integrating EITI into their operations? What steps have been taken? What will be your role in promoting EITI?

Mr. SAN JUAN. The Extractive Industries Transparency Initiative (EITI) was launched in 2003 to promote transparency in resource rich countries through the reporting and publication of company payments and government revenues from oil, gas and mining operations. EITI is implemented through multi-stakeholder partner-

ships (government-industry-civil society) that adhere to a series of 20 voluntary steps embodied in a “validation grid.” Countries are deemed to be EITI compliant if they have met all 20 steps, and EITI candidates if they have met the first four “sign up” steps. To date, no country is compliant; 23 countries are candidates (Peru is the only candidate from Latin American and the Caribbean). Candidate countries have two years to achieve compliance (implement the 20-steps). The United States, through the State Department, sits on the EITI Board of Directors, which sets broad policy for the initiative. The U.S. recently contributed around \$3 million to the EITI trust fund administered by the World Bank, and has provided nearly \$2 million in bilateral support to help countries to implement EITI.

The U.S. has actively pressed the IFIs to support EITI through their policy dialogue, lending and technical assistance programs, and analytical work.

The IDB has not yet formally endorsed EITI, despite encouragement by the USG to do so. However, bank management has indicated that they are preparing a proposal regarding EITI which will be submitted to the Board shortly. Steps for integrating EITI into operations will depend on the outcomes of the consultations with the Board.

If confirmed, I will work with IDB management and the Board to integrate EITI into their operations and also engage upstream with Bank staff and management to promote the related objectives identified in recent legislative guidance on IFI extractive industry projects.

JULY 18, 2008—QUESTION FOR MR. PATRICK J. DURKIN, NOMINEE TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION

Senator LUGAR. Please describe OPIC’s policy regarding the Extractive Industry Transparency Initiative. How is OPIC integrating EITI into its policies and operations? How is implementation proceeding?

Mr. DURKIN. As I understand it, in 2006 OPIC included the Extractive Industries Transparency Initiative (EITI) in its initiative to combat corruption and improve transparency. Under the policy announced by OPIC President Robert Mosbacher, OPIC will encourage its investors to abide voluntarily by EITI guidelines to ensure that revenues from extractive industries projects contribute to sustainable development and poverty reductions and not individual enrichment. Implementation of EITI has been a high priority and OPIC is working with the EITI Secretariat to encourage compliance with other multilateral organizations and OPIC counterparts. I understand the OPIC Board of Directors has approved the first OPIC-supported project where the agency’s commitment to greater transparency in reporting on royalty payments to host governments on extractive projects has been realized. Additionally, OPIC’s pending reauthorization legislation would formalize OPIC support for EITI principle

## Appendix II: U.S. Legislation Pertaining to EITI and Related Extractive Industry Issues<sup>68</sup>

U.S. legislation pertaining to EITI and related extractive industry issues includes the following:

*P.L. 110–161* (formerly H.R. 2764) [110th]

*Title:* Consolidated Appropriations Act, 2008

*Sponsor:* Rep. Nita Lowey (introduced 6/18/2007)

*Relevant sub-element of this omnibus legislation:* The Department of State, Foreign Operations and Related Programs Appropriations Act, 2008 (Reported in Senate)

P.L. 110–161 itself does not mention the Extractive Industries Transparency Initiative. However, accompanying House Report 110–197 recommends \$1 million in Economic Support Funds (ESF) for “Extractive Industries Transparency”

Senate Report 110-128, which accompanied P.L. 110–161, states that:

Environmental Security and Sustainability- The committee recognizes the work of the Foundation for Environmental Security and Sustainability [FESS] to address critical national security issues, including regional instability arising from resource scarcity and management practices, natural hazards, and other environmental stresses. The committee recognizes the importance of the Foundation’s conflict management and mitigation programs, particularly initiatives to develop regional and global approaches to combat corruption, implement extractive industries’ best practices, and promote effective reconstruction of post-conflict countries to promote stability and security. The committee recommends continued support to FESS for these activities.

As originally reported in the Senate, the measure, The Department of State, Foreign Operations and Related Programs Appropriations Act, 2008, [H.R. 2764.RS] stated that of Economic Support Fund appropriations:

“ . . . not less than \$3,000,000 shall be made available for a United States contribution to the Extractive Industries Transparency Initiative Trust Fund . . . ”

Under the heading “Surplus Commodities” (Sec. 614), with regard to extractive industry commodities but not issues of transparency, it stated that:

“The Secretary of the Treasury shall instruct the United States Executive Directors [. . . multiple multilateral development banks and funds . . .] to use the voice and vote of the United States to oppose any assistance by these institutions, using funds appropriated or made available pursuant to this Act, for the production or extraction of any commodity or mineral for export, if it is in surplus on world markets and if the

<sup>68</sup>This appendix is based on a background memo entitled “The ‘Resource Curse’: Literature Survey Paper Summary” prepared by Danielle Langton and Nicolas Cook from the Foreign Affairs, Defense, and Trade Division of the Congressional Research Service.

assistance will cause substantial injury to United States producers of the same, similar, or competing commodity.”

Under the heading Environment and Energy Conservation Programs/ Extraction of Natural Resources (Sec. 676 [c]), it stated that:

“ . . . (1) The Secretary of the Treasury shall inform the managements of the international financial institutions and the public that it is the policy of the United States that any assistance by such institutions (including but not limited to any loan, credit, grant, or guarantee) for the extraction and export of oil, gas, coal, timber, or other natural resource should not be provided unless the government of the country has in place functioning systems for: (A) accurately accounting for revenues and expenditures in connection with the extraction and export of the type of natural resource to be extracted or exported; (B) the independent auditing of such accounts and the widespread public dissemination of the audits; and (C) verifying government receipts against company payments including widespread dissemination of such payment information, and disclosing such documents as Host Government Agreements, Concession Agreements, and bidding documents, allowing in any such dissemination or disclosure for the redaction of, or exceptions for, information that is commercially proprietary or that would create competitive disadvantage.

(2) Not later than 180 days after the enactment of this Act, the Secretary of the Treasury shall submit a report to the Committees on Appropriations describing, for each international financial institution, the amount and type of assistance provided, by country, for the extraction and export of oil, gas, coal, timber, or other national resource since September 30, 2007, and whether each institution considered, in its proposal for such assistance, the extent to which the country has functioning systems described in paragraph (c)(1). . . .”

The managers statement for P.L. 110–161 (Division J, Department Of State, Foreign Operations, And Related Programs Appropriations) appropriated \$3 million in ESF funds for “Extractive Industries Transparency” and designated that these funds be used as a U.S. contribution “to the Extractive Industries Transparency Initiative Trust Fund” (presumably a reference to the World Bank-administered, primarily donor government-supported Multi-Donor Trust Fund for EITI).

Under a provision entitled *Environment and Energy Programs* (Sec. 684), the managers state that “the amended bill modifies a provision similar to that proposed by the House and Senate. There are technical modifications to the language, modifications to the funding level, and modifications to the Extractive Industries report.”

Under the heading Anti-Kleptocracy (Sec. 699L) it stated that:

“(a) In furtherance of the National Strategy to Internationalize Efforts Against Kleptocracy and Presidential Proclamation 7750, the Secretary of State shall compile and maintain a list of officials of foreign governments and their immediate family members who the Secretary determines there is credible

evidence to believe have been involved in corruption relating to the extraction of natural resources in their countries.

(b) Any individual on the list submitted under subsection (a) shall be ineligible for admission to the United States.

(c) The Secretary may waive the application of subsection (a) if the Secretary determines that admission to the United States is necessary to attend the United Nations or to further United States law enforcement objectives, or that the circumstances which caused the individual to be included on the list have changed sufficiently to justify the removal of the individual from the list.

(d) Not later than 90 days after enactment of this Act and 180 days thereafter, the Secretary of State shall submit a report, in classified form if necessary, to the Committees on Appropriations describing the evidence considered in determining involvement pursuant to subsection (a).

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*P.L. 109–102 (formerly H.R. 3057) (109th)*

*Title:* Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006

*Sponsor:* Rep. Jim Kolbe (introduced 6/24/2005)

This legislation included the following provision on the extraction of natural resources:

SEC. 585. [ . . . ] (c) EXTRACTION OF NATURAL RESOURCES.—

(1) The Secretary of the Treasury shall inform the managements of the international financial institutions and the public that it is the policy of the United States that any assistance by such institutions (including but not limited to any loan, credit, grant, or guarantee) for the extraction and export of oil, gas, coal, timber, or other natural resource should not be provided unless the government of the country has in place or is taking the necessary steps to establish functioning systems for: (A) accurately accounting for revenues and expenditures in connection with the extraction and export of the type of natural resource to be extracted or exported; (B) the independent auditing of such accounts and the widespread public dissemination of the audits; and (C) verifying government receipts against company payments including widespread dissemination of such payment information, and disclosing such documents as Host Government Agreements, Concession Agreements, and bidding documents, allowing in any such dissemination or disclosure for the redaction of, or exceptions for, information that is commercially proprietary or that would create competitive disadvantage.

(2) Not later than 180 days after the enactment of this Act, the Secretary of the Treasury shall submit a report to the Committees on Appropriations describing, for each international financial institution, the amount and type of assistance provided, by country, for the extraction and export of oil,

gas, coal, timber, or other national resource since September 30, 2005.

