



Unearth the Truth: making extractive industries work for all

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Report summary

Tearfund's latest research report *Unearth the Truth: making extractive industries work for all*, argues for the need for oil, gas and mining companies to report on the payments they make to foreign governments, both at a country and project level. This will enable citizens to hold their governments to account and ensure that the enormous wealth derived from their natural resources is used for the benefit of the whole society, including the poorest people. It will also encourage a transparent and stable business environment.

The research focuses on low-income, resource-rich countries and was carried out in Colombia and Sierra Leone with over 70 respondents comprising members of mining communities, academics, NGOs, government officials, parliamentarians and the private sector. It also draws on desk-based research. Respondents from all sectors expressed the need for detailed, accurate and reliable information.

The report argues that mandatory company reporting has the potential to:

- a) release resources for development and combat corruption
- b) improve citizen engagement with their governments
- c) provide a stable business environment and reduce conflict
- d) create a level playing field for business in line with US legislation.

Key recommendations

Based on these findings, Tearfund calls for EU legislation that would make it mandatory for oil, gas and mining companies to report on payments they make to foreign governments, broken down both by country and by project. This will be done by amending the EU Transparency and Accounting Directives. The report also calls on the UK Government to be a strong advocate for this legislation and to work with EU colleagues to ensure that it is enacted as quickly as possible.

Company reporting should fulfil the following criteria:

- Be at project level, defined by the contract, licence or other legal agreement which gives rise to companies' tax liabilities
- Be in line with the reporting requirements of section 1504 of the US Dodd-Frank legislation
- Cover listed and non-listed companies
- Include other information that will help citizens to hold their governments to account and assess the cost-benefit of any company involvement, such as production volumes, pre-tax profits, employee numbers and labour costs.
- Be part of the company's audited financial report

The full report can be found at <http://tilz.tearfund.org/Research/Governance+and+Corruption/>

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BENEFITS OF STRONG EU LEGISLATION

a) Release resources for development and combat corruption

An African Union Report estimates that 25% of Africa's GDP is lost in corruption, which amounted to \$148bn in 2008 or \$5,000 every second. Corruption is able to flourish in situations of secrecy and lack of information. Other research shows that local residents are more likely to report cases of corruption where it affects their local livelihoods. By increasing transparency and the availability of relevant and accessible information, company reporting will help to combat this culture of corruption and free resources for development.

Oil and mineral exports from Africa were estimated to be worth \$393bn in 2008, nine times the value of international aid to the continent (\$44bn). However, the poorest people in these resource-rich countries are benefitting very little from the proceeds of extractive resources, even when they lie within their own territories. For example, Kono district in Sierra Leone is the largest producer of diamonds in the country but ten years after the civil war several communities remain without electricity, safe drinking water, functioning schools or good roads.

National legislation in both Colombia and Sierra Leone requires that a certain percentage of revenue received by the government returns to the communities from which the natural resources came. Detailed reporting on this revenue for each mining, gas or oil project would enable these communities to know how much wealth has been created from their territories and ensure they receive what is theirs by law. As shown in Sierra Leone such public information can identify any discrepancies over payments and put pressure for this money to be accounted for and ultimately to be recovered.

b) Improve citizen engagement with their governments

Detailed information would enable citizens and governments to have a clearer picture of the benefits that any extractive industry activity could bring and enable an effective cost-benefit analysis taking into account economic, social and environmental factors.

Many respondents who were interviewed specifically called for quality, consistency and reliability of information and complained of the current lack of credible and accessible data available. According to Sidi Bah, Coordinator of the Budget Advocacy Network of Sierra Leone:

"Transparency in information will help us understand what is going on, analyse what is

going on and assess what value the sector is bringing to Sierra Leoneans...And transparency in figures will help us know how much is dedicated to essential service provision by our government."

c) Provide a stable business environment and reduce conflict

The long-term interest of European companies and investors lies in more transparent and stable natural resource markets. Greater disclosure would enable investors to analyse the profile and potential risks of investing in a company.

