



# Covering Extractives

An online guide to reporting on natural resources



Natural  
Resource  
Governance  
Institute

# Introduction

## Writing Natural Resource Stories That Drive Change

Are governments fairly and effectively using a country's natural resources to benefit its people? Are companies making decisions in consultation with local communities affected by the mining, oil and gas sectors? Can citizens see what extractive companies pay to governments, and how governments use the money they receive?

Media in resource-rich countries have a vital role in asking and answering these and many similar questions. But reporting on the extractive industries is challenging. The sector is technically complex and often secretive. To cover resource governance effectively, journalists must be able to follow leads across industries and borders, find and interpret essential data, and translate highly technical issues into meaningful stories with real human interest.

***Covering Extractives*** is a practical guide produced by the Natural Resource Governance Institute (NRGI) to help journalists report with authority on national and cross-border issues in the oil, gas and mining sectors. It draws on NRGI's experience as a knowledge institution committed to the rigor, accessibility, relevance and independence of research and evidence-based policy analysis. The guide will help increase the global output of high-quality reporting about natural resources and how well they are governed. It intends to help users harness the power of strong, well-researched stories to hold governments and companies accountable for their extractive activities worldwide.

## Using the guide

***Covering Extractives*** follows the extractive sector decision-making chain, from allocating resource rights, through extractive operations to evaluating the impact of extraction on local people and the environment. The guide explains the key workings of the extractive industries and highlights the opportunities and challenges people often face in resource-rich countries.

It is structured so that readers can start in any chapter—from inspiring examples of reporting on extraction, to different knowledge and learning tools on the “Resources” page. Online, users can also run targeted searches about a specific subject or query.

This content is relevant to journalists everywhere, although the guide provides specific examples and tips from four resource-rich countries with significant extractive sectors: Ghana, Myanmar, Tanzania and Uganda. Each has an NRGI media development program, and together they offer a useful range of governance approaches and examples of media coverage of natural resource extraction.

### Each chapter contains six sections:

- *Why it matters* – the potential impact of an aspect of extraction
- *The basics* – clear explanation of how this aspect of the sector works
- *Story leads* – useful ideas for compelling stories and how to pursue them

- *Examples of good reporting practice* – powerful articles and insights from journalists
- *Sources and Voices* – potential contacts and useful data sources
- *Learning resources* – selected videos and reports to explore the issue further

## **Each chapter unpacks a different stage of the extractive process:**

### **Chapter 1: The players and the game**

The global extraction industry has vast potential to transform lives and yet there are pitfalls that can come with sudden national wealth. Key players in the sector can help or hinder, while strong, transparent decision making can prevent corruption and poor management.

### **Chapter 2: Licensing**

The licensing process determines which company gets an extractive deal, and the terms of that deal—and it carries high corruption risks. It can tie a country to a bad deal for decades—meaning lower revenues, fewer employment opportunities, less local business, and greater social and environmental impact.

### **Chapter 3: State-owned enterprises**

State-owned companies can create national pride and have a big impact on the economy, often controlling a huge amount of money within a country. This can give them extensive power in areas beyond oil, gas and mining. But several have been the source of corruption scandals.

### **Chapter 4: What's in the deal**

The contract between a government and an extractive company should balance the interests of the government, the company, citizens and the local community. But some companies take advantage of loopholes, costing a country millions of dollars. In other cases, governments might make weak deals.

### **Chapter 5: Money flows**

Good management of extractive revenues can help a country build valuable infrastructure, create jobs, drive growth and attract further investment. Managed poorly, these resources can finance authoritarian regimes, cause economic stagnation or fund wars. In many places, the use of money from extractives has often been secretive.

### **Chapter 6: Local winners and losers**

Extractive projects have the potential to generate immediate benefits for local communities, through employment and demand for goods and services. But communities close to extraction sites also suffer the consequences, such as loss of land, environmental degradation and health hazards. This is particularly true for women.

In each of these stages, journalists have a vital role in raising issues, broadening the debate, engaging new audiences and holding those with commercial or political power to account.

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# 01

## The players and the game

### The basics about the sector

#### Jargon buster

• **commodity:** A raw material such as oil, gas and minerals or primary agricultural products that is bought or sold on markets.

• **Dutch disease:** In resource-rich countries, increases in oil, gas and mineral exports to foreign markets can generate large inflows of foreign capital, resulting in rising currency value and inflation. This can hurt certain parts of the economy—such as manufacturing—and make exports less competitive.

• **production:** The quantity of a resource extracted in a given time period.

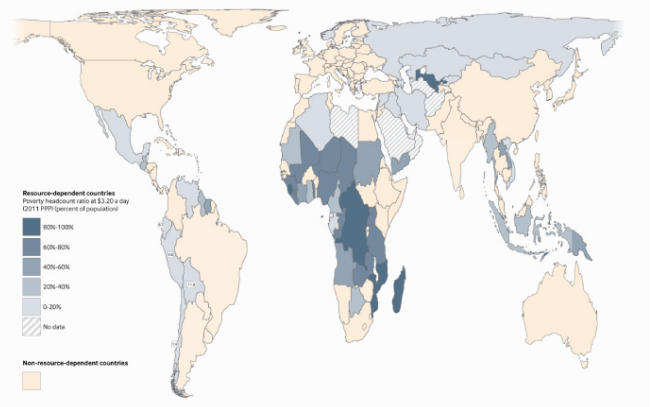
• **reserves:** The subset of total resources that is commercially viable to extract.

• **resource curse:** The paradox that countries with an abundance of natural resources, specifically non-renewable resources like minerals and fuels, tend to have less economic growth and worse development outcomes than countries with fewer natural resources.

## Why it matters

### Why does this matter to your audience?

- The extraction of oil, gas and minerals generates billions of dollars in revenue every year. This incredible wealth could be put to good use for the 1.8 billion people living in poverty in resource-producing countries.
- For most countries, natural resource endowment has not been a blessing. Extractive activities have brought the “resource curse”, including environmental destruction, increased levels of armed conflict, economic instability and slow growth, corruption and weak public institutions.



Map showing the percentage of the population living in poverty in resource-producing countries. (Source: **NRGI on the basis of Poverty and Equity Data from the World Bank, and IMF classification of resource-dependent low- and lower-middle-income countries**)

- Corruption and poor management are central causes behind this resource curse. The good news is much of this can be prevented by strong, transparent decision making. When citizens are informed about the choices and risks governments are taking, they can demand institutions, rules and practices that foster better long-term development.
- While governments should be the major decision-makers in the sector, some private extractive companies are so large and advanced in expertise that they dwarf many other industries and can sway public decision making. The six leading extractive companies bring in profits so large that they are comparable to the GDPs of many medium-sized countries. ExxonMobil alone brought in USD 20.8 billion in earnings for 2018.

# The Basics

Natural resource extraction projects have distinct phases, from locating deposits, through their extraction, processing and marketing, to their closure. Each project involves key players, including governments, state-owned enterprises, regulators, international bodies and private companies of different size and function. To report on the extractive sector, it is important to understand these players and their roles at each stage of a project. By shedding light on whether players are fulfilling their obligations to all stakeholders—including local communities—reporters can help provide the transparency needed to prevent the “resource curse”, which describes the failure of many resource-rich countries to benefit fully from their mineral or oil wealth.

## The process of extraction

### The oil and gas industry

#### Oil and gas: upstream, midstream and downstream production

The oil and gas production process is divided into three phases: upstream, midstream and downstream.

