

Chapter 3

How the business sector can contribute to the fight against corruption

At least two clear factions are involved in a corruption pact: the bribe taker (e.g., a public official) and the bribe giver (e.g., a company). The fight against corruption will not succeed if it is one-sided—both of these parties must be addressed in any anti-corruption effort that aspires to be successful. Clearly, governments, donors, civil society organizations, and individuals all have a role to play. Likewise, businesses must also take responsibility for the potential risks of corruption in their activities and transactions, and can take measures to enhance private sector ethics to prevent and detect corruption.

This chapter explores how governments, on one hand, can impose more stringent controls on companies to prevent the giving of bribes to public officials, and the corporate sector, on the other hand, can take action to prevent the offering of bribes. In addition, civil society groups can catalyze the involvement of the corporate sector in the battle against corruption.

Lester Ross, a lawyer active in counseling foreign companies operating in and from the People's Republic of China and those who seek to do so, describes the process of obtaining a public contract, a license, or customs clearance from Chinese authorities. Situations where companies might be inclined to give bribes, despite the risk of severe punishment of companies and corporate individuals found guilty of giving bribes to Chinese public

officials, are brought out. Ross cites strengthened corporate accountability and improved auditing standards as ways to help prevent accounting omissions and fraud that could hide bribes given to public officials in corporate accounts.

Legal frameworks developed in Korea to heighten transparency in corporate management and promote ethical business practices are discussed by So-yeong Yoon, Deputy Director of the International Cooperation Division of the Korean Independent Commission against Corruption (KICAC). She gives examples of the Korean Government's efforts to tackle corruption through public-private partnerships via the Korean Pact on Anti-Corruption and Transparency (K-PACT). In Korea, government and business sector efforts to fight corruption go hand in hand with the general public's awareness about corruption and action to promote further efforts on the part of their leaders and the businesses they patronize. Indeed, it can be said that a virtuous circle—private sector efforts to practice ethical business and the public's ensuing demand for more transparency around private sector activities—has been created by programs undertaken in Korea.

In another example of how the demand for transparency on the part of the general public contributes to private sector momentum in the fight against corruption, Henry Parham, International Coordinator of the UK-based NGO Publish What You Pay, explains how his organization advocates transparency in business practices, particularly among international corporations. The NGO promotes voluntary disclosure of payments made to governments (in taxes, fees, royalties, bonuses, etc.) by companies active in mining and other extractive industries and voluntary disclosure of governments' receipt of these payments. With easy access to this information, citizens can verify for themselves whether the profits from the natural resources of their countries are being disbursed and received in a fair, equitable way. Such programmes, he says, are beneficial for business as they contribute to a stable and transparent investment climate.

Korea's business ethics programs

So-yeong Yoon

Deputy Director, International Cooperation Division
Korea Independent Commission Against Corruption

Corporate corruption threatens sustainable development, as it hinders just distribution and efficient use of resources. In the end, it will undermine national credibility and competitiveness. At the moment, major advanced economies are making sincere efforts to strengthen business ethics by setting and meeting global standards. As Korean companies are in the initial stage of ethical management, the Government has been improving the legal and institutional frameworks for heightening transparency in corporate management and promoting ethical business practices. Corruption in the corporate sector will not be wiped out without eliminating public sector corruption, as the two areas are invariably interlinked. So the Government is now focusing its efforts on public-private partnership to tackle corruption, especially through the implementation of the Korean Pact on Anti-Corruption and Transparency (K-PACT). The business sector is also stepping up its efforts to enhance business ethics, involving itself actively in the anti-corruption drive of Korean society as a whole.

Legal Frameworks to Ensure Ethical Management

Disqualification of candidates for financial institution officer

Current finance-related acts, such as the Banking Act, Securities and Exchange Act, and Insurance Business Act, contain provisions on the disqualification of candidates for officer positions at a financial institution. These disqualification standards are stricter than those applied to public servants, since financial institutions have an obligation to serve the public interest, establish order in the financial market, and contribute to the growth of the national economy.