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*H.R. 2798* [110th, Passed/agreed to in House]

*Title:* Overseas Private Investment Corporation Reauthorization Act of 2007

*Sponsor:* Rep. Brad Sherman

This legislation would have governed OPIC reauthorization. Note that OPIC has agreed to abide by the EITI principles.<sup>69</sup>

The House-passed version of the bill included these provisions:

[ . . . ] (b) EXTRACTION INVESTMENTS.—

(1) PRIOR NOTIFICATION TO CONGRESSIONAL COMMITTEES.—The Corporation may not approve any contract of insurance or reinsurance, or any guaranty, or enter into any agreement to provide financing for any project which significantly involves an extractive industry and in which assistance by the Corporation would be valued at \$10,000,000 or more (including contingent liability), until at least 30 days after the Corporation notifies the Committee on Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate of such contract or agreement.

(2) COMMITMENT TO EITI PRINCIPLES.—The Corporation may approve a contract of insurance or reinsurance, or any guaranty, or enter into an agreement to provide financing to an eligible investor for a project that significantly involves an extractive industry only if—

(A) the eligible investor has agreed to implement the Extractive Industries Transparency Initiative principles and criteria, or substantially similar principles and criteria; or

(B) the host country where the project is to be carried out has committed to the Extractive Industries Transparency Initiative principles and criteria, or substantially similar principles and criteria.

(3) PREFERENCE FOR CERTAIN PROJECTS.—With respect to all projects that significantly involve an extractive industry, the Corporation, to the degree possible and consistent with its development objectives, shall give preference to a project in which both the eligible investor has agreed to implement the Extractive Industries Transparency Initiative principles and criteria, or substantially similar principles and criteria, and the host country where the project is to be carried out has committed to the Extractive Industries Transparency Initiative principles and criteria, or substantially similar principles and criteria. [ . . . ]

It also contained these definitions:

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<sup>69</sup> See: (1) OPIC, Transparency Initiative: <http://www.opic.gov/about/Transparency>; (2) OPIC, Anticorruption & Transparency Initiative Fact Sheet: <http://www.opic.gov/about/Transparency/documents/transparencyfactsheet0906.pdf>; (3) OPIC, Anti-Corruption Policies And Strategies Handbook: <http://www.opic.gov/about/Transparency/documents/opicanticorruptionhandbook-0906.pdf>; (4) See also: U.S. Embassy Deputy Chief of Mission Praises Opening of EITI Resource Center in Liberia: <http://monrovia.usembassy.gov/eiti.html>

(A) **EXTRACTIVE INDUSTRY.**—THE TERM “EXTRACTIVE INDUSTRY” REFERS TO AN ENTERPRISE ENGAGED IN THE EXPLORATION, DEVELOPMENT, OR EXTRACTION OF OIL AND GAS RESERVES, METAL ORES, GEMSTONES, INDUSTRIAL MINERALS, OR COAL.

(B) **EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE PRINCIPLES AND CRITERIA.**—The term “Extractive Industries Transparency Initiative principles and criteria” means the principles and criteria of the Extractive Industries Transparency Initiative, as set forth in Annex A to the Anti-Corruption Policies and Strategies Handbook of the Corporation, as published in September 2006.

The version of the bill reported in the Senate replaced the House language and contained this provision:

(b) **EXTRACTION INVESTMENTS.**—

(1) **PRIOR NOTIFICATION TO CONGRESSIONAL COMMITTEES.**—

(A) **IN GENERAL.**—The Corporation shall provide notice of consideration of approval of a project described in subparagraph (B) to the Committees on Foreign Relations and Appropriations of the Senate and the Committees on Foreign Affairs and Appropriations of the House of Representatives not later than 60 days before approval of such project.

(B) **PROJECT DESCRIBED.**—A project described in this subparagraph is a Category A project (as defined in section 237(q)(3)) relating to an extractive industry project or any extractive industry project for which the assistance to be provided by the Corporation is valued at \$10,000,000 or more (including contingent liability).

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*H.R. 3221* [110th; Passed/agreed to in House; Motion to proceed to consideration of measure withdrawn in Senate. However, the bill was incorporated into omnibus energy legislation, H.R. 6 (Energy Independence and Security Act of 2007) and passed as P.L. 110–140]

*Title:* New Direction for Energy Independence, National Security, and Consumer Protection Act and the Renewable Energy and Energy Conservation Tax Act of 2007

*Sponsor:* Rep. Nancy Pelosi

*Note:* The legislation supports diverse measures to support the Extractive Industries Transparency Initiative (EITI) and authorizes the appropriation of # million for this purpose. The following summary of EITI provisions in P.L. 110–140 is excerpted from CRS Report RL34294, Energy Independence and Security Act of 2007: A Summary of Major Provisions, by Fred Sissine, Coordinator, *et al.*):

Section 935 has the stated purpose of improving national energy security by promoting anti-corruption initiatives in oil and natural gas rich countries and of improving global energy security by promoting programs such as the Extractive Industries Transparency Initiative (EITI) that aim to increase transparency and accountability into extractive resource payments. The sense of Congress is expressed that global energy security should be furthered by en-

couraging further participation in EITI by eligible countries and companies and by promoting the effectiveness of the EITI program by ensuring that a robust and candid review mechanism is put in place. The Secretary of State is required to report to Congress on progress made in promoting transparency in extractive industries resource payments. An authorization of \$3 million is provided to support U.S. contributions to the Multi-Donor Trust Fund of EITI.

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*H. AMDT .762 to H.R. 3221* [110th; offered 8/4/2007, Agreed to by voice vote]

*Sponsor:* Rep. Alcee L. Hastings

*Title:* Amendment requires the Secretary of State to submit to Congress a report on progress made in promoting transparency in extractive industries resource payments.

*Amendment Purpose:* An amendment numbered 20 printed in Part B of House Report 110-300 to make findings regarding fuel supplies and expresses the Sense of Congress that the U.S. should further global energy security and promote democratic development in resource rich foreign countries by encouraging further participation in the Extractive Industries Transparency Initiative and other international initiatives.

*Related bill:*

*H.R. 1886* [110th; introduced in the House]

*Title:* To prevent public financing of oil or gas field development projects, surveying or extraction activities, processing facilities, pipelines, or terminals, or other oil and gas production or distribution operations or facilities, and for other purposes.

*Sponsor:* Rep. Maurice D. Hinchey

H.R. 1886 would prevent U.S. funding of extractive industry projects and activities. It does not mention transparency specifically related to EITI or EITI itself, but does reference the Extractive Industries Review (EIR) of the World Bank Group (commissioned in 2001), which deals with issues generally related to issues that EITI also seeks to address.

CRS Summary of the bill, as introduced, from the Legislative Information System:

Amends the Export-Import Bank Act of 1945 to prohibit the Export-Import Bank of the United States from guaranteeing, insuring, or extending credit: (1) in connection with an oil or gas project; or (2) to any entity that may use the guarantee, insurance, or credit to finance such a project.

Amends the Foreign Assistance Act of 1961 to prohibit the Overseas Private Investment Corporation from issuing any contract of insurance or reinsurance or any guarantee, or entering into any financing agreement for an oil or gas project, or to taking such actions respecting any person who will insure or finance such project.

Amends the International Financial Institutions Act to direct the Secretary of the Treasury to use U.S. influence to oppose



multilateral development institution assistance to gas or oil development projects.

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*H.R. 6066* [110th, Introduced in the House]

*Title:* Extractive Industries Transparency Disclosure Act

*Sponsor:* Rep. Barney Frank

This legislation would amend Section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m) to require companies to file an annual report with the Securities and Exchange Commission (SEC) disclosing payments made to foreign country governments for natural resources in a foreign country. The legislation would also require the SEC to compile the information from all companies and publish it publicly on its website.



### **Appendix III: Summary of G-8 Commitments on Extractive Industry Transparency<sup>70</sup>**

The Group of 8 (G-8) has made numerous statements and commitments to increasing and promoting transparency and accountability related to Extractive Industries Transparency Initiative industry relations with and revenue payments to governments, among many other related good governance commitments.<sup>71</sup> Below are excerpts of the main G-8 Extractive Industries Transparency Initiative industry relations commitments, beginning with the G-8 meeting in Kananaskis, Canada in 2002, the year when EITI was initiated. Key terms are highlighted.

G-8 SUMMIT HOKKAIDO TOYAKO, JAPAN, JULY 7–9, 2008

*World Economy (Summit Leaders Declaration July 8, 2008)*

15. To promote improved transparency, accountability, good governance and sustainable economic growth in the extractive sector, and to address the natural resource dimensions of armed conflict and post-conflict situations, we:

(a) continue to support initiatives such as the Extractive Industries Transparency Initiative (EITI) and call for its full implementation and for candidate countries to complete the validation process in a timely manner. We encourage emerging economies and their companies to support the initiative;

(b) promote improved resource management including fiscal transparency and legislative oversight by resource-rich countries through supporting international financial institutions' efforts to develop international standards and codes to be voluntarily adopted by those countries, and technical assistance, as appropriate; and

(c) support international efforts to respond more effectively to the natural resource dimensions of conflict and post-conflict situations, and would welcome additional analysis on the issue by the OECD Development Assistance Committee (DAC), the United Nations Secretary General, and the World Bank.