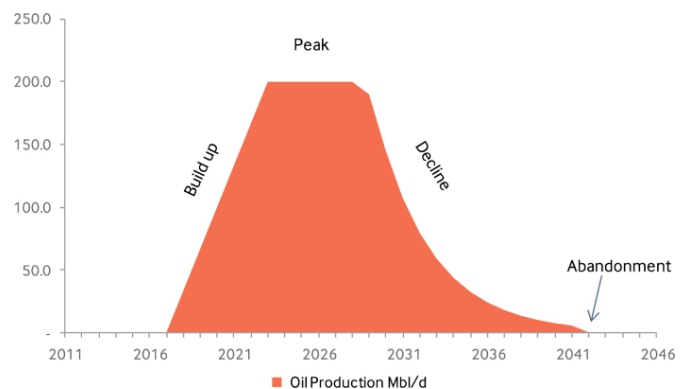
#### Upstream

“Upstream” production consists of locating crude oil or gas and getting them out of the ground at the wellhead. This is typically the most capital-intensive phase of production, with high costs up front—as well as the most lucrative part of the value chain.

There are several phases of the upstream process which are often considered the lifecycle of a project. They start with exploration and appraisal, determining whether a country’s resources are commercially viable to extract. Depending on how confident the company is that it would make money from getting the oil out of the ground and taking it to market, it will describe its reserves as “proven” (90 percent certainty), “probable” (at least 50 percent certainty) and “unprovable” or “possible” (between 10 and 50 percent certainty).

The next phase, development, begins when the company is convinced that the project can be profitable and the government gives it a license to proceed. During this phase, a company often digs additional test wells, makes environmental impact assessments and gives plans to the government about how the project will proceed. The company also often needs to use this time to raise money to pay for all the equipment needed for the project.

Next, a company will start the production process, which includes getting the oil or gas out of the ground and transporting it towards a market. The production phase is usually when the most revenue is generated, as costs start to stabilize after a few years. Most oil and gas projects follow a trend of production that starts slowly, peaks and then reduces, as shown in the sample production curve below.



Production profile of a typical oil field. (Source: NRG I)

The last phase of an oil project is the decommissioning or abandonment phase, in which the company is responsible for closing the wells and restoring environmental impacts. The extent of company responsibility in this phase depends on the contract it has with the government, but there are usually requirements for the company to remove its equipment and leave the area in a safe way that reduces risk of future environmental problems like seepage or gas leaks.

#### Midstream

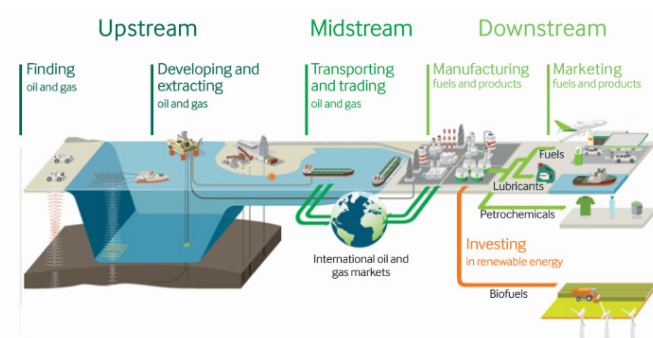
“Midstream” encompasses the processes in between the upstream and downstream, which is mostly storage and transportation of oil and natural gas. These are transported via pipeline or ship. To be shipped, gas must first be significantly cooled so it becomes liquid, called liquefied

natural gas (LNG). Once LNG is shipped to its destination, it is turned back into gas.

## Downstream

Minerals that are unaltered since coming out of the ground are referred to as raw materials. Transforming raw materials into a format that can be used by consumers is the first step of the downstream phase, called refining. Refining involves separating out a mineral from impurities and unwanted substances. In the case of oil, this often means taking out water or sulfur. For gas, the process focuses on concentrating the methane so it can be used. This process often takes place at refineries—facilities that convert the “crude oil” that comes out of the ground into products like jet fuel or fertilizer. The downstream phase also includes marketing, as it involves turning the resource into something that the end-user can purchase and consume.

The figure below gives an overview of the oil value chain:



Oil value chain describing BP's business model. (Source: BP)

Many energy companies work in multiple parts of the chain at once. This means more chances for efficiencies and, sometimes, more chances for corruption. This guide focuses on the upstream stages of mineral production, where natural resource producing countries have the greatest interests, and the most say.

Watch this 15-minute [video](#) about the oil and gas development cycle.

## The mining industry

**Phases of a mining project: Exploration, development, production and closure.**

### Exploration

Mining projects have four phases. They start with exploration, during which the company tries to understand what types of minerals may exist in the ground and how easy or hard they would be to extract. This often begins with aerial studies and mapping, and seismic analysis, using sound waves to better understand the composition and density of rocks. Next companies often extract core samples that give a sense of what type of minerals exist in different layers of the ground. The government often has rules

about what activities companies are allowed to do before they have to report back to the government or ask for additional permission. The goal of a company during exploration is to understand what type of minerals are likely to occur and the cost associated with extracting them. Potential extraction projects viewed as likely to be successful are classified as either a “proven reserve” or “measured resources”, meaning the company is highly confident it can make a profit taking the mineral to market. “Probable reserves” or “indicated resources” mean there is reasonable confidence that the minerals exist and can be extracted. “Inferred resources” mean there is reason to believe there might be a certain amount or type of resource, but it cannot be confirmed.

### Development

The next phase of the extraction process is the development phase. This begins with a company understanding the feasibility of the project, investigating what type of mine to develop, how to deal with the waste, how to get the mineral from the mine site to market, and the potential social and environmental costs. Companies are usually required to submit a feasibility study to the government and their investors before beginning construction. In most countries, the government has a responsibility to review and approve these studies, but sometimes they are treated as a formality and have little influence over whether a project is granted a license.

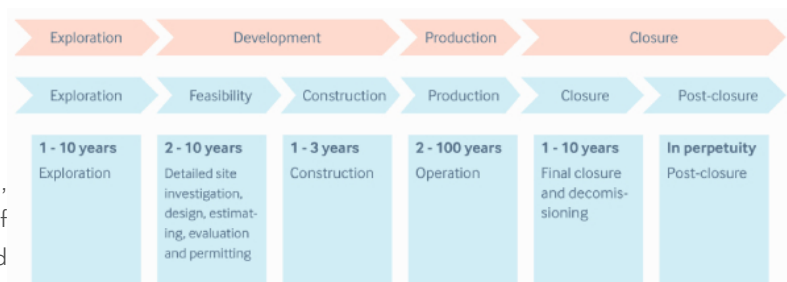
### Production

Once the mineral deposit is deemed commercially viable and the appropriate contracts have been signed, the company begins production, with some mines lasting up to 100 years.

### Closure

The extraction company is responsible for closing the mine and making the area around it safe, including getting rid of waste. This closure or rehabilitation phase is often very important to surrounding communities.

The image below gives an overview of the lifecycle of a mining project:



Typical lifecycle of a mine. (source: NRGi)

## The players

To report on the extractive sector, it is important to understand the key players and their roles—from governments, state-owned enterprises and regulators, to international bodies and private companies of different size and function.

### The state

In most countries, the state is the owner of all natural resources in or under the ground or sea within the country's territory. When natural resources are discovered in a country, governments often invite companies with experience in resource extraction to explore and extract the product. Many governments do this because they do not have the expertise, capital or equipment to bring resources out of the ground and to market. In this situation, the government makes money either by retaining ownership of a portion of the resources the company has extracted, or by charging taxes and royalties on the company's profits.

### State-owned enterprises

Countries often create state-owned enterprises (SOEs) in order to participate in resource extraction. In oil and gas, these are called National Oil Companies (NOCs). According to the World Bank, NOCs control about 80 percent of global oil reserves and 75 percent of the world's oil production. Some of the biggest oil companies in the world are NOCs, like China's Sinopec and Saudi Arabia's Saudi Aramco. NOCs can be involved in all parts of the production process, from extraction to refining to marketing and trading. Some just work within their home country, while others, like Malaysia's Petronas, also work abroad.