According to these acts, financial institutions must prohibit the employment of a person who has been sentenced to imprisonment or to a fine or heavier punishment under finance-related acts and for whom five years have not elapsed since the execution of such punishment has completed, and has been serving a suspended sentence. These acts disqualify any person who was an employee of a company and who is

directly responsible for the cancellation of license or authorization of business pursuant to finance-related acts, and for whom five years have yet to elapse from the date on which the license or authorization of such company was cancelled; and a person who was dismissed from a financial institution, and for whom five years have not elapsed since the date of such dismissal under finance-related acts.

Internal accounting management system

The internal accounting management system was introduced in August 2001 under the Corporate Restructuring Promotion Act to ensure the accuracy of accounting information. As part of accounting reforms, the National Assembly passed the External Audit of Stock Companies Bill and the Securities and Exchange Bill in December 2003.

The External Audit of Stock Companies Act requires stock companies to have in place an internal accounting management system. It includes, among others, regulations on discrimination, classification, recording, and disclosure of accounting information, and handling of incorrect accounting information. The internal accounting management system also necessitates an organization that enforces these regulations.

According to this act, the head of a company shall designate a permanent director to be in charge of the system as the internal accounting manager. Every six months, the internal accounting manager shall give a report on the operation of the internal accounting management system to the board of directors and auditors. The auditors, in turn, shall evaluate the system and submit a report on it to the board of directors every fiscal year.

Government's Efforts to Promote Business Ethics

Business Ethics Center

Domestic businesses are well aware of the necessity of ethical management but lack information on how to effectively translate their determination into action. Under these circumstances, the Korea Independent Commission Against Corruption (KICAC), a national anti-corruption body, established the Business Ethics Team in November 2003 and opened the Business Ethics Center in June 2004:

- To provide companies with useful information on anti-corruption methods and ethical management;

- To support their ethics training and corruption prevention activities; and
- To conduct exchange and partnership programs with businesses to promote ethics in the private sector.

Separately, KICAC has built a website called the Digital Business Ethics Center (<http://ethics.kiac.go.kr>), which accommodates wide-ranging and comprehensive information regarding trends in business ethics, related news and best practices of ethical management, educational support for ethical management, on-line counseling, etc.

Business Ethics Pact for Public Corporations

The Business Ethics Pact is aimed at promoting business ethics and efficiently supporting ethical management through a joint effort of the public and private sectors. Drawing lessons from the public-private partnership projects implemented by the Service Central de Prévention de la Corruption (SCPC) of France, KICAC designed the pact, which contains provisions on entrenching ethics and preventing corruption in the business sector.

The major contents of the pact include:

- Formulation or revision of corporate codes of ethics;
- Training and education in ethical management;
- Establishment and management of the compliance monitoring system;
- Mutual cooperation in implementing the pact; and
- Dissemination of best practices.

From May to July 2004, KICAC signed separate business ethics pacts with the Korea Rail Network Authority and 13 government-financed institutions including the Korea Electric Power Corporation, the Korea Land Corporation, and the Korea National Housing Corporation. The pact requires the signing companies to develop and carry out their own business ethics plans and submit a progress report to KICAC every six months. KICAC, for its part, gives support for and assesses the implementation of the pact.

K-PACT and corporate integrity

The K-PACT is a common pledge of Korean society to overcome corruption and advance towards a transparent society. The landmark pact was signed by the leading figures of the public, political, business, and civilian sectors in March 2005. In accordance with its provisions, the K-PACT Council was established to enhance cooperation among the signatories of the K-PACT and play a fundamental role of monitoring, assessing, disseminating, and renewing K-PACT implementation.

The K-PACT is now being widely disseminated throughout the country and across sectors. In the public sector, 10 central government agencies, 18 public corporations, and the metropolitan governments of Busan, Chungbuk, and Gyeongnam have so far signed the K-PACT.

