

RESOURCE REVENUE TRANSPARENCY

**A Project Brief for the
International Public Sector Accounting Standards Board**

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Scope of the Issue

Changes to international accounting standards for governments so that natural resource revenues received by them are more easily verifiable by parliaments and other users of public accounts.

Definition of the Problem

"Corruption hurts the poor disproportionately by diverting funds intended for development, undermining a government's ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment and aid".

Kofi Annan, then United Nations Secretary-General
in his statement on the adoption by the General Assembly of the
United Nations Convention against Corruption, 2003

Corruption is the abuse of power for private gain. It has become a leading concern for parliamentarians around the globe. The diversion of public funds robs public policies of resources to do the good they were intended to finance. It undermines parliamentary control of the public purse. It thrives when accountability and transparency are weak or absent. There is, therefore, a link between good financial reporting and auditing, and the reduction of misrepresentation that hides corruption.

In recent years many international organizations have been working towards increasing transparency in regards to extractive industries payments to national governments. In countries where public transparency and parliamentary oversight are weak, such large flow of funds are an attractive potential source of funds to corrupt senior officials. Knowing both what companies pay and what governments receive is a critical first step to holding governments to account for these revenues.

For example,

- We emphasise our determination to fight corruption and mismanagement of public resources in both revenue raising and expenditures. Transparency inhibits corruption and promotes good governance. Increased transparency of government revenue and expenditure flows, as well as strengthened enforcement efforts against bribery and corruption, will contribute to achieving these goals and to increasing integrity in government decision-making - thereby ensuring that resources, including development assistance, achieve their intended purposes.

Fighting Corruption and Improving Transparency: A G8 Declaration, 2003

- In many countries, money from oil, gas and mining is associated with poverty, conflict and corruption. Commonly referred to as the “resource curse”, this is often driven by a lack of transparency and accountability around the payments that companies are making to governments, and the revenues that governments are receiving from those companies.

Extractive Industries Transparency Initiative, 2005

- Given the[se] potentially substantial costs of non-transparent practices, institutional strengthening to improve transparency in vulnerable resource-rich countries should provide an ample pay-off for a relatively modest investment. Many analysts have emphasized the essential role played by fiscal transparency in improving resource revenue management.

International Monetary Fund, Guide to Resource Revenue Transparency, 2005

At its Second Global Conference, GOPAC members acknowledged that in many jurisdictions the large amount of money received by governments from natural resources royalties does not find its way into the public finances. GOPAC undertook as a first step to seek to ensure that government financial accounting standards require that all such revenues be documented and reported as part of annual financial reports of government. This was seen as a useful complement to the business-oriented *Publish What You Pay* and the *Extractive Industries Transparency Initiative* which focus on transparency at the level of individual companies and individual projects.

Analysis of Existing Practices that Illustrate the Issues

Abuse of power for personal gain can occur in both the public and private domains and often in collusion with individuals from both sectors. Resource extraction and the revenues they provide present a particular challenge.

- Countries rich in natural resources such as oil, gas, and mining have tended to under-perform economically, have a higher incidence of conflict, and suffer from poor governance. Ensuring that revenues from natural resources make it into government budgets for needed public sector expenditure is key to reducing poverty, promoting democracy and reducing the risk of conflict.
- In many countries the often dominant activities of state-owned resource companies necessitates a broad perspective on public sector activities.
- The high-risk, high cost and uncertain nature of exploration, coupled with a long gestation before profits are realised and the finite nature of resources, makes financial management of the sector difficult. Companies investing large amounts in natural resource extraction need to be assured of a stable, reliable environment for their investments.

- At the same time, the fiscal regime covering these projects is generally complex, and often leaves significant scope for discretionary arrangements in individual agreements.

Why Should the Board Approve this Project?

The Board is the international body that focuses on the accounting and financial reporting needs of national, regional and local governments, related governmental agencies, and the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance, conducting educational and research programs, and facilitating the exchange of information among accountants and those who work in the public sector or rely on its work.

Many countries are in process of adopting International Public Sector Accounting Standards or are applying standards consistent with them. They look to the Board for guidance.

The Board has issued specific disclosure requirements for governments and other public sector entities in order to strengthen accountability. IPSAS 24, for example, on the *Presentation of Budget Information in Financial Statements*, identifies disclosures to help readers to compare budget amounts with actual amounts arising from carrying out the budget.

Similarly, increasing transparency and knowledge of revenues will empower citizens and institutions to hold governments to account for the right use of these resources. Mismanagement or diversion of funds away from sustainable development purposes will become more difficult.

Demonstrating transparency and accountability should also benefit developing and transition economies by improving the business environment, helping them to attract foreign direct investment. Transparency and good governance are often pre-conditions for access to international financial institution lending or donor programmes.