As with oil and gas, SOEs also play a key role in mining, as with China's Shenhua, Mongolia's National Mining Corporation and Coal India. Governments see SOEs as a key tool for promoting local content—a way to grow the country's expertise in a lucrative industry and create high-paying jobs. SOEs also allow countries to increase their revenue share from natural resources and to monitor more closely the private-sector partners working in their natural resource sectors. SOEs can be powerful vehicles for development and building human capacity (see Chapter 3), but they can create risks around accountability for how money is managed. They can also take public revenue down some unanticipated paths. Sitting at the crossroads of public decision making and vast revenue streams, an SOE can often turn into a hub of corruption or mismanagement.

### International oil companies: The giants

International Oil Companies (IOCs) are active at all steps of the supply chain, from exploration and production to refining and marketing. Among them, the "giants" operate in multiple regions, and are big enough to influence global oil supply and prices. On the Forbes annual ranking of the world's largest public companies, the oil giants regularly feature among the top 30 biggest companies. They count among the

most profitable private companies ever, earning billions of dollars every year. This gives them powerful influence in the industry and beyond.

### The size of an IOC can be measured in two ways:

- By **market value** (or market capitalization), calculated by multiplying the number of the company's shares by the value of one share.
- By the size of its mineral reserves. Publicly listed companies on the New York Stock Exchange, for example, have to report their reserves each year to the US **Securities and Exchange Commission**.

The giants include ExxonMobil (United States), Royal Dutch Shell (UK and Holland), ConocoPhillips (United States), Chevron (United States), British Petroleum (UK), Total (France) and ENI (Italy).

### Smaller oil multinationals

While NOCs and IOCs control the majority of the global oil production, smaller multinational oil companies are making some of the most important new discoveries around the world. These companies tend to focus exclusively on the upstream sector and are sometimes called "the independents".

For example, Houston-based independent Noble Gas made a key deep-water gas discovery in the Eastern Mediterranean in 2011. In East Africa, Canada-based African Energy Corp and the UK's Tullow Oil have taken the lead in opening up the region for commercial production. Tullow—which calls itself "Africa's Leading Independent Oil Company"—is also active in West Africa, in countries such as Ghana.

These smaller companies tend to develop technical expertise in one area of extraction, such as deep-water drilling. They often go into regions that bigger companies might see as unproven or too risky. If an independent does make a major find through one of these ventures, larger IOCs often become involved in joint partnerships later in the process.

### Mining companies

The mining sector also contains a mix of large and small companies. The larger players—also called the majors—include Glencore, BHP Billiton, Vale and Rio Tinto. In mining, the biggest players are private, with some larger companies extracting many different minerals, while others specialize in one or a few. Freeport, for example, specializes in copper and gold. While mining does have a few larger companies, unlike the oil sector, it is dominated by hundreds of smaller companies, called the juniors, which tend to focus on exploration. Their access to capital is much more limited than the giants, and they rely on project-specific equity financing to fund new operations. A few also produce minerals on their own or in collaboration with other companies.

### International bodies

In oil and gas, the Organization of Petroleum Producing States



(OPEC), is a leading player. While its influence has fallen in recent years, this international body aims to limit countries to various levels of oil production, so as to influence the global oil price.

The group currently has 14 member countries, which together control 80 percent of the world's proven reserves and one-third of production. Saudi Arabia is typically the most active and powerful member. Russia is not part of OPEC, but it often cooperates with it. In mining, the powerful body is the International Council of Mining and Minerals, an organization composed mostly of large extraction companies. Its influence on standards in the industry is gradually increasing, though junior companies generally lack the resources to comply with these high standards. With the Toronto Stock Exchange providing up to 60 percent of mining financing globally, Canadian mining companies have a large global presence and the Mining Association of Canada has a significant influence on industry standards as well.

### Services companies

Service companies provide specialized services to larger extractive companies and are increasingly relevant players in the oil, gas and mining sectors. Ongoing NRGi research shows that between 50 and 90 percent of the costs of a typical oil, gas or mining project go to third-party suppliers of goods and services.

These range from small companies providing food or transport, to huge multinationals providing specialist services like seismic testing, drilling, engineering and construction. These multinationals include Schlumberger, Halliburton and Baker Hughes. They are not exempt from corruption scandals, normally following suspicious bidding processes for contracts. For example, Halliburton was found guilty by the American Securities and Exchange Commission (SEC) of having violated the Foreign Corrupt Practices Act in Angola in 2017. The Financial Times **reported** that Halliburton had to pay a USD 29.2 million fine for having gained questionable access to lucrative contracts with the national oil company Sonangol. To fulfil local content obligations, Halliburton paid \$3.7 million over a seven-month period to a local Angolan company. This was owned by a former Halliburton employee, who was also a friend and neighbor of a Sonangol official with the power to veto or reduce subcontracts awarded to Halliburton by large international oil companies. That official later approved Halliburton's local content proposal.

Read this NRGi **report** to find out more about the governance of extractive industries suppliers.

### Commodity trading companies

The commodity trader's role is to get the natural resources to the market where they can be sold on. Commodity traders make a profit by buying oil, gas or minerals and selling them to those who can supply end users,

such as refineries. However, traders get a margin that theoretically could have been captured by the government or extraction company if either marketed the commodity itself.

Despite sometimes operating in logistically or politically difficult environments, large commodity trading houses can find the industry highly lucrative, as they make more than \$100 billion in annual revenues. Often based in Switzerland, London or Singapore, these include Glencore, Xstrata, Vitol, Cargill, Trafigura, Gunvor, Koch Industries, Mercuria and Phibro.

Many oil multinationals and NOCs also have trading arms, as can banks and hedge funds.

Some small exporters choose to hire a trading company to market their oil or minerals on their behalf. In Chad, for example, the Swiss trading company Glencore buys 100 percent of the oil sold by the government, making payments accounting for 16 percent of the Chadian government's revenues. The traders have the experience to find customers for the specific crude or mineral produced and are also often experts in dealing with challenging logistics.

## The resource curse

Despite the great wealth natural resource extraction can generate, the discovery of a high-value resource can also bring about lower rates of economic growth and cause significant political and social challenges. This "resource curse" describes the failure of many resource-rich countries to benefit fully from their mineral or oil wealth. Problems can sometimes start even before any mineral leaves the ground (known as the "presource curse"). Secrecy is a key driver of the resource curse, making greater transparency central to tackling it.

### Common causes and effects of the resource curse

#### Weak incentives for democratic accountability

Political scientists find that governments are more responsive to citizen demands when government spending is dependent on citizen taxation. People want to know what happens to their taxes. There is usually less direct citizen taxation when public revenues come from oil, gas, and mining industries, which reduces public pressure on politicians to be accountable. This problem is made worse when citizens are not informed about resource revenues and their use. The result is a tendency towards authoritarianism in resource-rich countries. In Eurasia, for example, Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan are all resource-dependent, while ranking near the bottom of **Freedom House's ratings for political and civil liberties**.

#### Heightened risk of conflict

Oil, gas and mineral producing countries are more likely to experience armed conflict. This can be for several reasons, including difficulty deciding who should benefit from extraction, and groups fighting for control of the resources. Libya since the fall of Colonel Gaddafi is a good illustration

of how resource extraction can undermine political stability, and how instability affects extraction. Since the revolution of 2011, Libya's oil and gas resources have been held hostage by different groups fighting for control over the country. Some have used disruptions to oil production to maintain instability, from which they benefit.