16. We affirm the importance of open raw materials markets as the most efficient mechanism for resources allocation. We call on our trading partners to strictly comply with WTO rules and to enhance the transparency and predictability of their measures in this area.

[. . .] 51. Reaffirming that principles of ownership and partnership are essential for African development, we agree that the following points, inter alia, are critical both to generating private sector-led economic growth and achieving the MDGs:

[. . .]

<sup>70</sup>This appendix is based on a background memo entitled "The 'Resource Curse': Literature Survey Paper Summary" prepared by Danielle Langton and Nicolas Cook from the Foreign Affairs, Defense, and Trade Division of the Congressional Research Service.

<sup>71</sup>See Ella Kokotsis, "All G7/8 Commitments, 1975-2006," G8 Research Group, [[http://www.g8.utoronto.ca/evaluations/G8\\_commitments.pdf](http://www.g8.utoronto.ca/evaluations/G8_commitments.pdf)].

(c) improvement of domestic revenue generation capacity by African countries and of transparency in the use of resources [ . . . ]

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G-8 SUMMIT HEILIGENDAMM, GERMANY, JUNE 6–8, 2007

*Growth and Responsibility in Africa (Summit Declaration June 8, 2007)*<sup>72</sup>

[ . . . ] 11. We will also continue to strengthen efforts such as the Extractive Industries Transparency Initiative Industries Transparency Initiative (EITI) as appropriate to enhance good financial governance on the revenue side. In this context, we support African states in their efforts to increase the transparency and predictability of expenditure flows and encourage more African participation in EITI. Transparency principles could also be extended to other sectors, where appropriate. [ . . . ]

33. [ . . . ] The G-8 will encourage sustainable investment through African private sector networks, including support for the UN Global Compact and the UN Principles for Responsible Investment. The G-8 will also strengthen their dialogue with emerging donors on international initiatives for responsible investment and financial transparency (such as EITI). [ . . . ]

*Responsibility for Raw Materials: Transparency and Sustainable Growth* [ . . . ]

80. Raw materials produced by the Extractive Industries Transparency Initiative sector are a key factor for sustainable growth in industrialised, emerging and developing economies. They are a particularly valuable asset for sustaining growth and reducing poverty in many of the poorest countries in the world. It is in our common global interest that resource wealth be used responsibly so as to help reduce poverty, prevent conflicts and improve the sustainability of resource production and supply. We firmly agree that significant and lasting progress in this area can only be achieved on the basis of transparency and good governance. Against this background, we support increased transparency with regard both to the Extractive Industries Transparency Initiative sector and the subsequent trade and financial flows. In doing so, we will work closely together with resource rich economies as well as important raw-material consuming emerging economies.

82. Mineral resources have a great potential to contribute to poverty alleviation and sustainable development. In some cases, nonetheless, extraction and processing of resources are associated with misuse of revenues, environmental destruction, armed conflict and state fragility. We firmly agree on the need to further enhancing the contribution of mineral resources to sustainable growth and will continue to support resource rich countries in their efforts to further expand their resource potential while promoting sustainable development and good governance. To this end we will build capacity for good governance of mineral resources consistent with social and environmental standards and sound commercial practices by reducing barriers to investment and trade, through the

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<sup>72</sup>Source: <http://www.g8.utoronto.ca/summit/2007heiligendamm/g8-2007-africa.pdf>

provision of financial, technical and capacity building support to developing countries for the mining, processing and trading of minerals. Based on sound life cycle analyses, we will also encourage conservation, recycling and substitution of raw materials, including rare metals, for sustainable growth.

83. Increased transparency in the Extractive Industries Transparency Initiative sector, is of crucial importance for achieving accountability, good governance and sustainable economic growth worldwide. We welcome the proposal of the G-8 Presidency to convene in 2007 a global conference on transparency in the Extractive Industries Transparency Initiative sector with the participation of governments, business, civil society and science from industrialised, emerging and developing economies.

84. The development of a consolidated set of principles and guidelines that apply to the international mining sector in developing countries would help ensure that the sector contributes to development while at the same time providing a clear and more predictable set of expectations for investors. It is important that all stakeholders be involved in a process to build consensus around a set of recognised principles and guidelines in the mining sector. In order to encourage such a consensus among key stakeholders we:

- reaffirm our support of the OECD Guidelines for Multinational Enterprises as important international benchmark for corporate social responsibility,

- will promote wider understanding of and support for the following standards, tools and best practices for the mining sector: the OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones, the Voluntary Principles on Security and Human Rights and the International Finance Corporation (IFC) Performance Standards,

[ . . . ]

85. Certification systems can be a suitable instrument in appropriate cases for increasing transparency and good governance in the extraction and processing of mineral raw materials and to reduce environmental impacts, support the compliance with minimum social standards and resolutely counter illegal resource extraction. Therefore, we reaffirm our support for existing initiatives such as the Kimberley Process, Green Lead, the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development, the International Council on Mining and Metals or the International Cyanide Management Code, and encourage the adaptation of the respective principles of corporate social responsibility by those involved in the extraction and processing of mineral resources,

86. The artisanal and small-scale mining sector provides important livelihoods to many people in developing countries, and also contributes to global production of minerals. We are concerned that these activities often are conducted in an informal manner and do not meet minimum social and environmental standards which apply to the Extractive Industries Transparency Initiative sector. In order to better support the development of sustainable livelihoods and positive developmental impacts associated with artisanal and small-scale mineral production, we

—encourage collaborative partnerships between public, civil society and private actors in the mining sector in order to develop systems for the transparent use of funds for local development from mining companies and donors, consistent with aid effectiveness principles,

—support a pilot study, in co-operation with the World Bank and its initiatives, concerning the feasibility of a designed certification system for selected raw materials. In taking this initiative we will focus on the artisanal and small scale mining sector and work in close partnership with governments from mineral resource rich developing countries as well as industry on the basis of their voluntary commitments. The pilot study shall strive on the basis of the existing principles and guidelines, in order to comply with internationally recognised minimum standards by verifying the process of mineral resource extraction and trading. We invite major emerging economies to work with us on this issue,

—encourage support for the Communities and Small-scale Mining (CASM) initiative, housed at the World Bank, and for the multistakeholder Diamond Development Initiative (DDI), which emerged from the Kimberley Process to strengthen the developmental impacts associated with artisanal diamond mining in Africa, [ . . . ]

87. We emphasise our determination to fight corruption and mismanagement of public resources in both revenue raising and expenditures. As part of our ongoing efforts to foster transparency with regard to resource-induced payment flows, we will continue to support good governance and anti-corruption initiatives, such as the Extractive Industries Transparency Initiative (EITI), and we

—commit to provide continuous assistance to strengthen EITI, as appropriate through financial, technical and political means. Equally, we invite all stakeholders to provide support for the implementation of the EITI,

—call on implementing countries and companies participating in EITI to implement the Initiative and comply with their disclosure commitments. Equally, we encourage further countries to participate in EITI as appropriate,

—welcome the fact that an independent validation-process has been initiated to monitor the national implementation measures. We encourage prompt application and further development of the validation methodology,

—welcome the fact that a number of large banks have already signed the United Nations Environmental Program (UNEP) Finance Initiative and the Equator Principles. We call on further major banks to follow suit to adopt the Equator Principles for project finance and implement the International Finance Corporation (IFC) standards, particularly those standards that relate to transparent payments and contracts in the Extractive Industries Transparency Initiative sector, and finally

—initiate, within the framework of the 2007 global conference on transparency, a dialogue with the major emerging

economies to enlist the governments and especially the state-owned companies domiciled in these countries as participants in EITI.

G-8 SUMMIT HEILIGENDAMM, GERMANY, JUNE 6–8, 2007<sup>73</sup>

*Chair's Summary*

[ . . . ] Freedom of Investment, Investment Environment, and Social Responsibility: We concluded our discussion on investment with a strong commitment to the freedom of open and transparent investment.

[ . . . ] Open markets need social inclusion. We therefore agreed on the active promotion of social standards, of corporate social responsibility, and on the need to strengthen social security systems in emerging economies and developing countries.

RESPONSIBILITY FOR RAW MATERIALS—TRANSPARENCY AND SUSTAINABLE GROWTH: We discussed the situation on world commodity markets and recent price increases and reaffirmed our commitment to free, transparent and open markets. We will support increased transparency and build good governance in developing countries with social and environmental standards. We therefore express our continuous support for EITI and we will launch a certification pilot project. We acknowledge that promoting a consolidated set of principles and guidelines that apply to the international mining sectors in the developing countries would help ensure that the sector contributes to development.

GOOD GOVERNANCE AND THE REFORM-PARTNERSHIP WITH AFRICA: We paid tribute to the Regional and Pan-African institutions, especially the African Union (AU), and underlined our strong intention to further support African institutions at the pan-African and regional level. [ . . . ] The G-8, together with their African partners, also welcomed the Extractive Industries Transparency Initiative (EITI) and agreed to implement an Action Plan for Good Financial Governance.