In the political sector, a Special Committee for K-PACT was established in May 2005 to perform relevant legislative actions and raise transparency in the political area. Eight laws have been amended thus far to substantively implement the K-PACT. They include the Anti-Corruption Act, National Assembly Act, Political Fund Act, and External Audit of Stock Companies Act.

The business sector established the K-PACT Business Council in April 2005, vigorously implementing its action plans including the entrenchment of ethical business practices, reinforcement of the corporate ethics committee, elimination of malpractices in subcontracting, and fulfillment of corporate social responsibility. As to the lines of business, the K-PACT was endorsed in the construction and health/medical service areas. The education and finance areas are making preparations for taking part in this movement.

Civil society groups are focusing on the implementation of the K-PACT locally. They are monitoring how the K-PACT is being implemented in local areas and promoting citizens' involvement and transparency education through the nationwide anti-corruption network.

K-PACT Business Council

The business sector was the first of the four signatories to set up a council for K-PACT implementation. Korea's five major business organizations inaugurated the K-PACT Business Council in April 2005 and announced three core principles to implement the K-PACT: ethical management, transparent management, and social service.

To realize these three principles, the Council plans to draw up an "ethical management map" for each stakeholder, designed to eliminate

corruption factors within the enterprise and develop various programs aimed at disseminating best practices of ethical management such as managing the board of directors, employing outside directors, and ensuring transparent accounting practices. To educate CEOs and senior managers on ways to introduce ethical management to their companies, the Council will create a CEO Corporate Ethics Forum and a Corporate Social Responsibility Research Group.

To promote social integration, the business sector will conduct various social service programs including support programs for the less fortunate, community development, relief aid, environmental protection, and promotion of art and culture.

K-PACT for Public Corporations

In June 2005, 18 public corporations including the Korea Electric Power Corporation, the Korea Land Corporation, Korea Highway Corporation, and Korea National Housing Corporation signed the K-PACT for Public Corporations and inaugurated the Public Corporations' Council for K-PACT dedicated to monitoring and evaluating K-PACT implementation. The K-PACT for Public Corporations is aimed at eradicating malpractices and corruption, ensuring transparency and fairness in public corporations, and heightening national competitiveness.

On 15 September 2005, the Council met for the first time to finalize work plans for 2005. To meet the increased need for greater transparency and integrity in the management of public corporations, the Council plans to develop a standard procedure for assessing the integrity of senior officials in each company by the end of October 2005 and a public corporation will conduct the integrity assessment no later than the end of November 2005.

The signatory public corporations will also seek practicable measures, to be applied to both contractors and subcontractors, to heighten transparency in bidding and contracting. These measures are expected to be implemented in the second half of 2006.

The anti-corruption movement spurred by the K-PACT has significantly contributed to eliciting the voluntary efforts of Korean society as a whole to fight corruption and enhance integrity. Although the Pact is a social commitment, which is not legally binding, the private sector of Korea is aggressively engaging in this movement lest it should be a vague statement. Businesses are mapping out their own plans to substantially implement the K-PACT, taking concrete actions to realize ethical management. This kind of public-private partnership is expected to go a

long way towards disseminating integrity and transparency in Korean society.

K-PACT for Public Corporations

Ethical Management

Public corporations shall build adequate mechanisms for implementing ethical management by establishing codes of ethics, operating an organizational unit that is responsible for ethical management, and doing away with institutions incompatible with ethical management. It shall strive to raise their employees' awareness on corruption through strengthened training on ethics and fulfill corporate social responsibility by supporting the underprivileged in society and engaging in relief work and environmental protection.

Transparent Management

Public corporations shall identify and improve areas with possibilities of improper use of discretionary powers that leads to corrupt practices. It shall enhance managerial transparency by making relevant standards and procedures clear, increasing the public disclosure of information, and ensuring accounting accuracy and transparency.