### **Inefficient government spending and borrowing**

Revenues from oil, gas and mining are very unpredictable, because of changes in commodity prices and fluctuations in production. If countries do not plan for this volatility, they can end up in debt for having over-borrowed and over-spent their budget in times of boom. Oil-rich Congo Brazzaville regularly gets into trouble through unwise over-spending. The oil sector accounts for 80 percent of the state budget, but weak financial discipline has generated high levels of debt, forcing the country to default on some of its loans. In 2019, to obtain an IMF loan in order to overcome its most recent debt crisis, the government had to commit to reforming management of its oil revenues.

### **Challenges of sustaining other sectors besides extraction**

By focusing on the lucrative extractive sector and neglecting other important economic areas, such as farming or manufacturing, countries often experience poor growth following a natural resource discovery. One reason for this is so-called “Dutch disease,” when a large increase in resource revenues can create inflation that hurts other sectors of the economy. Developing other sectors of the economy (“economic diversification”) can also be hard because the new extractive industry tends to attract some of a country's top workers and entrepreneurs. Insufficient economic diversification has meant that a country like Venezuela, where oil makes up 98 percent of exports, has become extremely vulnerable to international dynamics affecting its oil production. The combination of low commodity prices and international sanctions on the country's energy industry have caused the country to spiral into debt and hyperinflation in recent years.

### **Limited government income from resources**

In some countries, the terms of the deal between an extraction company and the government are unfairly beneficial to the company. This can happen because a government is desperate to attract initial investors or because it had less access to information about the industry or the country's mineral deposits than the company. Even when there is a fair deal, many governments struggle to fully recover the amount due, either because of inefficient collection practices or tax loopholes, such as transfer pricing, which affect government revenue even in developed countries with mature tax offices, such as Australia. The Australian Taxation Office regularly files cases against multinational extractive companies, challenging their abusive tax practices in the hope of recovering hundreds of millions of dollars in unpaid taxes.

### **Empowered elites and weakened public institutions**

In comparison to other sectors of the economy, oil, gas and mining projects

tend to create more opportunities for rent-seeking by the elites. This means that elites seek to capture the revenue flows from the extractive sector to increase their own wealth, without any benefit to society. This is possible when there are weak checks and balances in place to scrutinize what public officials and civil servants do. Rent-seeking tends to further weaken public institutions, as elites strengthen their positions of power through corruption. Public service delivery suffers as a result. In Myanmar, the military junta for many years used the natural resource sector to capture important revenues, taking advantage of weak accountability mechanisms to bypass Myanmar's national budget. NRG research in 2018 showed how billions of dollars were unaccounted for after they had been transferred by natural resource SOEs into so-called “Other Accounts”. The country's lack of transparency and oversight resulted in important misallocation of public funds.

## **The Presource Curse**

In some countries, trouble begins before the revenues start to flow. With the “presource curse”, just the discovery of a precious mineral can potentially cause government over-borrowing and over-spending. A country's vulnerability to the presource curse can be indicated by the strength of its governance structures, such as independent oversight bodies and clear regulations that are well enforced. Countries with weaker political institutions often find their average growth rates slow after a giant oil and gas discovery, due to lack of oversight of spending and revenue use. For example:

**Ghana** – In 2009 the country's economic growth was steady — about seven percent between 2003 and 2013. More recently it's been below four percent. What changed? Oil. Or rather, the promise of oil. After major oil discoveries in 2007 and 2010, the country began borrowing heavily — as well as spending heavily. As for savings, while the country saved USD 484 million in oil revenues for a rainy day, it also borrowed \$4.5 billion on international markets. Since 2015 the country has been in an IMF support program.

**Mozambique** – In 2009 Mozambique's growth averaged 6 percent. Then the country discovered gas — the largest offshore gas deposits in sub-Saharan Africa. Following these discoveries, forecasters put growth on a path above 7 percent. But by 2016, growth was down to 3 percent, the result of massive off-budget borrowing.

However, Tanzania experienced high levels of economic growth, from 6 to 7 percent, after it discovered off-shore gas in 2010. This was thanks to a sensible government response, which maintained low levels of debt and committed to fiscal sustainability by legislating fiscal rules.

Find out more about the presource curse in a recent NRG [paper](#).

## Social and environmental problems

Without proper management, many countries see natural resource extraction cause devastating environmental impacts. The destruction of land, including by seismic disturbances, is often cause for conflict between companies and communities living nearby, and can cause human rights violations. In Brazil, for instance, weak enforcement of compliance rules for dam safety caused catastrophic loss of life and environmental damage when tailings dams collapsed at mines operated by the mining company Vale. In 2015, the Fundao tailings dam failed at an iron ore mine operated through a joint venture between Vale and BHP Billiton. Nineteen people died and several hundred were displaced in one of Brazil's worst environmental disasters. In 2019, the collapse of the tailings dam at the Vale-owned Brumadinho mine killed nearly 300 people. Tensions and health hazards also result from the large influx of people seeking jobs and business with extraction projects. In this context, studies show that women not only bear the brunt of negative impacts, they also experience fewer of the potential benefits, such as employment.

## Transparency: The First Step Towards Addressing the Resource Curse

It takes a diverse set of efforts to tackle the resource curse. A key one is the proactive disclosure of information by governments and companies about the management of natural resources. Greater openness can increase oversight, improve trust between multiple actors and reduce waste. For example, in Norway, relevant, timely and accessible information is made available to the public about many important aspects of the oil sector through a centralized online platform, *Norsk Petroleum*. Despite having one of the highest taxation rates in the world, this transparency means Norway has no difficulty in attracting high-profile investors. Where there is a lack of transparency, this often indicates a lack of political will to manage oil, gas and minerals in a responsible way that best serves the public interest.

Watch this 10-minute [video](#) for more on the arguments for openness in the oil, gas and mining industries.

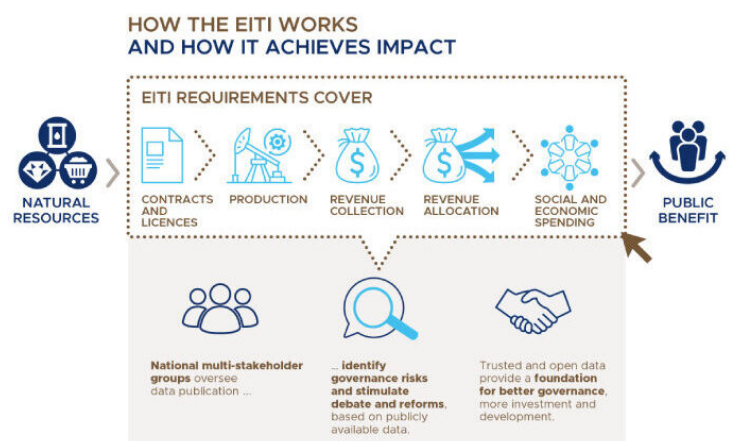
For transparency to lead to accountability, meaning that citizens can effectively ensure that governments and companies keep their promises, information needs to be presented in plain language and in ways appropriate for different stakeholders. It also needs to be timely and accurate, so that stakeholders can use the data to inform decision making. Since the early 2000s, a number of transparency efforts at the national and international level have pushed for greater disclosure in the oil, gas and mining industries. Multilateral organizations such as the Organization for Economic Cooperation and Development (OECD) or the International Monetary Fund (IMF) provide states with guidance on how to manage their extractive sector more transparently. The global civil society coalition *Publish What You Pay* has been successful in pushing

for legislation forcing extractive companies listed on stock exchanges in the European Union, Norway, Switzerland and Canada to publish their payments to governments. There are also several voluntary initiatives, including the *Open Government Partnership* and the *Extractive Industries Transparency Initiative* (EITI), that support countries in their efforts to ensure greater transparency.

This 11-minute [video](#) profiles different governance initiatives relevant to extraction.