G-8 FINANCE MINISTERS' MEETING IN POTSDAM, GERMANY, MAY 19, 2007<sup>74</sup>

*G-8 Action Plan for Good Financial Governance in Africa*

[ . . . ] This plan outlines ten areas for action drawing on the principles of the Paris Declaration on Aid Effectiveness and on ongoing initiatives to support the reform of public finance systems in Africa. [ . . . ]

*5. Increasing accountability for revenues from Extractive Industries Transparency Initiative industries*

We give our full backing to the Extractive Industries Transparency Initiative (EITI) and support it in its efforts to optimise its implementation and monitoring mechanisms and to contribute to enhanced participation by all stakeholders. We encourage other resource-dependent countries

<sup>73</sup>Source: [http://www.g-8.de/Content/EN/Artikel/\\_g8-summit/anlagen/chairs-summary.templateId=raw,property=publicationFile.pdf/chairs-summary](http://www.g-8.de/Content/EN/Artikel/_g8-summit/anlagen/chairs-summary.templateId=raw,property=publicationFile.pdf/chairs-summary)

<sup>74</sup>Source: <http://www.g8.utoronto.ca/finance/g8finance-africa.pdf>

and industries from the Extractive Industries Transparency Initiative sector, especially from emerging market economies, to participate in the EITI. We welcome the fact that an independent validation process has been initiated to monitor the national implementation measures. We encourage a prompt application of arrangements to identify countries which have achieved the target levels of transparency and those which are making progress towards them. The applicability of EITI principles to other sectors should be examined more closely. Moreover, measures could be considered to use revenues from Extractive Industries Transparency Initiative industries for the long-term benefit of the respective countries by establishing stabilisation funds or funds for future generations.

G-8 SUMMIT, ST. PETERSBURG, RUSSIA, JULY 15–17, 2006

*Update on Africa (St Petersburg, July 16, 2006)*<sup>75</sup>

Our commitments: [. . .]

PROMOTING GOOD AND RESPONSIVE GOVERNANCE: We have, with our international partners, secured the entry into force of the UN Convention against Corruption in December 2005: 22 African and 3 G-8 countries are among those who have ratified. 25 African countries have signed up to the African Peer Review Mechanism and 3 have completed the process. Good progress has been made in improving transparency and accountability including in the oil and gas industries through the Extractive Industries Transparency Initiative Industries Transparency Initiative (EITI), in which 15 African countries and 23 companies take part. We have successfully completed work at the OECD to strengthen significantly anti-bribery requirements for those applying for export credits and credit guarantees. [. . .]

*Continuing work*

We have made substantial progress since Gleneagles. Our key steps over the next year include: [. . .] encouraging wider implementation of the EITI and other resource transparency programmes in resource-rich African countries;

G-8 SUMMIT, ST. PETERSBURG, RUSSIA, JULY 15–17, 2006

*Plan of Action on Global Energy Security*<sup>76</sup>

*I. Increasing Transparency, Predictability and Stability of Global Energy Markets*

4. As a critical tool in the fight against corruption, we will also take forward efforts to make management of public revenues from energy exports more transparent, including in the context of the Extractive Industries Transparency Initiative Industries Transparency Initiative (EITI) and the IMF Guide on Resource Revenue Transparency (GRRT).

[*Note:* Apart from the above excerpt, other provisions of the Plan of Action on Global Energy Security may be of interest]

<sup>75</sup>Source: <http://www.g8.utoronto.ca/summit/2006stpetersburg/africa.html>

<sup>76</sup>Source: <http://www.g8.utoronto.ca/summit/2006stpetersburg/energy.html>



Unofficial View Non-Governmental Groups Statement on Sidelines  
of G-8 Summit, St. Petersburg, Russia, July 15–17, 2006

TRADE, FINANCE FOR DEVELOPMENT AND AFRICA: RECOMMENDATIONS  
TO THE G-8 SUMMIT

*Civil G-8 International NGO Forum, March 9-10, 2006, Moscow*<sup>77</sup>

[ . . . ] The G-8 should take firm steps to implement mandatory codes of conduct that ensure responsibility by private enterprise. At the same time, good governance is an important aspect to addressing building stable and secure societies. We support all countries ratifying and implementing the provisions in the UN Convention of Corruption, and support the Extractive Industries Transparency Initiative Industries Transparency Initiative.

G-8 SUMMIT, GLENEAGLES, SCOTLAND, UNITED KINGDOM, JULY 6–8,  
2005

*Gleneagles Communiqué on Africa, Climate Change, Energy and Sustainable Development, with leaders' signatures*<sup>78</sup>

Communiqué on Africa

[ . . . ] Promoting Good and Responsive Governance

13. We welcome African institutions' engagement in promoting and enhancing effective governance, including NEPAD's strong statements in support of democracy and human rights. Well-governed states are critical to peace and security; economic growth and prosperity; ensuring respect for human rights and promotion of gender equality and the delivery of essential services to the citizens of Africa. We will support African countries' efforts to make their governments more transparent, capable and responsive to the will of their people; improve governance at the regional level and across the continent; and strengthen the African institutions that are essential to this.

14. In response to this African commitment, we will:

(d) As part of our work to combat corruption and promote transparency, increase support to the Extractive Industries Transparency Initiative Industries Transparency Initiative and countries implementing EITI, including through financial and technical measures. We call on African resource-rich countries to implement EITI or similar principles of transparency and on the World Bank, IMF and regional development banks to support them. We support the development of appropriate criteria for validating EITI implementation. Transparency should be extended to other sectors, as the G-8 is doing in pilot projects.

<sup>77</sup> Source: <http://www.g8.utoronto.ca/summit/2006stpetersburg/civil8/cg8060310-trade.html>

<sup>78</sup> Source for entire document: <http://www.g8.utoronto.ca/summit/2005gleneagles/communique.pdf>. Source for sub-portion, Communiqué on Africa: <http://www.g8.utoronto.ca/summit/2005gleneagles/africa.pdf>. See also: Related unofficial document by G8 Research Group, "A Comparison between the Recommendations of the Commission for Africa Report and the G8 Commitments," [http://www.g8.utoronto.ca/summit/2005gleneagles/africa\\_g8-vs-cfa.pdf](http://www.g8.utoronto.ca/summit/2005gleneagles/africa_g8-vs-cfa.pdf).

G-8 SUMMIT, SEA ISLAND, GEORGIA, UNITED STATES, JUNE 8-10, 2004

*G-8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty Sea Island (June 9, 2004)*<sup>79</sup>

[. . .] The G-8 will work with developing countries to develop pilot projects and support actions to:

18. Promote adoption of measures to improve transparency in fiscal policy and public procurement, to improve the climate for investment and responsible use of government resources.

*Fighting Corruption and Improving Transparency (Sea Island, June 10, 2004)*<sup>80</sup>

[. . .] Country-led Transparency Compacts Launched

G-8 governments are working with a number of developing countries with a view toward building voluntary partnerships to assist their efforts to increase transparency and thereby to use public resources wisely. These efforts will focus on transparency in public budgets, including revenues and expenditures, government procurement, the letting of public concessions and the granting of licenses. Special emphasis will be given to cooperation with countries with large Extractive Industries Transparency Initiative industries sectors. These partnerships will be put in place through voluntary compacts that lay out commitments on both sides in support of country-owned strategies and in full complementarity with ongoing initiatives and programs.

The Governments of Georgia, Nicaragua, Nigeria and Peru have come forward with the first such compacts to achieve these important goals. Other interested countries are actively pursuing compacts. We task our relevant ministries to develop in partnership with these countries implementation plans.

Partner governments have specified, in concrete terms, what they intend to do to bring greater transparency and accountability to the management of public resources.

Participating G-8 countries will support them by providing bilateral technical assistance and political support. With each compact partner, participants will develop action plans that set forth our joint efforts to achieve measurable improvements in these areas.

Participating G-8 governments will work with partner countries to enlist the support and engagement of private companies, organizations and civil society, as well as international institutions.

For partner countries rich in oil, natural gas, and mineral resources, the compacts will pay particular attention to the transparency of revenue flows and payments in these sectors, while protecting the necessary confidentiality of business operations. Our shared goal is to help combat the harmful effects on development when national resources and revenues are misused. Complementary efforts to promote transparency are also taken forward by countries participating in the Extractive In-

<sup>79</sup> Source: <http://www.g8.utoronto.ca/summit/2004seaisland/poverty.html>

<sup>80</sup> Source: <http://www.g8.utoronto.ca/summit/2004seaisland/corruption.html>

industries Transparency Initiatives Industry Transparency Initiative.

*Chair's Summary (Sea Island, June 10, 2004)*<sup>81</sup>

[. . .] We supported progress in the multilateral effort against corruption and welcomed the completion of Comprehensive Anti-Corruption Compacts with Georgia, Nicaragua, Nigeria, and Peru. We noted the role information technology can play in promoting transparency.<sup>82</sup>

*Related U.S. Document:*

Fact Sheet: *Fighting Corruption and Improving Transparency, June 10, 2004*<sup>83</sup>

*G-8 Summit, EVIAN-LES-BAINS, FRANCE, JUNE 1-3, 2003*

*Chair's Summary*

1. Strengthening Growth World-Wide

[. . .] we therefore reaffirm our commitment to:

strengthen investor confidence by improving corporate governance, enhancing market discipline and increasing transparency;

the principles of our Declaration on Fostering Growth and Promoting a Responsible Market Economy, accompanied with specific actions to improve transparency and to fight corruption more effectively, including a specific initiative on Extractive Industries Transparency Initiative industries.