Prevention of Corruption and Enhancement of Integrity

Public corporations shall operate a sustainable corruption prevention system that can eliminate corruption-causing factors in advance and tackle the occurrence of corruption cases immediately. It shall ensure disciplinary efficacy by imposing stiffer punishment against and applying stricter standards to corrupt employees and encourage the act of reporting corruption by providing substantial support for corporate whistleblowers and protecting them against retaliation. To increase integrity of society as a whole, public corporations shall not offer, solicit or accept bribes, and shall impose sanctions against bribers by barring them from applying for a bid for a certain period of time.

The Public Corporations' Council for K-PACT

A workgroup committee shall be established under the Public Corporations' Council for K-PACT to monitor and assess the implementation of the Pact on a regular basis. The committee will consist of the heads of the ethical management units in each public corporation.

Combating corruption through law in the People's Republic of China

Lester Ross

Wilmer Cutler Pickering Hale and Dorr LLP
Beijing, People's Republic of China

Corruption has been recognized as an emerging challenge to China's economic and social reform, at the highest levels of the country's leadership. It threatens both the country's economic development and its political and social stability. As in all other countries, data on the magnitude of corruption are elusive. Statistics, where available, are inevitably approximate and most likely underestimate the true extent of the phenomenon. Since 2002, the Supreme People's Procuratorate has uncovered more than 30,000 cases of corruption, including 3,000 cases involving leading officials at or above the county level, and 100 cases at or above the level of director-general. Media reports have suggested that more than 4,000 corrupt officials have fled abroad with more than USD 600 million in illicit funds. In addition to these monetary losses, corruption also costs citizens' lives and well-being, as corrupt practices can, for example, jeopardize the safety of workplaces or diminish the quality of public health services or medical care.

Sources of Corruption

The sources of corruption and the factors that can worsen the problem are numerous and diverse. In China, many key assets, including land use rights and access to credit, are still controlled primarily by the State. Where good governance is lacking, close relationships between party or government officials and businesses can create opportunities for favoritism in awarding contracts or granting use of these assets. Such situations may also give rise to inappropriate protection of local business interests or administrative monopolies. A weak rule of law can also increase the potential for corruption, as it may diminish capacity and engender other shortcomings in judicial, procuratorial, and public security entities. The reliance of some traditions or cultural values on relationships or social networking (*guanxi*), for instance, may further encourage corruption. Finally, constraints on the press may inhibit the public exposure and awareness of corruption.

Recent Action to Fight Corruption

Efforts to combat corruption have increased in recent years. New legislative and regulatory developments include amendments to the criminal law. The law, as it stands today, states that any public official who takes advantage of his or her office to accept bribes is punishable by up to five years of imprisonment or criminal detention. If the crime results in serious losses to the interests of the State or citizens, the sentence will be at least five years. It also stipulates that anyone who offers or introduces a bribe to a public official is punishable by up to three years of criminal detention.

On 17 February 2004, the Communist Party of China published internal supervision regulations to intensify the country's anti-corruption campaign. These Internal Supervision Rules of the Communist Party represent a step forward in institutionalized anti-corruption efforts, and place emphasis on the supervision of high-ranking officials, especially in making major decisions that involve the distribution of public resources. The regulations are intended to replace strict hierarchical controls with "inner-Party democracy", and set forth an elaborate system under which Party leaders at all levels are expected to accept the supervision of the larger pool of Party members that they represent. For example, Article 13 requires that important decisions, including hiring and firing, be debated by the entire group and put to a vote. This voting exercise is designed to reduce the unilateral power of Party "bosses", who have been able to use their powers in the past to both amass riches and create broad umbrellas of influence. The following day saw the release of Disciplinary Punishment Rules of the Communist Party, a 178-article set of regulations on disciplinary penalties that complements the Internal Supervision Rules described above. These rules specify penalties for acts including bribe taking, embezzlement of public funds, and dereliction of duty. Disciplinary measures include warnings, severe warnings, removal from office, probation within the Party, and expulsion.