The EITI is the most prominent transparency effort in the extractive sector. Launched in 2002, it now has over 50 member states. By setting out disclosure requirements, the EITI *Standard* prescribes how member countries should report on their oil, gas and mining sectors. Released annually, EITI country reports reconcile figures provided by various state agencies and extractive companies. They are an important source of information for the public and the media. In many instances, EITI reports have shed light for the first time on the management of a country's natural resources—for example, in Myanmar, where EITI reports provided unprecedented information about the various SOEs active in the sector.

Countries willing to join the EITI commit not only to disclose information about the management of their natural resources, but also to set up a multi-stakeholder group that oversees the reporting process. The multi-stakeholder group has representatives from extractive companies, the government and local civil society, who all have an equal say in decision making. In many EITI countries, including Ghana and Myanmar, this three-way dialogue has developed trust among different parties in the sector and has helped drive reforms.



(Source: EITI)

To find out more about the EITI and its evolution, watch this [video interview](#) with the former head of the international EITI Secretariat. The [Guide](#) to EITI implementation is a helpful tool for journalists to track implementation of the EITI Standard for disclosures.

# Story Leads

## Research questions and reporting angles

In this first chapter, journalists can read general tips on how to prepare for a story on natural resources, including on how to stay safe when reporting about the extractive sector. The next chapters suggest specific reporting angles and research steps to help journalists generate ideas for compelling stories and to pursue them.

## Finding ideas for a story

Ideas for a story on natural resources can come from many places. Sometimes the BBC, Reuters, Bloomberg or CNN may provide news that reporters want to follow up on. Or reporters might be interested in pursuing questions raised in an earlier story. Inspiration can come from talking to sources or meeting influential people. It can strike when receiving a press release from government, extractive companies, oversight institutions involved in the sector or watchdog groups releasing new analysis. Whistleblowers might approach journalists to share relevant information. Developments in the sector—new legislation discussed in parliament, or a licensing round—can help generate reporting angles. Reporters can also use current events as a starting point to generate a story about natural resources. For instance, elections offer an opportunity to take stock of government commitments on extractive sector reform and maybe uncover broken promises. Or an anecdote about a school funded by the national oil company could lead to a bigger story on the multiple roles of the state-owned company.

To assess whether their idea is worth developing further, journalists might want to check two important elements that make up strong stories:

**Newsworthiness:** Does the story relate to recent events or present new information about past developments?

**Public interest:** Is the story in the public interest? It must meet at least one of these criteria in order to qualify:

- The story highlights or covers in detail bad governance, crime, corruption, or the failure of regulatory bodies or instruments.
- It provides information that allows the audience to make more informed decisions about matters of public importance.
- It seeks to protect public health and safety or prevent the public from being misled.
- It highlights issues of freedom of expression.

## Making a plan

Journalists can cover extraction through news, feature or investigative articles. Independently of the format, identifying relevant information sources – both human and documentary – is critical to build a solid story. The research steps in the following chapters and the “Sources” sections in each chapter offer subject-specific guidance on where reporters can look for information for their reporting.

A few general considerations to keep in mind when working with sources:

**Human sources:** Are the sources named? Are they quoted? Are they credible – even when not named to protect them? Are there several?

**Documentary sources:** Does the story include an independent documentary source?

**Fact checking:** Have the facts presented by sources been checked? Are they correct?

## Preparing the story

The checklist below builds on basic journalistic principles to help reporters and editors assess whether a story is ready for publication.

### Clarity and accessibility

- Is the content presented in a structured manner?
- Is the language clear and free of jargon?
- Have the ideas been simplified to aid understanding?
- Does the story interpret the meaning and implications of figures?

## Accuracy

- Does the story provide a complete picture (who, what, when, where, why)?
- Have all the facts in the story been verified and confirmed as correct?

## Impartiality

- Does the story have background—a statement of the problem, issue or governance challenge?
- Does it show a global perspective or examples from other countries?
- Are different interests or perspectives represented in the story?
- Did people or entities mentioned in the story have an opportunity to comment?

## Security considerations

With attacks against journalists and the free press on the rise in many countries, reporting on the extractive sector, where many powerful interests meet, can be risky. Shining a light on lucrative deals, uncovering abusive environmental practices or questioning whether a local community has been properly consulted can generate different types of threat—from physical to legal—for reporters, their media outlets and even their families. It is essential to be aware of these challenges and to try to reduce their potential impact through proper planning and protection measures.

It is important to review potential risks associated with a particular report. Depending on how sensitive the issue is and the resources available to help investigate it, a journalist might need to reframe the story's leading question. Key resources to consider include existing contacts, and financial and legal means to withstand potential retaliation. These need to be balanced against expected gains in income and audience if a media outlet breaks a big story. Risks associated with the tools, information sources and research techniques a story requires can mean reporters need alternative approaches to obtain the necessary data.

Journalists also need to weigh up the advantages and potential dangers of working with others on a story. Can a source really be trusted to protect a reporter's interests and safety? Journalists working on extractive stories always need to be mindful of the physical and technical environment in which they operate, as the investigation can leave traces that can put a reporter, their colleagues or information sources at risk of reprisal. A reporter's own identity will influence likely threats—for example, female reporters can face different risks from their male colleagues.

### Useful tools and approaches for assessing risk and staying safe include:

- The Committee to Protect Journalists (CPJ) [Security Guide](#), which includes helpful advice on how to consider safety questions.

- Security training before entering a high-risk environment, such as a conflict zone or violent demonstration. The ACOS (A Culture of Safety) Alliance lists organizations that can offer this type of training on its [resources](#) page.
- Digital security training—for example, through [Totem](#), an online platform that helps journalists and activists navigate digital security and privacy tools.
- [Security-in-a-Box](#), a joint project between Tactical Tech and Frontline Defenders, presents useful tips to stay safe online.
- Tests put together by the [digital helpdesk](#) of Reporters Without Borders, to help journalists see whether they need training.
- Tactical Tech's investigation kit, [Exposing the Invisible](#), which gives a systematic overview of risks during the research phase and advice on various safeguards to use during an investigation.
- The [handbook](#) put together by UNESCO and Reporters Without Borders, which gives valuable advice for high-risk environments.

Before taking any risks, it is essential that reporters build relationships with trusted emergency contacts, including legal support, medical expertise and diplomatic or financial support. Reporters employed by a media outlet should discuss these options with their editors, while freelance journalists should contact relevant trade unions and professional bodies. International organizations such as [Reporters Without Borders](#) and the [CPJ](#) also specialize in providing emergency response. They usually apply a screening process before offering assistance, so having been in touch with them beforehand can help journalists access support.

## Examples of Good Reporting Practice

The examples given below can provide inspiration while preparing stories on exploration, establishing sound management systems for natural resources, and infrastructure challenges. Some highlight day-to-day reporting, while others are in-depth investigative reports. See previous section for useful criteria for assessing the strength of an extractives story.

### Impact of new oil discovery in Guyana (investigative)

#### The \$20 billion question for Guyana.

This long *article* by the *New York Times* discusses recent oil finds in Guyana to speculate about the country's prospects of escaping the resource curse to see benefits from its newly discovered mineral riches. Descriptive language helps the reader travel with the reporter to Guyana's capital, Georgetown, to explore local people's hopes and fears in relation to the recent oil discovery there. The language also brings to life more technical aspects of the resource curse, while avoiding jargon. The journalist weaves relatable characters into his reporting, helping keep his readers attentive throughout the long text. He educates his readers to make sure they understand more theoretical concepts and can put figures and facts into perspective. By bringing in different voices and grounding speculations in historic facts, he depicts a balanced view of the situation.

### Negotiations for new pipeline between Uganda and Tanzania (investigative)

#### Pipeline Dreams: Inside the Uganda-Tanzania Oil Pipeline Talks.

In this *story* the journalist from the Ugandan *Daily Monitor* explores the development of the midstream part of the production chain—pipelines. The writer gives a comprehensive overview of the history of the East African pipeline project and the current issues facing Uganda and its neighbor Tanzania as they move forward.

