## Raising the bar on resource governance

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## How natural resource corruption is facilitated and the need for a joined up anticorruption strategy to tackle it

global witness

Stages of process

Negative outcomes

Joined up anticorruption strategy Allocation of natural resource licences
Crucial stage in establishing sound management of natural resources, and strong legal framework and institutions

resource begin to flow
Often substantial licit
financial flows pour into
country. Huge potential
for economic growth and
development.
Substantial risk of
corruption

Revenues from natural

Corruption as money moves through government budgets Corruption spreads beyond misappropriation of natural resource revenue as the country secures foreign loans and begins to spend new government revenue

flilicit financial flows
flow out of country
Foreign banks facilitate
state-looting by
accepting proceeds of
corruption. Substantial
tax revenue lost through
lack of transparency and
abusive tax avoidance
through transfer
mispricing

Donor failure helps to entrench and subsidise corruption
Donors further entrench corrupt regimes by underwriting basic state services without securing governance reform, allowing state resources to be looted with impunity

- Bribery, lack of transparency, lack of open and fair bidding process
- Companies with inadequate expertise gain contracts
- Lack of proper environmental or social impact assessments and safeguards
- Corrupt elite using natural resource allocation proceeds to develop patronage networks
- Corruption and poor management of natural resources and related revenue becomes the norm
- Lack of transparency in revenue payments to government coupled with weak institutions and accountability lead to widespread misappropriation
- Corrupt elite and patronage networks become deeply entrenched, and dependent on natural resource revenue
- Civil society and democratic institutions become sidelined as power concentrates in the hands of a corrupt few

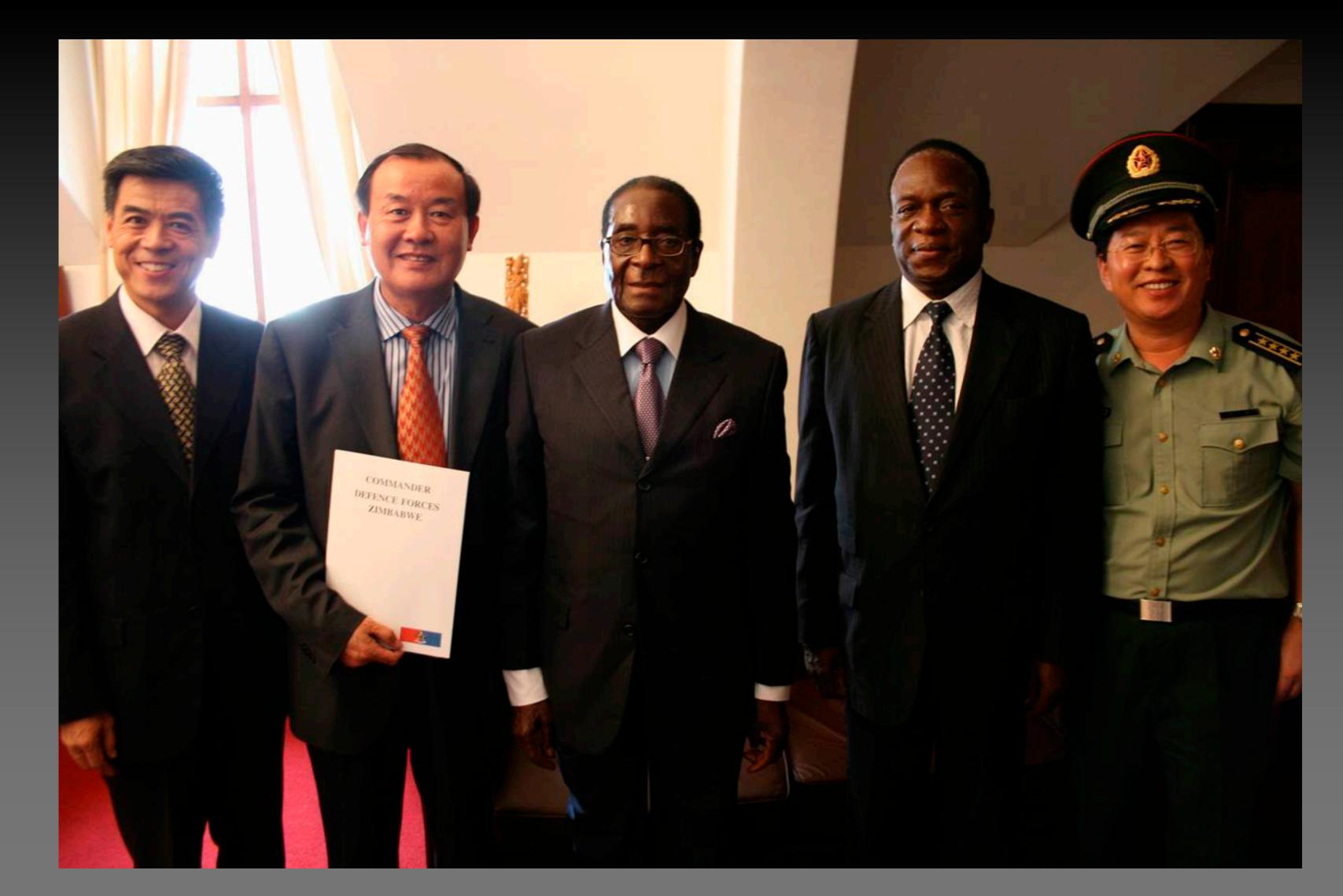
- Loans provide advance on future revenue allowing corrupt elites to enrich themselves
- Comuption in state procurement becomes the norm, companies which pay bribes receive government contracts rather than legitimate development partners
- Companies linked to corruption in developing countries receive backing from wealthy states, further entrenching corruption
- Revenue from natural resources never reaches government coffers as it is laundered offshore by corrupt elites
- Developing countries fall to benefit from tax revenue from natural resources
- Corrupt elites spend their money abroad with impunity