Administrative reforms have also been part of China's efforts to combat corruption more effectively. The Administrative Licensing Law, which took effect on 1 July 2004, streamlines administrative licensing procedures. Administrative licensing—the formal granting of legal permission for individuals, corporations, or other organizations to engage in special activities—is a major government function exercised by authorities at all levels. The new law reduces the number of activities that require government approval (e.g., international trade rights are now subject only to registration). It states that only the National People's

Congress, the State Council, and local people's congresses have the right to determine whether an activity requires an administrative license; departments under the State Council no longer have the right to do so. For those activities that continue to require administrative licensing, the government approval procedures have been simplified (e.g., for distribution—domestic trade—rights).

These are important steps to curb corruption, as excessive or abusive licensing can create opportunities for unfair licensing conditions, abuse of power, bribery, and other corrupt practices. For example, some companies that seek to obtain a license or a public contract or customs clearance from Chinese authorities may be tempted to resort to bribery despite the threat of severe punishment. In addition, weak corporate accountability and auditing requirements can facilitate accounting irregularities and even outright fraud for the purpose of hiding bribery of public officials. Other administrative reforms currently under consideration include the elimination of the distinction between urban and rural residency permits and a pending anti-monopoly law that focuses in part on administrative monopolies.

China's accession to the World Trade Organization may also affect levels of corruption. Advocates of economic liberalization believe that accession to the WTO will inevitably further reduce the opportunities for bribery, as one of its impacts is to liberalize trade and deregulate industry and commerce. Yet, others argue that economic liberalization policies may actually encourage corruption if, in reducing the size and role of government, it also reduces the capacity of government to identify and combat corruption.

Outlook for the Future

China's full membership in the ADB/OECD Anti-Corruption Initiative for Asia and the Pacific, as of April 2005, and its consequent commitment to implement the Anti-Corruption Action Plan for Asia-Pacific in matters related to both the prevention and prosecution of corruption, are expected to foster new initiatives and further promote this ongoing reform process through experience sharing and policy dialogue. Nevertheless, success in combating corruption depends on more thorough and comprehensive effects to address structural problems.

Promoting revenue transparency in the extractive industries

Henry Parham

International Coordinator, Publish What You Pay

Natural Resources, Corruption, Conflict, and Poverty

Lack of transparency in the management of natural resource revenues is widely recognized to exacerbate corruption, fuel many devastating civil wars, and undermine efforts to alleviate poverty in many oil-, gas-, and mineral-rich developing countries around the world. Around 50 countries depend on natural resources for their annual income. It is this dependency on resource revenues that has led many countries to experience greater political authoritarianism, corruption, and weak economic growth—a phenomenon often described as the “resource curse”.

One only has to look at the Transparency International Corruption Perceptions Index, where a large number of oil- and mineral-dependent developing countries sit at the bottom, to understand the links between natural resource wealth and corruption. Conversely, Norway, the third-largest oil exporter in the world, features at the top of the TI Index, indicating that it is perceived as one of the least-corrupt countries in the world. Norway has been able to harness its oil wealth for social and economic development through responsible revenue management practices based on clear transparency rules and openness in decision making by the Government. Indeed, Norway ranks first on the UNDP Human Development Index. As the example of Norway demonstrates, natural resources do not automatically lead to greater corruption or economic harm; it is the governance arrangements around oil, gas, and mining industries that determine the impact of those resources on a country.

Publish What You Pay

The international Publish What You Pay campaign (PWYP) was launched in June 2002 by a coalition of NGOs to work towards greater transparency over the payment, receipt, and management of revenues from the extractive sector. Transparency is essential so that resource revenues are used more effectively to promote national development and economic growth in developing countries. Promoting revenue transparency is consistent with international objectives to combat

corruption, reduce poverty, improve corporate social responsibility, and ensure a stable and secure supply of energy to markets around the world.