With engaging language, the writer manages to be both educational and conversational. The structure of the article is easy to follow and sheds light on the various aspects of the pipeline negotiations, including financial models, geopolitical interests and the Ugandan government's strategy for developing its oil sector. However, if some of the context had come earlier, the reader could better understand the story.

The journalist has worked making contacts in various parts of Uganda's national oil company, and gets comment from the General Manager of the National Pipeline Company. Getting as many points of view as possible is critical in stories involving natural resources, especially with state-owned enterprises that often have a complex network of subsidiaries.

### Behind the scenes of pipeline negotiations: Tips on story writing by Ugandan journalist Frederic Musisi.

Watch this video to hear Frederic Musisi, reporter for the *Daily Monitor*, explaining how he prepared for this four-part story on pipeline negotiations in March 2019: [part 1](#), [part 2](#), [part 3](#), [part 4](#).

#### ▶ [Investigating pipeline negotiations](#)

#### Transcript

**Q: Frederic, in March 2019, you published a series of four in-depth articles about the ongoing pipeline negotiations between Uganda and Tanzania. Could you summarize the issue for us?**

The story was about ongoing negotiations for the proposed crude export pipeline and it's called EACOP (East African Crude Oil Pipeline).

If it eventually happens, it will be the longest heated pipeline in the world, from Uganda to Tanzania, where Uganda can then pick up its oil and take it straight to international markets. So the story tries to capture some of the themes that are ongoing. There are so many players involved, big players. As an original country, we are doing it for the first time, so really there's a lot of giving and taking, and pulling and controlling. It was really an introductory piece, because for a very long time none had been written about the subject matter. So it's one of those things that you pick up, spend about five months digging up, researching, talking to people. And I think it's really a stepping-stone to subsequent reporting.

**Q: What were some of the first steps to get started?**

What's lucky for me is that I've written about this project right from inception. I had already covered it in phases, so definitely I have a grasp of some of the things and the developments that are related to that. What I thought was missing was that specific aspect of "How do they negotiate this project again?" So the first [task] was to do a lot of researching. First, I structured it... because all the information can't go in one piece. In this part of the world, we don't do the *New York Times* kind of features where you have a 4000-word piece that covers the entire broadsheet. So, different to that, I had to break it down in parts for our audience.

The first thing was to break down the parts that I at least know I want to do, and then embark on doing specific research on those areas. The reporting was going to take a lot of time, so it's very precise that if I'm following a land issue, then definitely these are the sources I should turn to on land matters. If, it's about environment-related issues...I should really be reading this and talking to sources around this. [If it's about] local content, basically things to look out for and regard as local content: what has been done right? What is being proposed? And what could be covered? And looking at the experience before.

So, first I sketched out the story ideas I want to do, listed the sources that I potentially need, sources that I had that were going to be easy to get, sources that are not easy to get, and then from there I started picking out the missing links in each of the story ideas. I started out looking out for "I need to have...", so that's what really makes the reporting easy, when you do it that way, I think.

**Q: Covering ongoing negotiations is particularly difficult because they are always wrapped in secrecy. How did you get around that?**

It's not entirely a direct answer, but...reporting in any specific field, you need to talk to people. [They] will give you information in varying degrees, given you're in a rapport with them before. There are two types of information: things that they want you to know and things probably they think that you should know. Those are really two different things. So when I set out to do this and because I'd structured the stories in this way, I [asked] first, what was the commercial side of those negotiations? I need to know about this. I'm not a lawyer, so they're already covering some of those things and it was easy, because I structured it in a way that it's the commercial business I want to know about, so someone tells you they're

negotiating "abc," so what's happening with that? Even when some things are left hanging, you keep on asking those follow-up questions. So as opposed to saying, tell me about the negotiations—because that's very broad, someone may certainly go "Oh make the other deal, we may get a deal"—you break it down in a way so you're following certain specific points—either on land, on environment, on taxation, about revenue, things like that. So that really helped, and I have known some of these people for some time over the course of covering the sector, so I don't think it was problematic getting them. Of course, they had that hesitation—they don't think they should be sharing this, but still I managed to cajole them like you usually do with sources. You try to get the best out of them.

**Q: A cross-border piece comes with its own challenges. What were some of those challenges and what measures did you take to overcome them?**

The first challenge is what's appealing in Uganda is not necessarily appealing in Tanzania—these are two different settings. So it's not like a prominent person has died, so that's very appealing to everyone, right? You're dealing with what Ugandans may want to know about the commercial aspects, definitely [in] Tanzania it's different. So that was really the first challenge.

What I had to do is get all the information right from the field work, going along the road, talking to people. I even talked to Tanzanian people. I eventually went to Tanzania. I talked to the chief negotiator on the project. So then, after getting the information, when I sat down, that's when I had to...segregate the information: this is relevant, this is not relevant, this is relevant for one audience...Then you can pick out what you can use where, for which part. Really that was I think the only challenge I faced. The other thing was...lucky for us... it's an exciting project across the region and we are a syndicated organisation, so definitely the stories will be published in Tanzania for a Tanzanian audience, so I had to make sure that I [varied the content and talked about some of the social problems that are the same].

**Q: How did you manage to report on the Tanzanian side? What were some of the challenges there?**

The trickiest part in Tanzania was your question all right... I think Tanzania is more bureaucratic, and I come from a background, Uganda, where I think it's a free society actually. It's one of the freest societies in Africa, where the journalists are open-minded, so some of the questions we asked or I asked Tanzanian people, they consider them either insensitive or inappropriate or basically that's a no-go area for any ordinary person. But it doesn't hurt to ask the question, so you ask the question and [people can choose] not to answer it or to give you a very vague answer. I mean at times, I've seen incidents where people fear to ask questions because they are pre-empting the other party and maybe they might not answer it right, and it happens quite a lot, but regardless just ask the question, approach the issues, and still I got the responses. I don't think I've got everything I needed, but at least I got information that was specific to... the subject matter of the pipeline.

## Sources

Several key tips can help journalists build a strong network of sources for covering the extractive sector. Informed and balanced reporting needs rigorous desk research and to include the perspectives of as many key players as possible.

## The oil, gas and mining circuit

### Events

Companies and government agencies meet at regular industry events. Those include annual fora and conferences, sometimes hosted by a government to attract investors. These are excellent opportunities for interviews, networking and informal conversations to obtain background about certain situations and players. Reporters should contact the event's media coordinators, ideally several weeks in advance, to secure press credentials. They can then try to set up meetings with representatives from the government, oil companies, subcontractors and trading companies.

#### Leading annual regional and national events include:

The Tanzania Oil and Gas International Trade Exhibition ("Expo"), which usually takes place in November and allows industry players to present the latest technology for oil and gas exploration. The Tanzania Oil and Gas Congress also brings together government players and investors every year, in October.

The Uganda International Oil and Gas Summit gathers national and international stakeholders to share information about oil and gas exploration and production in Uganda.

The Ghana Summit attracts stakeholders from across the country's energy sector with a focus on oil, gas and LNG power generation.

In Myanmar, the Oil and Gas Myanmar conference brings together key players from hydrocarbon companies and suppliers.

The ***Mining Indaba*** is held in Cape Town, South Africa, to promote investment in African mining. It brings together key investors, industry players and government officials, while the ***alternative mining indaba***, which takes place simultaneously, offers a chance to meet with activists, local community representatives, academics and other members of civil society involved in campaigning around mining.

Minexpo Kenya is a central event for stakeholders in the mining and processing of minerals in East Africa.