*Fighting Corruption and Improving Transparency: A G-8 Declaration*<sup>84</sup>

5. We recognise the importance of promoting Transparency in Government Procurement and the Awarding of Concessions. To this end, we will: [. . .]

6. Consistent with these principles and recognizing the importance of revenues from the Extractive Industries Transparency Initiative industries (oil, gas and mining), we have agreed to pilot on a voluntary basis an intensified approach to transparency. To this end, we will:

6.1. encourage governments and companies, both private and state-owned, to disclose to the IMF or another agreed independent third party such as the World Bank or Multilateral Development Banks, in a consistent fashion and common format, revenue flows and payments from the Extractive Industries Transparency Initiative sectors. This information should be published at an aggregated level, in accessible and understandable ways, while protecting proprietary information and maintaining contract sanctity.

<sup>81</sup> Source: <http://www.g8.utoronto.ca/summit/2004seaisland/summary.html>

<sup>82</sup> On these compacts, see: <http://www.g8.utoronto.ca/summit/2004seaisland/road.html>

<sup>83</sup> Source: <http://www.whitehouse.gov/news/releases/2004/06/20040610-31.html>

<sup>84</sup> See various parts of the document, but especially the excerpt herein. Source: <http://www.g8.utoronto.ca/summit/2003evian/corruption-en.html>

6.2. work with participating governments to develop and implement agreed action plans for establishing high standards of transparency with respect to all budget flows (revenues and expenditures) and with respect to the awarding of government contracts and concessions

6.3. assist those governments that wish to implement this initiative with capacity building assistance;

6.4. encourage the IMF and the World Bank to give technical support to governments participating in the initiative and to develop linkages with other elements of this Action Plan.

*G-8 Summit, Kananaskis, Alberta, Canada, June 26–27, 2002*

*G-8 Africa Action Plan*

*[ . . ] I. Promoting Peace and Security*

[ . . ] We are determined to make conflict prevention and resolution a top priority, and therefore we commit to:

1.5 Working with African governments, civil society and others to address the linkage between armed conflict and the exploitation of natural resources—including by:

Supporting United Nations and other initiatives to monitor and address the illegal exploitation and international transfer of natural resources from Africa which fuel armed conflicts, including mineral resources, petroleum, timber and water;

Supporting voluntary control efforts such as the Kimberley Process for diamonds, and encouraging the adoption of voluntary principles of corporate social responsibility by those involved in developing Africa's natural resources;

Working to ensure better accountability and greater transparency with respect to those involved in the import or export of Africa's natural resources.

**Appendix IV—Excerpt from Accountability Report:  
Implementation Review of G-8 on Anti-Corruption Commitments**



Accountability Report:  
Implementation Review of G8  
on Anti-Corruption Commitments

## 1. Introduction

No country -- its government or its private sector -- is immune from corruption. This corrosive activity poses serious governance challenges and threats to the stability and security of societies, undermines the institutions and values of democracy, and jeopardizes sustainable development and economic prosperity. Corruption also impedes global efforts to combat international crime and terrorism.

Seized with the seriousness of the issue, the G8 has brought high-level attention to the adverse global impact that corruption has on all communities around the world, and has consistently committed to fight against corruption and improve transparency both at the national and international levels.

Over the years, new frameworks have enhanced the work of the G8 to effectively combat corruption, including the successful negotiation of the United Nations Convention against Corruption (UNCAC), the continued work to implement the OECD Convention on Bribery of Foreign Public Officials in International Business Transactions, and other anticorruption regimes and initiatives. The G8 has taken determined action against all forms of corruption including by promoting robust implementation of these and other existing international commitments and by supporting additional concrete steps to investigate and prosecute corruption. The G8 also has consistently called on the international community to join in developing effective public-private partnerships and multi-stakeholder dialogues on combating transnational bribery and other forms of corruption.

In 2003 at Evian, the G8 expressed its continuing strong political will to engage in the fight against corruption and the mismanagement of public resources. Recognizing the importance of maintaining a global focus on anti-corruption efforts, the G8 has continued to promote transparency which inhibits corruption and promotes good governance. The G8 has continued to promote transparency in public financial management and accountability through a series of commitments. These have included: the launch of country-led transparency compacts in 2004 at Sea Island Summit that brought targeted focus on budget, procurement, and concession-letting transparency; the 2005 Gleneagles endorsement of good and responsive governance in Africa, and strengthening the OECD's Action Statement on Bribery and Export Credits; the 2006 St. Petersburg commitments on high level public corruption including underscoring international support for more effective enforcement mechanisms for fighting systemic corruption, denying safe haven to corrupt officials, and recovering the proceeds of public grand corruption; and the 2007 Heiligendamm commitment to fully implement obligations under existing international agreements and to intensify a range of common efforts to combat corruption worldwide.

Fighting corruption is an ongoing and deliberate process. Success depends on the action of all of our partners under individual and collective anticorruption strategies. This G8 report demonstrates our leadership role in setting examples to combat corruption and holding ourselves to the highest standards of transparency and accountability\*.

\*This report is prepared to review progress made by each G8 member in implementing past G8 commitments on corruption from Evian to Heiligendamm.

\*The statistical data presented by each G8 member in the report may not be standardized or comparable and definitional differences may preclude any direct comparisons.

## Transparency

### G8 Commitments

- Supporting International Financial Institutions' efforts to combat corruption, including the implementation of the World Bank's Governance and Anti-Corruption Strategy to increase assistance to countries to strengthen governance and reduce corruption (Heiligendamm, 2007)
- Take concrete steps to protect financial markets from criminal abuse, including bribery and corruption, by pressing all financial centers to obtain and implement the highest international standards of transparency and exchange of information (Gleneagles, 2005)
- Support, by providing bilateral technical assistance and political support, partner countries that have signed transparency and anticorruption compacts with the G8 (Georgia, Nicaragua, Nigeria, and Peru) (Sea Island, 2004)
- Focus bilateral assistance on countries demonstrating commitment to improve performance on transparency, good governance and rule of law (Evian, 2003)
- Require fiduciary assessments before countries can access budgetary support (as already done with the World Bank Poverty Reduction Support Credit program); work to ensure that all fiduciary and governance diagnostics are made public, and improve coordination and harmonization of our administrative procedures (Evian, 2003)
- Develop with donors and governments a public financial management and accountability performance assessment based on the HIPC tracking exercise (Evian, 2003)
- Work with others to achieve full disclosure of multilateral development bank (MDB) performance allocation systems, require publication of all MDB country assistance strategies, urge presumptive publication of Article IV staff reports, and require publication of staff reports for all exceptional access cases (Evian, 2003)
- Provide continuous assistance to strengthen EITI, as appropriate through financial, technical and political means (Heiligendamm, 2007)

### [Canada]

Canada strongly supports the efforts of the World Bank and other IFIs to develop and implement strategies to combat corruption.

Canada has introduced recent enhancements to the anti-money laundering /anti-terrorist financing requirements for financial institutions and intermediaries contained in amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and associated regulations including:

- New reporting, client identification, record-keeping and compliance requirements, and bringing new sectors such as the legal profession and dealers in precious metals and stones under Canada's regime.
- Enhanced information sharing among the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), law enforcement and other domestic and international agencies.
- The establishment of a registration regime for money service businesses.

During International Development Association's (IDA) discussions in 2005, donors, including Canada, encouraged IDA to make the key components of their Performance-Based Allocation (PBA) system - the Country Policy and Institutional Assessments ratings and the Country Performance Ratings - publicly available on their external website, and this is now done. For further transparency, IDA plans to publicly disclose their Post-Conflict Performance Indicators, on which allocations to post-conflict countries that fall outside of the regular PBA system are based.

The World Bank's Executive Board has approved several revisions to the Bank's disclosure policy over the last few years to maximize public access to their Country Assistance Strategies (CASs). The Bank first allowed CASs to be publicly released in 1998, but only at the request of the country in question. Now, all CASs are automatically posted on the Bank's external website, except in the rare case that the country in question objects to the disclosure. Canada has been actively supportive of these policy revisions to increase transparency.

In February 2007, Canada announced its official support for the Extractive Industries Transparency Initiative (EITI). This support includes a contribution of \$750,000 to the EITI Multi-Donor Trust Fund, as well as \$100,000 in annual funding for the following few years. Canada also indicated that it will provide technical support in areas such as corporate governance in cooperation with leading Canadian mining companies.

Recognizing that corruption is a global phenomenon, the Canadian International Development Agency (CIDA) considers anti-corruption activities a core component of its approach to aid effectiveness and governance priorities. Within that approach, prior to project approval, CIDA assesses countries, recipient institutions, programs and projects for risk and general performance capacity. When approved, all contracts and contribution agreements include an anti-corruption clause and must be consistent with Government of Canada financial frameworks. Projects are also subject to ongoing monitoring and end of project audits and evaluations.

Since 2000, CIDA has supported over 50 projects with an anti-corruption focus or components related to accountability, transparency, oversight, financial reform, management of public resources, stewardship and corporate social responsibility, totalling an investment of approximately CAN\$218 million. The outcomes of these investments include supporting a network of African parliamentarians dedicated to fighting corruption, providing training for 175 auditors from 49 countries in conjunction with the Canadian and Quebec Auditors-General, improving transparency, efficiency and effectiveness in government procurement/contracting (e.g., Nicaragua, Honduras, Philippines), and support for civil society institutions including Transparency International as well as the Global Organization of Parliamentarians against Corruption (GOPAC).