- Country falls to develop strong democratic institutions
- Natural resource revenue is wasted
- Corrupt regimes learn the language of democracy and human rights whilst sidestepping substantive issues and refusing to reform – their entrenched position makes engagement more difficult.
- · Risk of conflict and instability

- Strong Anti-bribery legislation
- Promote EITI (Extractive Industries Transparency Initiative) and require companies to publish all payments to foreign governments
- ODA should ensure open and transparent bidding rounds and work with governments to build strong and accountable government institutions and sound public financial management
- Work with other donors to hold leaders to account, making ongoing development assistance dependent on agreed governance reforms in the management of natural resources
- Work with other donors to create space for civil society and strong independent democratic institutions to monitor natural resource revenue and public finances, and hold the government to account

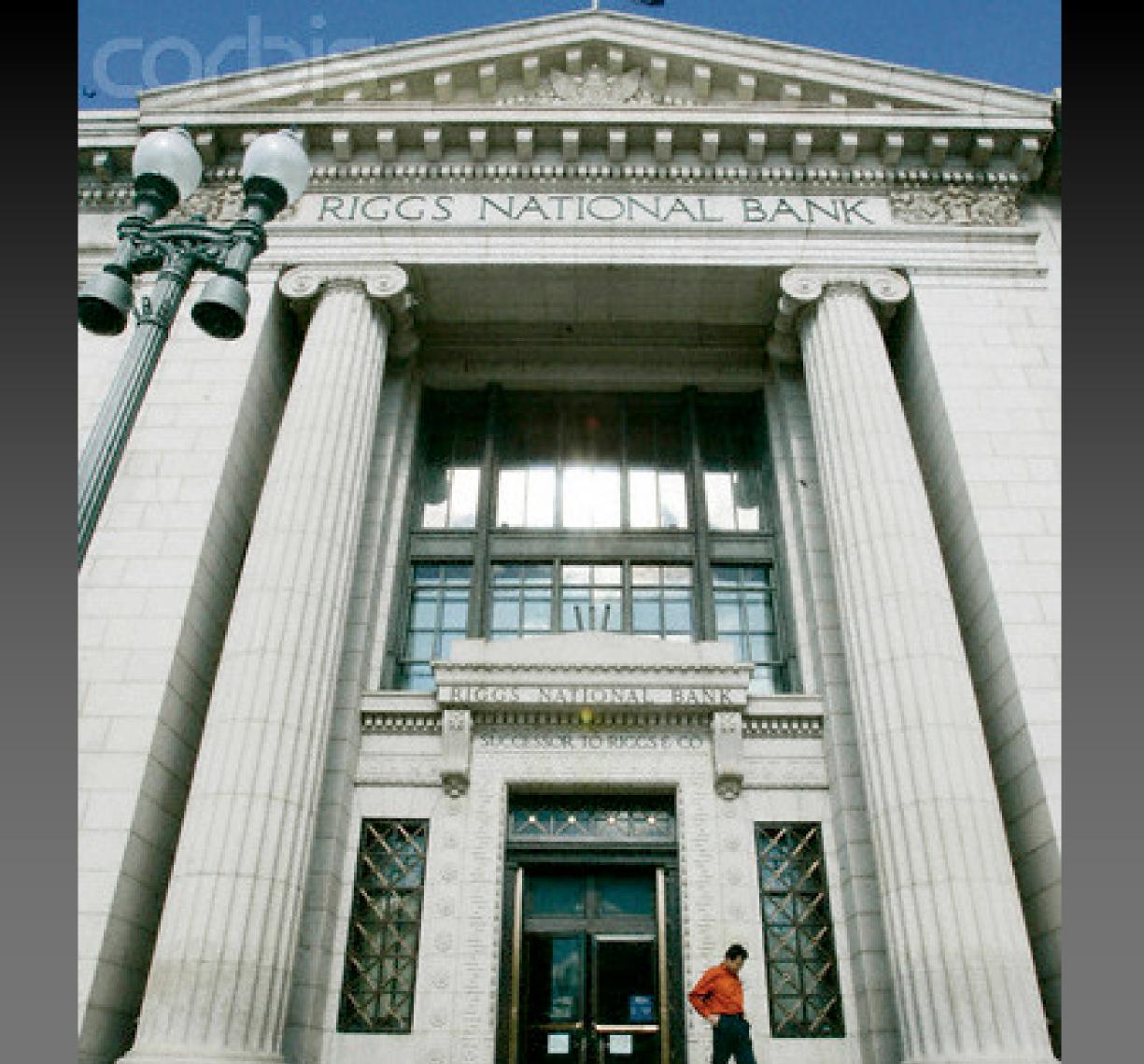
- Banks required to publish information on loans to sovereign governments and state owned companies
- Ensure that states do not provide financial backing to companies with links to corrupt deals abroad
- Strong anti-bribery legislation
- Work with other donors to ensure strong public financial management as pre-requisite to ongoing disbursement of ODA
- Ensure that banks enforce robust know your customer due diligence procedures
- Set International standard and publish register of beneficial ownership of companies
- Work with FATF to make 1 & 2 (above) international standards
- Ensure international accounting standards to require country by country reporting and ensure automatic international exchange of tax information
- Visa bans and asset freezes for corrupt foreign officials

