



Revenue transparency in the extractives sector: the state of play

This article summarises a longer discussion paper on revenue transparency published by Insight in November 2005. To download the full report, [click here](#).

Insight is a large institutional investor, with investments of £3.7 billion in European extractive companies.¹ The majority of extractives companies we invest in operate in one or more of the fifty countries often described as suffering from the 'resource curse'. Despite – or as many argue, because of – the enormous resource revenues they receive, such countries are often plagued by weak governance, poor transparency, low levels of economic development, crippling corruption and devastating conflict. Operating in these countries therefore presents extractives companies with particularly tough challenges, and their exposure to these countries is predicted to increase in the coming years.

Stable, transparent operating environments, where the rule of law and accountability prevail, are more conducive to business: where country and project risks are lower, the potential to generate greater and more stable profit and investment returns is also greater. Poor transparency also means that it is not possible for citizens to hold their governments to account for the revenues they receive. Having recognised the imperative of significantly improving revenue transparency and host government accountability, the Extractive Industries Transparency Initiative (EITI) has been established to make progress in this area.

Insight takes the view that it is in the long-term, collective best interests of institutional investors and extractives companies to actively support credible, multi-stakeholder, international initiatives that aim to promote better governance, combat bribery and corruption and create greater revenue transparency. Insight actively supports one such initiative – the EITI – as demonstrated by our endorsement of the Joint Investor Statement in 2003. We encourage other investors to support the statement.

Although the EITI is making good progress, it is still at a very early stage. Achieving revenue transparency in the fifty most resource-dependent states is likely to take decades. Moreover, the difficulty that host governments face in building national EITI forums, establishing trust

among the parties and ultimately achieving the goal of full revenue transparency should not be underestimated. The success of those governments – and that of the EITI overall – depends in no small measure on major extractives companies signing up to EITI and playing an active and constructive role in promoting revenue transparency in the countries in which they operate. Many companies listed in G8 countries have already done so, and have made a significant contribution to getting EITI off the ground.

Insight believes that it is in the best interests of companies and investors to support the EITI in its aim of creating operating environments in which companies can publicly disclose the payments they make to host governments, at least in aggregate. The ultimate goal of disclosing payments on a disaggregated basis also seems reasonable, as long as commercial confidentiality is respected and companies' interests are protected. More discussion of this issue is needed.

To create a level playing field for listed companies, it is essential that state-owned oil and mining companies in host countries also participate actively in EITI processes and are subject to the same operating and disclosure requirements. It is also essential that state-owned companies in non-G8 home countries such as China, India, Malaysia and Brazil – major players in the international oil, gas and mining sector – are brought into the process.

Once companies have committed to supporting the EITI, we recommend that they put in place policies and procedures to ensure that their commitment is implemented across the business, in all countries of operation. A full set of recommendations is available in the paper.

We also concur with the view of several stakeholders that companies' progress and performance with respect to engaging in EITI, and playing their part in achieving revenue transparency, should be evaluated independently on a regular basis.

Given the likely difficulty of achieving effective host government-led revenue transparency in all fifty resource-dependent countries, it would also seem to be prudent for home governments to give further consideration to mandating payments disclosure through national legislation – notwithstanding the challenges this route also presents.

¹ Insight Investment, July 2005.

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