#### **[France]**

France has defined a strategic policy document for the combat against corruption connected with its cooperation programmes, and this has been validated by an inter-ministerial committee. With the aim of defining the procedures for action by the various French public stakeholders in this field, the document defines transparency of procedures and practices as a guiding principle for all action, seeking most notably at the same time to ensure the traceability and security of public resources.

France provides political support to EITI and contributes \$800,000 to the Trust Fund administered by the World Bank for its implementation. It shares a donor nation seat with Germany on the EITI Board, where it is represented by our Ambassador with responsibility for the fight against organised crime. It has mobilized its diplomatic network, particularly in French-speaking African nations, in order to encourage EITI implementation. France was co-sponsor of the UNGA draft resolution supporting EITI. It supports the projected Mediterranean Conference on EITI (autumn 2008) with a view to bringing the countries of North Africa into the Initiative.

#### **[Germany]**

Germany invited German (commercial banks/KfW), European (EIB) and regional/international (AsDB) financial institutions to follow transparency standards as for instance EITI.



Germany also participates actively in the work of the Norwegian task force on illicit financial flows to prepare concrete steps to protect financial markets from criminal abuse, including bribery and corruption.

Following its commitments in particular of the Heiligendamm summit, Germany is lending both political and financial backing to the Extractive Industries Transparency Initiative and is itself a member of EITI's Board, sharing a seat with France. Germany contributes to the global initiative with payments to the Multi-Donor Trust Fund of the Worldbank (EUR 1 Mio so far) and the EITI international secretariat (EUR 100.000 p.a. for 2007-2009). Responding to local demands, Germany offers advice to the African regional organisation CEMAC, a Public-Private Partnership (PPP) project and bilateral technical support (Ghana, DR Congo) as well as further multilateral contributions.

#### [Italy]

In line with Italy's commitment to the OECD's Development Assistance Committee, the documentation relating to competitive tendering for contracts funded by the Italian co-operation and development agency, whether on a gift or a loan basis, includes anti-bribery clauses. Additionally, the guidelines on poverty reduction in the context of Italian development aid include the fight against corruption as part of their general objective. Italy also requests any participant in competitive tendering for contracts funded by the Italian cooperation and development agency to subscribe to an "integrity pact" against corruption which requires enterprises that participate in the tender process to certify that they have not been involved in acts of bribery. See also Italy's comments under sections on OECD Anti-bribery Convention and Money Laundering.

#### [Japan]

Japan gives priority, in the provision of development assistance, to countries that make active efforts to pursue good governance with a view to promoting transparency and rule of law, as it is clearly stated in its ODA charter. With regard to the budgetary support, Japan conducts various assessments including fiduciary ones before the provision of the financial assistance.

Japan extended assistance to partner countries which signed transparency and anticorruption compact with the G8. Japan provided group training courses targeted to computer engineers and specialists participating from Nicaragua and other Latin American countries in 2006 and 2007 in order to promote E-government in their countries which improve the accessibility of information by the public and enhance transparency. Japan has also provided group training courses to assist capacity building of overseas local governments. A Nicaraguan official participated in one of those courses. Regarding Peru, Japan invited a group of Peruvian local public officials, and organized a capacity building program to promote transparency in March 2005. Moreover, Japan has supported criminal justice system reforms in Latin America i.e. through the provision of training courses.

Japan made contribution of ca. USD 4.5 million to IMF from 2003 to 2007 in order to provide technical assistance to 25 HIPC eligible countries with a view to improving public financial management.

Some of Japanese mining companies support and actively participate in the EITI process through International Council on Mining and Metals, ICMM.

#### [Russia]

A number of measures directed at perfection of legal mechanisms referring to prevention of corruption has been recently adopted on the legislative level.

Among the legal acts containing a significant anti-corruption component and transparency provisions, it is necessary to mention the following Federal Laws: No. 58 of 25.05.2003 "On the public service system in the Russian Federation"; No. 79 of

27.07.2004 "On the public civil service in the Russian Federation"; No. 25 of 02.03.2007 "On the municipal service in the Russian Federation"; No. 94 of 21.07.2005 "On placement of orders for delivery of goods, execution of work, provision of services for the public and municipal needs"; Decree of the President of the Russian Federation No.885 of 12.08.2002 "On general principles of the civil officials' conduct", which create prerequisites for the prevention of corruption in the sphere of the State and municipal management.

Other laws aimed at the increase of openness and transparency of authority, expansion of access of nationals to information were adopted, namely No. 149 of 27.07.2006 "On information, information technologies and protection of information", No. 59 of 02.05.2006 "On the procedure for consideration of the requests of nationals of the Russian Federation". In March 2007 the State Duma approved in the first reading bill 386525-4 "On providing access to information on the activity of the State bodies and bodies of the local government".

Within the framework of realization of the federal target program "Development of the judicial system of Russia" for 2007-2011, the Supreme Court of Russia introduced to the State Duma bill No. 287750-4 "On securing the rights of nationals and an organization to information on judicial activity of the courts of general jurisdiction in the Russian Federation" aiming at the increase of transparency of justice.

Pursuant to Russian Federation Government Directive 1789-r of 25 October 2005 the Concept of the Administrative Reform in the Russian Federation for 2006-2008 was adopted, involving as its integral part the Plan of Actions to Prevent and Eradicate Corruption in the Public Administration.

The administrative reform is aimed at finding the most appropriate ways of executive governmental authorities functioning, presuming the development of anti-corruption mechanisms on federal, to include departmental, and regional levels.

The following objectives shall be attained within the framework of the administrative reform:

- increasing the transparency of all-level governmental authorities along with the promoting of interaction with civil society;
- improvement of the control and supervisory mechanisms;
- increasing the government procurement efficiency;
- development of mechanisms of prevention of the corruption in executive governmental authorities;
- development of the mechanism of monitoring the course of the administrative reform along with reporting to the common public on the practical results of the reform.

#### [U.K]

The UK is strongly supportive of the World Bank's 2007 Governance and Anti-Corruption Strategy.

DFID is focusing its bilateral assistance on countries demonstrating commitment to improve performance on transparency, good governance and rule of law through a policy which requires that countries demonstrate a shared commitment to:

- a) reducing poverty and achieving the Millennium Development Goals;
- b) respecting human rights and other international obligations; and
- c) strengthening financial management and accountability, and reducing the risk of funds being misused through weak administration or corruption.

The UK does require a comprehensive fiduciary risk assessment be carried out before countries can access budgetary support. In January 2008, the UK updated guidance for country offices on assessing fiduciary risk taking account of broad based consultation including with the UK National Audit Office and other donors.

DFID was one of the founding members of the Public Expenditure and Financial Accountability (PEFA) partnership between the World Bank, the International Monetary Fund (IMF), several national aid agencies and the Strategic Partnership with

Africa. This group developed the PEFA Strengthened Approach to public financial management which includes a Framework for measuring the performance of public financial management systems based on internationally recognised standards. This tool has been endorsed by the OECD DAC and roll out of the approach has exceeded expectations. As at end of August 2007, some 67 PFM assessments – based entirely on or significantly incorporating the PEFA Framework at both central and sub-national level – had been finalised or completed. The UK continues to be an active Steering Committee member and funder of this important initiative.

The UK has fully implemented the Third EU Money Laundering Directive and worked with the EU Committee on the Prevention of Money Laundering and Terrorist Financing to promote full implementation within the EU. The UK implementation provides more detailed obligations for customer due diligence and have greatly strengthened supervision. They impose explicit requirements for ongoing monitoring of business relationships and for firms to identify not just customers but beneficial owners and managers, who will be subject to a mandatory ‘fit and proper’ test.

During its Presidency of the Financial Action Task Force (FATF) in 2007-8, the UK secured agreement in principle to increase FATF surveillance of emerging trends and threats, and developed proposals to assist low-capacity countries to implement FATF standards

#### [U.S.]

Transparency and good governance are pillars of economic growth. The United States recognizes that one of the central ways for governments to help their people benefit from economic globalization -- open markets, the free flow of trade and investment, and access to global capital -- is to govern justly.

The U.S. supports the good governance and anti-corruption programs of the World Bank (WB) and other International Financial Institutions (IFIs). In coordination with G8 partners and other governments, the U.S. helped lead efforts to secure, in 2007, WB Board endorsement of the enhanced Governance and Anti-corruption strategy, which is under implementation. Consistent with the strategy, the WB provides extensive assistance to help borrowing countries put in place sound governance systems and anti-corruption measures and has also taken steps to improve internal control processes to prevent the misuse of Bank funds and to deter fraud and corruption.

At the Asian Development Bank (ADB), the United States has worked to promote stronger internal controls and procurement rules and procedures. In September 2006, the ADB and other multilateral development banks adopted a harmonized set of definitions of corrupt and fraudulent practices. The U.S. has also pressed for a stronger role in governance by the Inter-American Development Bank (IDB). In 2007, the IDB committed over \$400 million for Reform and Modernization of the State, established an Anticorruption Activities Trust Fund (AAF), and expanded to work of the Office of Intitutional Integrity (OII).