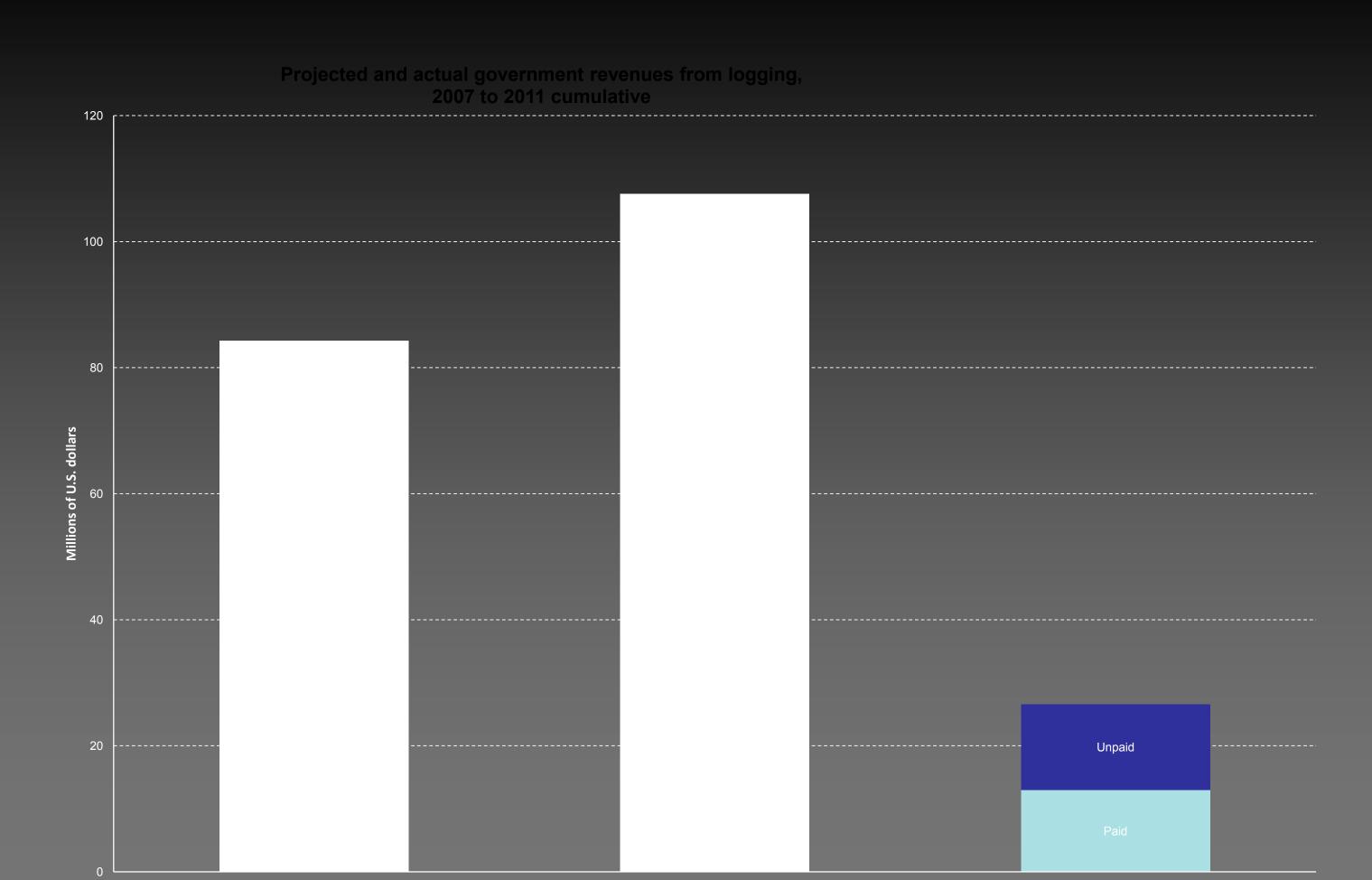
- Make natural resource governance cornerstone of initiatives in resource-rich, developing countries
- Require basic transparency and governance benchmarks to be met prior to the disbursement of aid
- Percentage of aid to go to nonstate actors, to promote governance and accountability
- Push multilateral institutions to take same approach