#### Key international events include:

Every year in Denver, the United States, professionals from the oil and gas sector and investors gather at the ***Oil and Gas conference***. This is a key event for companies to pitch to potential investors and it attracts many analysts.

The Prospectors and Developers Association of Canada (PDAC) hosts an annual ***Mineral Exploration and Mining Convention*** in Toronto, where many investors meet.

At the ***International Petroleum Week*** in London, United Kingdom, many oil and gas industry players gather to meet with environmental groups and other actors to discuss the future of the industry.

### Industry Press

The industry press can help keep reporters informed of ongoing investment decisions, technological developments and relevant private-sector dynamics, such as company mergers or commodity price trends. Many outlets have a paywall, as with ***Energy Intelligence***, one of the most widely read sources of business intelligence in the energy field. ***S&P Global Platts*** is a good alternative, as some of its analysis is available for free. Similarly, in the oil sector, ***rigzone.com*** offers cost-free access to news about exploration activities. For longer stories, the ***Oil & Gas journal*** and the Reuters feed offer valuable background knowledge. ***Argus*** is another useful source of information on energy and commodity markets, although many of its services require payment.

## Investigating company profiles

Company websites are good places to start when researching companies, as they often offer technical information as well as corporate statements on core policies and projects. Journalists can try to cross-reference information from company websites with ***OpenCorporates***. It is the largest open company database in the world, with more than 185 million companies.

All data come from public sources and are available for free. This database can provide helpful leads in terms of suggesting further research and new sources. Further cross-referencing with other data sources will be needed in order to establish whether there really is a tangible story to pursue.

It is usually not easy to make contact with companies directly to obtain quotes or further information. Journalists interested



in pursuing regular reporting on oil, gas and mining should therefore take the time to build a network of contacts—for example by attending relevant industry events (see Events above). In the short-term, if individual companies do not reply to contact requests, industry associations such as a national chamber of mines can be useful sources.

## Public institutions

The best starting place for reporters is the ministry or ministries (there might be several) in charge of leading government efforts to exploit natural resources. These tend to be ministries of energy, mines, hydrocarbon, petroleum or mineral resources. If the information provided on the ministry's website is incomplete or outdated, journalists should contact its press office.

Oversight institutions such as parliament and supreme audit institutions are also important sources for reporters. These generally have a mandate to inform and scrutinize government action. They generate reports and hansards (verbatim reports of proceedings) that can serve as documentary sources for a story. Identifying relevant parliamentary committees and key parliamentarians is particularly helpful when new laws or amendments are being discussed.

## Experts from civil society and academia

Experts from civil society and academia can be helpful commentators. They can often distance themselves from government or company interests, offering a different view of what is in the people's interest. However, they can have biases, so it is important to get second or opposing opinions.

Where relevant, journalists are welcome to **contact** the NRGI country offices, where staff can connect journalists with the right expert internally.

### Other options for connecting with competent civil society or academic figures include:

***Publish What You Pay*** (PWYP), the global coalition of civil society organizations campaigning for a fair use of natural resources. PWYP has over 700 member organizations in 50 countries, working on numerous issues, including revenue management. Its national coordinators are able to direct journalists to a range of expert contacts.

In ***EITI member countries***, there will be civil society representatives on the national multi-stakeholder group. The national secretariat can also offer recommendations for civil society groups that specialize in licensing.

Look up the profile of academic staff at universities. Relevant departments include geology, engineering, political science, economics, environmental studies, law and accounting.

There are also specialized organizations such as ***ProfNet*** or ***SciLine*** (Scientific Expertise and Context on Deadline) which help connect journalists with relevant experts, including beyond civil society and academia. Their services are free.

## Using databases to inform natural resource reporting

### ResourceData.org

NRGI maintains a ***database*** of documents relevant to the management of natural resources. It works as a repository of relevant documentation, including laws, reports by supreme audit institutions and national strategies, and of various datasets such as EITI data or financial statements by SOEs. Users can search for documents by country or by topic. These topics are based on the 12 precepts identified in the Natural Resource Charter, a governance framework for key decision points along the extractive value chain (see "Additional resources" below for more information). The table below shows types of official document available at resourcedata.org, useful for reporting on issues such as whether companies and state agencies are following the law.

### Examples of Official Documents

Discovery and deciding to extract	Getting a good deal	Managing revenues	Investing for sustainable development
<ul style="list-style-type: none"> <li>■ Laws governing licensing</li> <li>■ Licensing round reports</li> <li>■ Registry of licenses (cadastre)</li> <li>■ Official Gazette</li> <li>■ Supreme audit institution reports</li> <li>■ Business registration and licensing agency</li> <li>■ Extractive industry company reports</li> </ul>	<ul style="list-style-type: none"> <li>■ Laws governing the sector</li> <li>■ Budget/public financial management laws</li> <li>■ Contracts</li> <li>■ State-owned enterprise (SOE) reports or audits</li> <li>■ National statistical bulletins</li> <li>■ Ministry of Finance website</li> <li>■ Extractive industry company reports</li> </ul>	<ul style="list-style-type: none"> <li>■ Budget/public financial management laws</li> <li>■ National statistical bulletins</li> <li>■ State-owned enterprise (SOE) reports and audits</li> <li>■ National Resource Fund reports</li> </ul>	<ul style="list-style-type: none"> <li>■ Developmental strategies</li> <li>■ Public procurement laws</li> <li>■ Budget documents</li> <li>■ Procurement audits</li> <li>■ Supreme audit institution reports</li> </ul>

List of official documents available on resourcedata.org (Source: NRGI)

## The Resource Governance Index

The **Resource Governance Index** (RGI) is a measure of transparency and accountability of the oil, gas and mining sectors in 81 resource-producing countries. The RGI gives countries an overall resource governance score by combining scores for three key components: value realization, revenue management and the enabling environment (see the framework below). The website allows users to explore country profiles and make comparisons between countries or between the oil and gas and mining sectors in some countries.

### Examples of how reporters have used the RGI in the past include:

- An **article** in *The East African* presenting a regional analysis on the basis of the RGI ranking.
- A reporter from The Myanmar Insider using the RGI results for Myanmar to take a **historical look** at the development of the country's extractive sector.



List of official documents available on [resourcedata.org](https://resourcedata.org) (Source: NRG)

A journalist at [earthfinds.org](https://earthfinds.org) using RGI findings for Uganda to give readers an overview of trends and challenges in the sector.

The RGI is a useful tool both for a quick overview of a country's

performance in governing the whole extractive sector, and for exploring the underlying data (such as relevant laws, SOE annual reports and press releases) for more detail.

## Resource Watch

**Resource Watch** features hundreds of datasets on the state of the planet's resources and citizens, including 84 related to energy and climate change. Users can visualize challenges facing people and the planet, from poverty to water risk, air pollution to human migration.

## Public energy data

To research how wider industry trends are likely to affect extraction in a country, journalists can explore several authoritative websites that publish country data, analysis or insights into trends in the market and the industry:

The US Energy Information Administration collects, analyzes and disseminates independent and impartial energy information through its **website**, to promote public understanding of energy and its interaction with the economy and the environment.

Every year since 1952, British Petroleum has published an **annual statistical review** of world energy markets to inform industry trends.

The OPEC **website** publishes information related to oil market developments, including supply and demand.

The International Energy Agency (IEA) publishes **global energy data**, including on supply, consumption and prices. Various educational tools, such as training material and visualizations, make the information more accessible.