Revenue transparency means that:

- Companies extracting resources publish what they pay to the government (taxes, fees, royalties, signature bonuses, etc.),
- The government publishes what it receives from the companies, and
- Information is audited and discrepancies are investigated and reconciled

so that citizens can track the money from their natural resources into the national budget and government reserves. If citizens do not know how much money their government is receiving and how it is being spent in the budget, they cannot know whether the money is being properly used or not. In this circumstance, trust in the government is weakened and corruption by officials is made much easier.

Institutional investors and pension fund managers from Europe and the United States, representing some USD 8.3 trillion, have come together to call for greater transparency in the extractive industries. They state:

Legitimate, but undisclosed, payments to governments may be accused of contributing to the conditions under which corruption can thrive. This is a significant business risk, making companies vulnerable to accusations of complicity in corrupt behavior, impairing their local and global "license to operate", rendering them vulnerable to local conflict and insecurity, and possibly compromising their long-term commercial prospects in these markets.¹

Extractive companies themselves have supported calls for greater transparency. BP, the oil giant, for instance, states:

[We are] committed to the principle of transparency, in the belief that improving accountability in the societies where we operate strengthens governance and reduces corruption, conflict, and poverty. This is good for society, and good for business. It reflects responsible business.²

Mining major RioTinto states:

Without a high level of transparency, accountability is well nigh impossible. Civil society and other observers wish not only to be

able to see what is going on, but also who is responsible for what. Transparency and accountability are the pre-requisites of an enabling environment into which long term extractive investment can be made. Such an environment is based on political stability, the rule of law and good governance. This benefits civil society, government and business together.³

PWYP was founded by Global Witness, Save the Children UK, Catholic Agency for Overseas Development (CAFOD), Transparency International, and George Soros' Open Society Institute. The campaign is now backed by more than 290 NGOs worldwide from over 50 countries. National PWYP coalitions in Indonesia, West Africa, Europe, Central Asia, the United States, and elsewhere have been formed to pressure national governments, companies, and financial institutions to take action to improve revenue transparency.

To ensure that multinational and state-owned companies disclose payments to governments for every country of operation, and that governments disclose receipts of this income, the PWYP coalition calls for simple and logical adjustments in existing company law, accounting standards, stock market disclosure rules, and the lending conditions of international financial institutions (IMF, World Bank, EBRD, and regional development banks including ADB), export credit agencies and banks, such that companies individually publish what they pay and governments publish what they receive. This proposed package of mandatory solutions seeks to ensure a level playing field, whereby all resource companies would be required to disclose and progressive companies would be protected from having their contracts terminated by corrupt governments if they disclose information voluntarily. A level playing field would also prevent companies from being undercut by less transparent competitors.

Publish What You Pay seeks to ensure that investments in resource-rich countries and in extractive industry projects take place only within a coherent policy framework that ensures that such investments contribute to poverty reduction and sustainable development.

Extractive Industries Transparency Initiative

In response to pressure from the Publish What You Pay coalition of NGOs for greater transparency in the extractive industry, the Extractive Industries Transparency Initiative (EITI) was announced by UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg in September 2002. The EITI is an international multi-

stakeholder initiative that aims to increase the transparency of payments by companies to host country governments for the extraction of oil, gas, and mineral resources, and of government receipts of this income.

EITI encourages resource-dependent developing countries to voluntarily sign up to a set of principles and implement reporting guidelines to make public information on company payments and government revenues in consultation with local civil society and extractive companies. Once a host government commits to implement the Initiative, all companies (including state-owned enterprises) in that territory must comply. EITI implementation is carried out with the active support and financial assistance of donor agencies and international financial institutions. Members of the PWYP international coalition and national civil society platforms are actively engaged in the EITI process.

The United Kingdom, through the Department for International Development (DFID), and the World Bank have been the main drivers of the EITI process at the international level. Recently, however, there have been encouraging signs of other governments coming on board to support the Initiative. At the 2005 Gleneagles Summit, the G8 countries committed to supporting the EITI. Norway also recently announced that it was committing significant amounts of money to assist governments in implementing EITI and to support civil society groups in monitoring it.