In support of the G-8 Transparency Compacts advanced in the Evian (2003) and Sea Island (2004) Summits, the United States provided technical expertise and assistance to Georgia, Nicaragua, Nigeria, and Peru to strengthen their efforts on public procurement, the management of public finances, and other critical areas to combat corruption and improve transparency. The U.S. has also incorporated provisions on transparency in public procurement in the 12 bilateral Free Trade Agreements it has signed since 2004, see below.

The U.S. Millennium Challenge Corporation (MCC) – an innovative development assistance program that rewards a commitment to good governance and combating corruption – negotiates and signs Compacts with countries that score above the median of their per capita income group peers on "control of corruption" and several other measures of governance, economic freedom, and investing in people. To provide further incentive for reform and help additional countries qualify for Compacts, MCC

provides threshold assistance to select countries that fall just short of Compact eligibility. Most of MCC's Threshold programs have an anti-corruption component.

The U.S. has been supportive of the Public Expenditure and Financial Accountability (PEFA) Framework, which tracks 28 indicators, as a tool in assessing public financial management and accountability. The PEFA has a Secretariat housed at the WB.

Regarding disclosure of performance allocation systems, the U.S. notes that the IMF has increased significantly the amount of information on its programs that it has made available to the public. The U.S. has stressed the need to build on this progress and expand the number of publications and IMF practices open to public scrutiny. The U.S. Executive Director consistently encourages countries to publish the full Article IV staff report on the IMF's public website, and the percentage of staff reports published has increased in recent years.

The United States is an active supporter of, and participant in, the Extractive Industries Transparency Initiative (EITI). The U.S. holds a seat on the EITI board and supports implementation directly through bilateral assistance programs in selected countries. The United States provided a total of \$990,000 in FY06 funds to support civil society participation in EITI implementation, in Peru, Nigeria, and the Democratic Republic of Congo, and FY07 funding provides for approximately the same level of support.

## Appendix V—Extractive Industry Transparency Initiative U.N. Resolution

United Nations

A/62/L.41\*


**General Assembly**

 Distr.: Limited  
 22 February 2008

Original: English

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**Sixty-second session**  
 Agenda item 56  
 Globalisation and interdependence

**Australia, Azerbaijan, Belgium, Canada, Congo, France, Germany, Iraq, Italy, Kazakhstan, Kyrgyzstan, Liberia, Moldova, Netherlands, Nigeria, Norway, Peru, Sierra Leone, Spain, Timor-Leste, Turkey, United Kingdom of Great Britain and Northern Ireland and Yemen: draft resolution**

### Strengthening transparency in industries

*The General Assembly,*

*Recalling* the 2005 World Summit Outcome,

*Reaffirming* the Accra Accord, the outcome of the twelfth session of the United Nations Conference on Trade and Development,

*Recalling* the United Nations Convention against Corruption, which reaffirms that corruption is no longer a local matter but a transnational phenomenon that affects all societies and economies, making international cooperation to prevent and control it essential,

*Further recalling* the resolution 1803 of 14 December 1962, in which it declared that the right of peoples and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of their national development and of the well-being of the people of the State concerned,

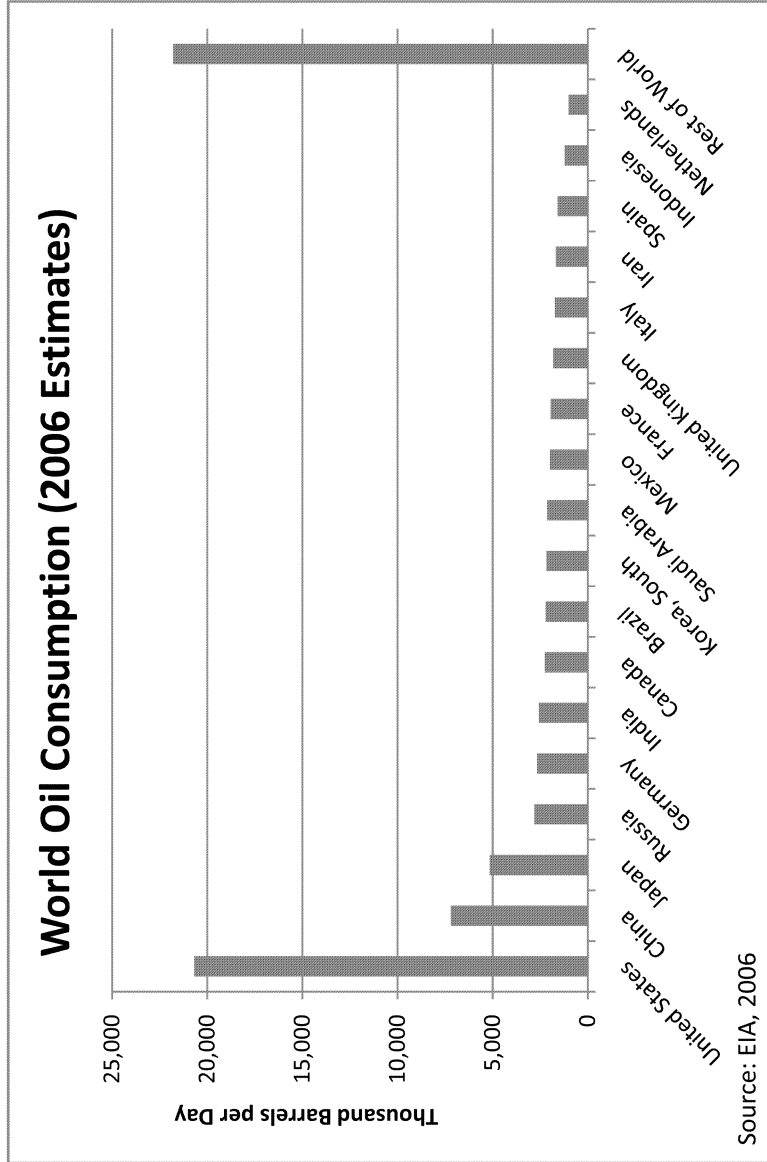
*Reaffirming* that every State has and shall freely exercise full permanent sovereignty over all its wealth, natural resources and economic activities,

*Taking note* of all relevant voluntary initiatives, including the Extractive Industries Transparency Initiative, aimed at improving transparency in the extractive industries,

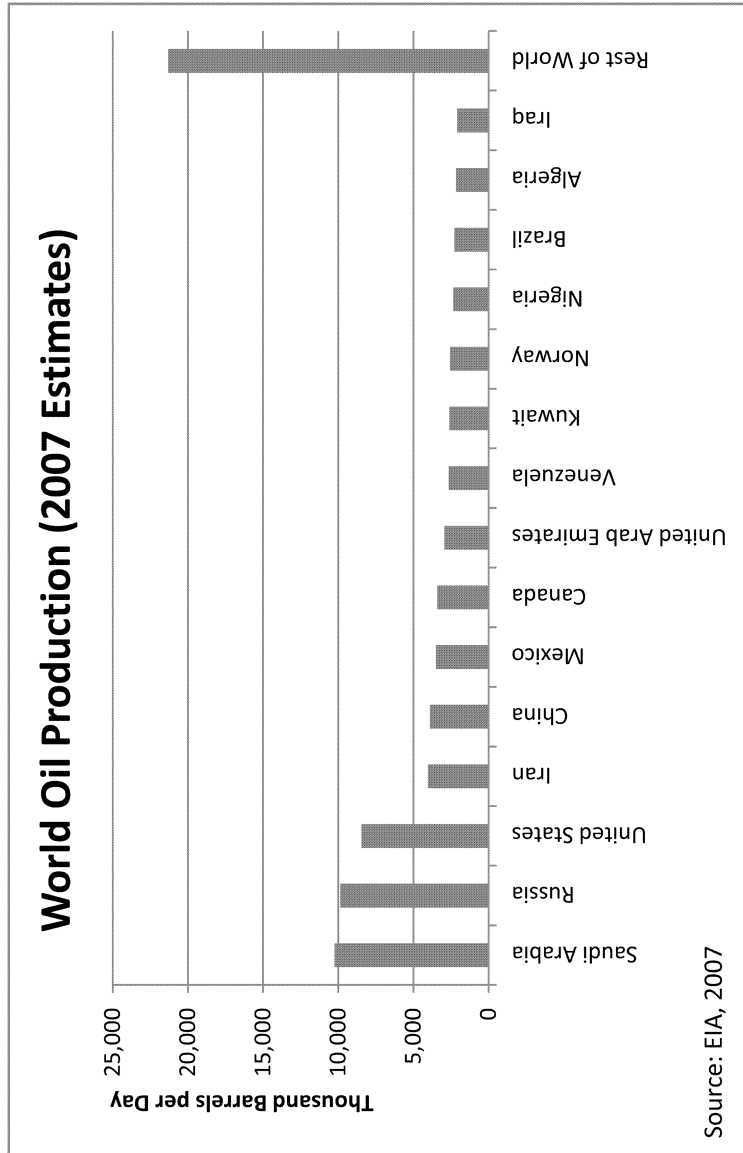
*Convinced* that rule-based and predictable trade and financial systems are essential to promote transparency in trade and financial industries and combat corruption in commercial and financial transactions in all countries,