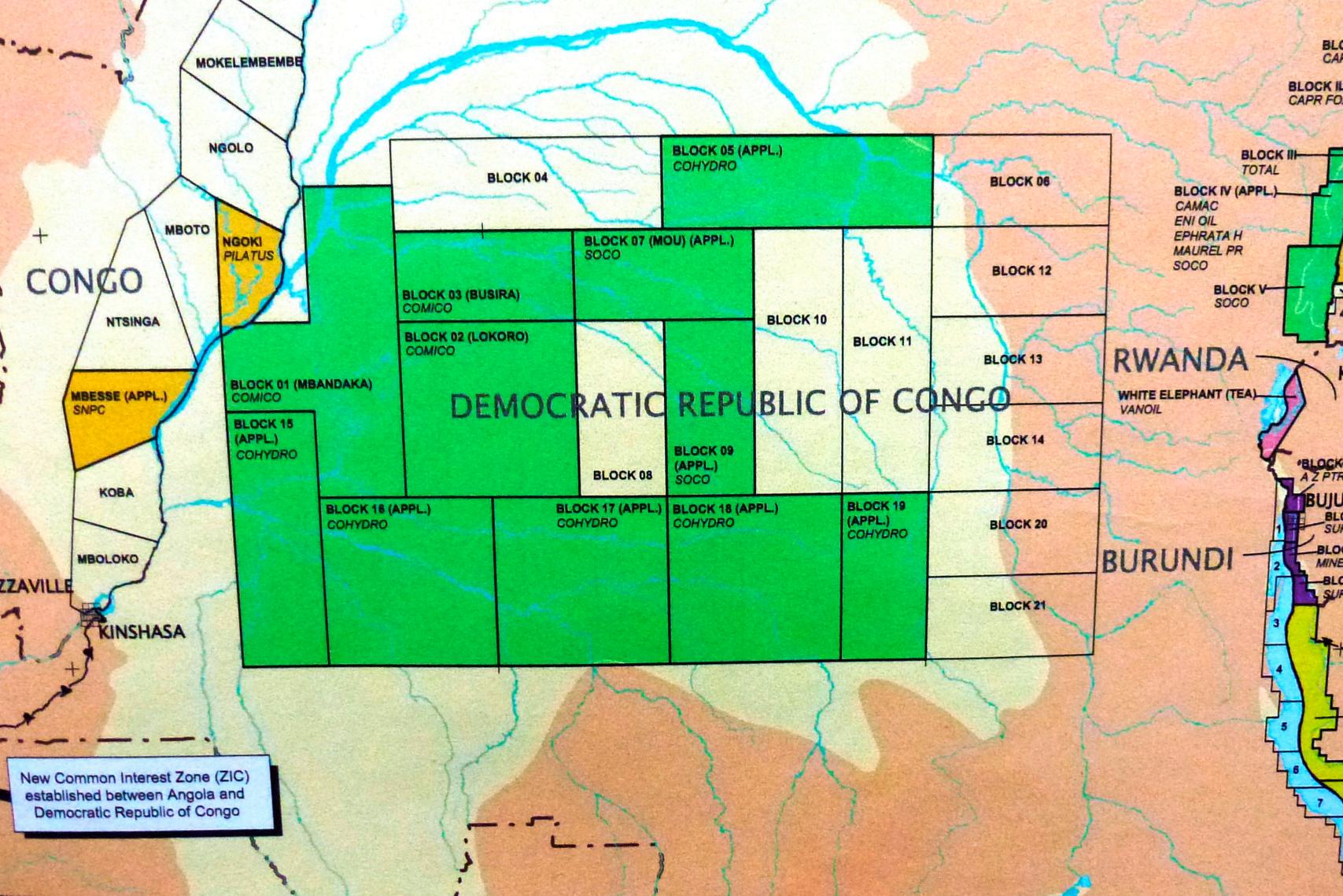




**Government and IMF estimates** 

Actual

World Bank estimate





## Thank you very much

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