The host governments that have committed to implement EITI are: Azerbaijan, Congo-Brazzaville, Democratic Republic of Congo, Kazakhstan, Kyrgyz Republic, Nigeria, Peru, Timor-Leste, and Trinidad and Tobago. Given the importance of natural resources to many countries in the region, donor governments, international financial institutions, and civil society organizations must capitalize on the significant momentum behind the EITI at an international level and actively push for implementation by host governments. Support should be provided to governments in the form of financial and technical assistance, and action plans for implementation should be developed in line with the internationally agreed EITI principles and criteria.

The EITI criteria for implementation were agreed at the High-Level Conference in March 2005 in London. They are:

- Regular publication of all material oil, gas, and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas, and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive, and comprehensible manner.

- Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
- Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.
- This approach is extended to all companies including state-owned enterprises.
- Civil society is actively engaged as a participant in the design, monitoring, and evaluation of this process and contributes towards public debate.
- A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions, where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

At the international level, concerns have been raised as to how to recognize those countries that are making concrete progress towards full EITI implementation (e.g., Azerbaijan, Nigeria), as compared with countries that have simply indicated their willingness to participate and yet have made little genuine progress in complying with the criteria (e.g., Congo-Brazzaville, Equatorial Guinea). An International Advisory Group (IAG), comprising representatives of different stakeholder groups, is drawing up a proposal for the validation of EITI implementation across all participating countries. The IAG will also develop proposals for future governance arrangements of the Initiative at an international level. At the recent Gleneagles Summit, the G8 endorsed EITI and welcomed the development of such measures to help validate implementation.⁴

It is critical to the credibility and effectiveness of the EITI that local civil society organizations and independent observers are actively involved in the design and implementation of the Initiative, as well as in the development of relevant laws and regulations, from an early stage. Local NGOs should also be helped by donors and international NGOs to improve their capacity so that they can effectively monitor the management of resource revenues and their allocation in national and local government budgets.

External and independent auditing of resource revenues is fundamental. The auditing process should be subject to legislation

stipulating that the auditor will be chosen through a competitive tender with transparent procedures, and that the conclusions of the auditor will be published in an accessible form, without omissions. The model used in Azerbaijan for the selection of the EITI auditor could provide a useful basis for such a process in other countries. None of this would constrain the right of the government and parliament to allocate revenues for public purposes via the national budget. It would simply ensure that the sources and uses of petroleum revenues are clear to citizens.

The rewards for making significant progress towards full EITI implementation could potentially include greater foreign investment and poverty reduction through sound economic growth and sustainable development.

Critical Time to Seize the Initiative

It is a critical time for the oil, gas, and mining industries globally. As oil prices continue to soar and the world's thirst for energy grows ever stronger, huge amounts of revenue are being generated. Such windfalls from the extractive industries could be an enormous threat to global stability and development if revenues are not managed with transparency and accounted for openly by companies and governments.

The international community must take advantage of the momentum generated by revenue transparency initiatives and other complementary efforts. Political and business leaders should seize the initiative and commit to implement revenue transparency reforms. This is critical in order to deliver real change for the people living in poverty in resource-rich countries in the Asia-Pacific region.

Revenue transparency is only part of wider reforms. Transparency by itself will not address corruption overnight, but it is

- Critical in resource-rich countries that depend on resource revenues;
- Good for business and for sustainable development because it promotes a more stable investment climate;
- Key to energy security objectives—to reduce risks to businesses and threats to supply of resources; and
- Fundamental to meet the Millennium Development Goals, given that two-thirds of the world's poorest people live in resource-dependent countries.

Notes:

- 1 F&C Asset Management et al. Investors Statement on Transparency in the Extractive Sector.
- 2 www.bp.com
- 3 Extractive Industries Transparency Initiative Conference, London, March 2005.
- 4 See www.eitransparency.org/iag