Many companies complain of being falsely accused of not putting their fair share back into the growth and development of countries in which they operate. As argued by the Executive Director of the Colombian Chamber of Mining, increased transparency would enable companies to show the full extent of their contribution and protect them from unfounded allegations of corruption, secrecy and shirking of their social responsibilities. It could also decrease local conflicts as lack of transparency in the management of extractive industries is known to be one of the major sources of ongoing conflict in many African and Latin American countries.

d) Create a level playing field for business in line with US legislation

In 2010 the US enacted the Dodd-Frank legislation that requires extractive companies to report on their payments to governments at a country and project level. Some companies listed in the US such as BP, Royal Dutch Shell, Rio Tinto are also listed on the LSE and in other parts of Europe. It would only be fair to ensure that the rules that cover them extend to other companies outside the jurisdiction of Dodd-Frank.

The Euro Zone controls a significant €2.6 trillion in market value of the extractives industry, which is comparable to the US value of €3.9 trillion. With EU legislation to match US legislation, this would be a significant step towards a global reporting standard, and would be far reaching, particularly as many Chinese companies and their subsidiaries are listed on US and EU Stock Exchanges.

FINDINGS BY COUNTRY

Overall, the changes that respondents felt were needed were:

- strong laws and policies on mining
- access to credible and detailed information about government revenue, company activities, mining contract information from listed and non-listed companies

- prioritising of the voice and needs of local communities in decision-making
- strengthening of public accountability institutions

Colombia

- Has the largest coal reserves in Latin America, with substantial reserves of iron ore, nickel, gold and copper. Produces 90% of the world's emeralds and has large petroleum reserves. Mining sector is 4.5% GDP and 24.8% of country's exports (\$7.3bn in 2009).
- Current law stipulates that 80% of royalties go back to producing regions (this will be reduced to 15% in 2015), bringing huge potential benefits for local development.
- Respondents spoke of problems with being able to find out what companies were paying governments. This included that information is difficult to access and wasn't disaggregated according to where payments originate so is hard to determine what should go back to specific regions. Furthermore, it was not reported according to production volumes so citizens couldn't tell if payments are commensurate with mining activities.
- Not all information governments receive from companies is published, leading to accusations by companies that they are wrongly accused of not putting their fair share back in to the communities.

"It would be excellent to have legislation that makes it mandatory for companies to publish what they pay. It should be global and should cover all sectors. This will help the mining sector at the global level too." (Mr Cesar Diaz, Executive Director, Colombian Chamber of Mining, also representing Rio Tinto)

"It would be great to have this type of information. It would make it easier for us to analyse the activities of companies and what the government actually receives and how it is spent." Leader of an Iron-Nickel workers union in Monte Libano, North Colombia.

Sierra Leone

- Ranked 158 out of 169 on UNDP Human Development Index, 63% of the population live in extreme poverty
- 60% of the budget is from foreign aid.
- Home to large deposits of diamonds, gold, iron ore, titanium ore, bauxite and chromite. Mining was 30% of GDP and 80% of exports in 2007/8. Diamonds were a significant factor in civil war from 1991-2002.

- A member of the Extractive Industry Transparency Initiative (EITI) and currently working towards compliance. The 2010 EITI report shows significant discrepancies between what companies reported paying and what government reported receiving. In some cases the money the government reported was a mere 5% of what the companies said they had paid.
- The 2009 Mining Code increases revenues from extractive companies and therefore money available for development. However, there was general confusion among respondents as to where mining money was paid, how it was distributed and where it ended up.
- Respondents said they had little information on what the government was receiving in royalties and taxes. There were significant concerns that mining was not bringing the expected benefits in terms of jobs or community development.
- Respondents asked for additional information from companies beyond payments, such as production volumes and labour costs, to be able to do an effective cost-benefit analysis of the mining industry.

"We are currently trying to establish a repository to make information publicly available. There is currently no information about how revenue generated from the sector is used. All we know is money goes into a consolidated fund managed by the Ministry of Finance." (Senior government official at the Ministry of Mines and Mineral Resources)

"Transparency in information will help us understand what is going on, analyse what is going on and assess what value the sector is bringing to Sierra Leoneans...And transparency in figures will help us know how much is dedicated to essential service provision by our government...The lack of information also puts companies in a difficult position." (Mr Sidi Bah, Coordinator, Budget Advocacy Network of Sierra Leone).

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Tearfund is a Christian relief and development agency working with a global network of local churches to help eradicate poverty

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