- 
1. *Emphasizes* that transparency and accountability are objectives that should be embraced and promoted by all Member States, regardless of their size, level of development or resource endowment.
  2. *Reaffirms*, as stated in the UN Convention against Corruption, the need to combat corruption and enhance transparency, in accordance with the fundamental principles of domestic law and take such measures as may be necessary to enhance transparency in public administration, including with regard to organization, functioning and decision-making processes, where appropriate.
  3. *Encourages* the international community to strengthen, as appropriate, upon request, capacity building of natural resources endowed States, especially those emerging from conflict situations to negotiate mutually satisfactory, transparent and equitable contractual terms for the use, extraction and processing of their natural resources.
  4. *Notes* the efforts of countries that are participating in all relevant voluntary initiatives, to improve transparency and accountability in industries, including the Extractive Industries Transparency Initiative in the extractive sector and to share their experience with the interested Member States.
  5. *Reaffirms* its commitment to governance, equity and transparency in the financial, monetary and trading systems, as well as its commitment to open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial systems.
  6. *Encourages* business and industry, in particular transnational corporations, to establish world-wide corporate policies on sustainable development, arrange for environmentally sound technologies to be available to affiliates owned substantially by their parent company in developing countries without extra external charges, to modify procedures in order to reflect local ecological conditions and share experiences with local authorities, national Governments and international organizations.
  7. *Urges* the private sectors, including corporations engaged in the extractive industries to ensure transparency and verifiable processes, while adhering to and promoting the principles of honesty, transparency and accountability, in order to maximise private sector's contribution to the realisation of social and people-centred sustainable development.

**Appendix VI—World Oil Consumption and Production, by Country**

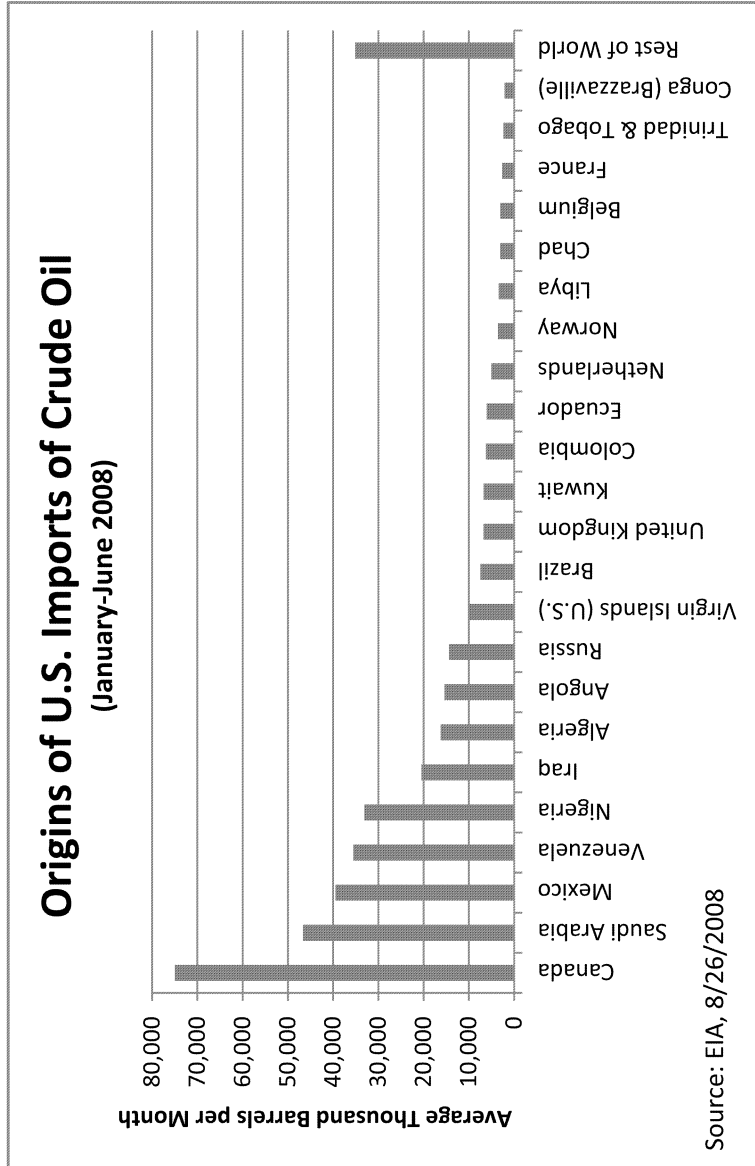


**Appendix VI—World Oil Consumption and Production, by Country—(continued)**





**Appendix VII—Origins of U.S. Imports of Crude Oil**





## Appendix VIII—Acronyms and Abbreviations

ADIA—Abu Dhabi Investment Authority  
 AfDB—African Development Bank  
 AGO—Attorney General’s Office  
 AsDB—Asian Development Bank  
 AU—African Union  
 AusAid—Australian Government Aid Program  
 BEAC—Banque des Etats de l’Afrique Centrale  
 b/d—barrels per day  
 BIC—Bank Information Center  
 BP—British Petroleum  
 BPA—Banking and Payments Authority  
 BTA—Bilateral Trade Agreement  
 BTC—Baku-Tbilisi-Ceyhan  
 CASM—Communities and Small-scale Mining  
 CIC—China Investment Corporation  
 CIMATS—Certain Maritime Arrangements in the Timor Sea  
 COCPO—Oil, Gas, and Mining Policy Division  
 COFE—Committee of Financial Experts  
 D.C.—District of Columbia  
 DFI—Development Fund for Iraq  
 DFID—United Kingdom’s Department for International Development  
 DOJ—Department of Justice  
 DPR—Indonesian Parliament  
 DRC—Democratic Republic of Congo  
 EBRD—European Bank for Reconstruction and Development  
 EFCC—Economic and Financial Crimes Commission  
 E.G.—Equatorial Guinea  
 EIA—Energy Information Administration  
 EIR—Extractive Industries Review  
 EITI—Extractive Industry Transparency Initiative  
 EITI++—Extractive Industry Transparency Initiative Plus Plus  
 ENAP—Chilean National Oil Company  
 ESF—Economic Support Funds  
 Exim—Export Import Bank of the United States  
 FCPA—Foreign Corrupt Practices Act  
 FDI—Foreign Direct Investment  
 FEES—Economic and Social Stabilization Fund  
 FESS—Foundation for Environmental Security and Sustainability  
 FMIS—Financial Management Information System  
 FNC—Federal National Council  
 FRP—Pension Reserves Fund  
 FSD—Social Development Fund

FY — Fiscal Year  
GEITI — Ghana-EITI  
GDP — Gross Domestic Product  
GNP — Gross National Product  
GOB — Government of Brazil  
GOI — Government of Iraq  
GOP — Government of Peru  
GOTL — Government of Timor-Leste  
G-8 — Group of Eight (Canada, European Union, France, Germany, Italy, Japan, Russia, United Kingdom, United States)  
H.R. — House Resolution  
IAG — International Advisory Group  
IAMB — International Audit and Monitoring Board  
ICI — International Compact with Iraq  
ICPC — Corrupt Practices and Other Related Offences Commission  
IDA — International Development Association  
IDB — Inter-American Development Bank  
IFC — International Finance Corporation  
IFI — International Financial Institution  
IMF — International Monetary Fund  
IOSCO — International Organization of Securities Commissions  
KRG — Kurdistan Regional Government  
LNG — Liquefied Natural Gas  
MAE — Mainstreaming Anti-Corruption for Equity  
MCC — Millennium Challenge Corporation  
MDB — Multilateral Development Bank  
MDTF — Multi-Donor Trust Fund  
MERCOSUR — Common Market of the South  
MMS — Minerals Management Service  
MOF — Ministry of Finance  
MPLA — Popular Movement for the Liberation of Angola  
NEPAD — New Partnership for Africa's Development  
NEITI — Nigeria-EITI  
NDRC — National Commission for Development and Reform  
NGO — Non-Governmental Organization  
NRC — National Resource Companies  
NSWG — National Stakeholders Working Group  
OECD — Organization for Economic Co-operation and Development  
OPEC — Organization of the Petroleum Exporting Countries  
OPIC — Overseas Private Investment Corporation  
OTA — Office of Technical Assistance  
PDVSA — The Venezuelan Oil Company  
PIF — Public Investment Fund  
P.L. — Public Law  
PPP — Purchasing Power Parity

ROSC — Report on Standards and Codes  
SAMA — Saudi Arabian Monetary Agency  
SCP — South Caucasus pipeline  
SEC — Securities and Exchange Commission  
SIGIR — Special Inspector for Iraqi Reconstruction  
SOCAR — State Oil Company for Azerbaijan  
SOE — State Owned Enterprises  
SOFAZ — State Oil Fund for the Republic of Azerbaijan  
SWF — Sovereign Wealth Fund  
Tcf — trillion cubic feet  
TSC — Technical Service Contracts  
UAE — United Arab Emirates  
UK — United Kingdom  
UN — United Nations  
UNDP — United Nations Development Program  
UNEP — United Nations Environment Program  
UNICEF — United Nations Children Fund  
U.S. — United States  
USG — United States Government  
USAID — United States Agency for International Development  
WTO — World Trade Organization