## Voices

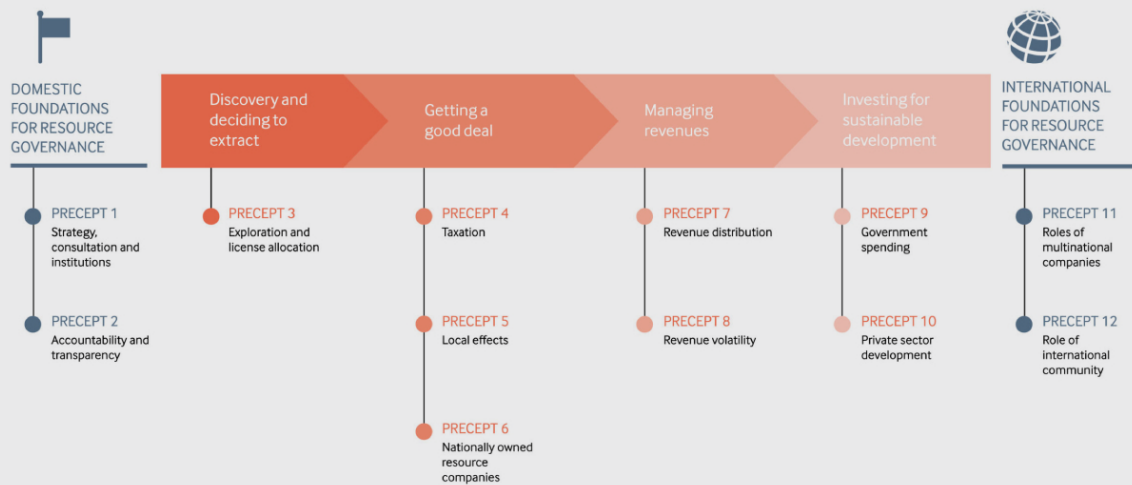
In the short videos below, the president of the Chamber of Mines in the Philippines, the CEO of the Ugandan national oil company and a member of the National Petroleum Authority in Ghana discuss the role that their respective institutions play in the extractive sector. A civil society representative from Myanmar also explains why it can sometimes be difficult to have a say in the governance of his country's natural resources.

▶ [The role of the Chamber of Mines](#)

▶ [Building up an oil sector in Uganda](#)

▶ [The role of the National Petroleum Authority in Ghana](#)

## The Natural Resource Charter Decision Chain



The Natural Resource Charter Decision Chain (Source: NRGi)

### *Having a say in the management of Myanmar's natural resources*

## Learning resources

### Key reports

The ***Natural Resource Charter*** provides a comprehensive framework for analyzing decisions about how a country manages its natural wealth. Its 12 steps (see above) follow the extractive value chain and offer norms and good practice for governments and societies to best harness opportunities created by mineral resources. For deeper analysis, the charter offers a detailed ***benchmarking framework*** that can help journalists prepare interviews with policymakers and propose policy reforms for the sector.

In 2019, the International Monetary Fund issued the 4th pillar of its Fiscal Transparency Code, dedicated to the management of natural resources. This ***policy paper*** advises resource dependent countries on ensuring their management of natural resource revenues is transparent. It takes a comprehensive approach to the revenue management chain, from the ownership and allocation of resource rights, to resource revenue mobilization, budgeting and use. It can be a helpful diagnostic tool for journalists

wanting to assess how well a country is doing in comparison to international good practice, and to highlight potential national-level transparency gaps and their consequences.

### Other journalism guides to oil, gas and mining

The Global Investigative Journalism Network (GIJN) maintains a ***resources page*** specifically dedicated to covering the extractive industries, which lists relevant sources of information and advice on how to report on the sector.

The Thomson Reuters Foundation published a ***Reporter's Guide to Oil and Gas*** in 2015, which provides very helpful advice to journalists wanting to cover hydrocarbon resources.

In 2019, the African Centre for Media Excellence released a ***Journalist's Handbook to Reporting Mining***. Beyond general reporting tips for journalists working on mining, it offers very targeted advice for the Ugandan context.

The Yangon Journalism School released a guide in Burmese to help journalists report on natural resources around election time, and beyond, in Myanmar. The guide is available on their ***Facebook page*** and can be viewed ***here***.

## 02

# Licensing

## Getting access to resources

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### Jargon buster

- **beneficial owner(ship):** A beneficial owner is a natural person who, directly or indirectly, exercises substantial control over a legal entity or has a substantial economic interest in, or receives substantial economic benefit from, such legal entity.

- **cadastre:** A registry (at national or subnational level) that records property details such as ownership, location and access rights. Mining cadastres record information regarding mineral rights, such as licenses or concessions. In some countries the term “mining cadastre” refers not just to the registry, but also the public institution managing the registry and mining rights generally.

- **competitive tender:** The process by which the government makes a public call for companies to submit bids for a particular extractives project, opening the opportunity to bid to more than one party. Auctions are a common form of competitive tenders in the petroleum sector.

- **licensing:** The process and approach through which companies are granted the right to extract. Openness and competition in the allocation of rights can have a positive impact on the quality of the outcome.

- **permit/license:** A standard-form legal document that the state or subnational government uses to grant exploration or extraction rights according to a generally applicable set of terms, with limited variation from one project to another.

- **Politically Exposed Person (PEP):** PEPs are people with a prominent public function, for example, as a politician, minister or general.

## Why it matters

### Why does this matter to your audience?

- Deals in oil, gas and mining sectors are often worth billions of dollars and last for generations.
- Licensing processes usually take place in a country’s capital, before big equipment or excavation would be noticed locally. That means the deal is often signed before the people who are going to be most impacted know what is happening.
- Licensing is the process of deciding which company gets the extractive deal, and the terms of that deal. It is the moment in the cycle of an extractive process with the highest risk of corruption. Corruption in making the deal means a country could be tied to a bad deal or a bad actor for decades. This increases the risk of lower revenues, fewer employment opportunities, fewer links with local businesses, and greater social and environmental impact.
- Potential losses are huge. The Democratic Republic of the Congo lost USD 1.36 billion in public revenues between 2010 and 2012 from underpriced sales of state mining stakes. This figure is twice the country’s combined health and education budgets for one year.
- If licensing processes are transparent, people have a better chance of catching problems early.

# The Basics

In most countries, the state owns all minerals under the ground. Countries often select companies to help them extract their natural resources, so they can benefit from the capital, technical expertise and experience of private extractive companies. This also helps countries offset some of the financial risks associated with the exploration process. How governments decide which companies will have the right to extract, and on what terms, is referred to as licensing or allocating rights. There are important factors at stake when a government enters a licensing process, from picking the right company to limiting corruption and getting a good deal. The quality of the licensing process, and the mineral cadastre system by which the government keeps track of who has the rights to what, are essential to attract high-quality investors and ensure the country eventually collects taxes and royalties.

## How the process works

Most governments use either open door or competitive bidding to select the company that will have the right to explore or extract natural resources in exchange for paying royalties, taxes or in-kind contributions.

### Open door or competitive bidding?

In an open door process, sometimes called bilateral negotiations, companies are applying for resource rights on an ongoing basis. If the government decides that the company has the necessary experience, expertise and financing to carry out the project, it can enter into negotiations with the company. If not, the application is rejected. Many countries use a model contract as the basis of their negotiations, to minimize the number of terms up for negotiation, because it is easier for governments to make comparisons across bids when the bid rules limit the competition to a few variable terms. In an open door process, the company gets the mineral rights without an open competition.

In Competitive tenders (including auctions), the government makes an open public announcement for companies to submit bids, and uses selected criteria to decide which company should have the rights. The steps in a typical competitive tender are shown in the graphic below:



Steps in a typical competitive process. (Source: NRG1)

**Planning:** Government officials decide what blocks—segments of land or ocean floor—are going to be available and what terms are going to be open for bidding.

**Promotion:** The government will then publicize the bid and ask parties to express interest.

**Pre-qualification:** Governments will determine whether the interested parties meet minimum technical and financial criteria. Some countries choose to skip this stage, but it often takes place when the projects are more challenging.

**Call for bids:** The government invites qualified parties to bid.

**Contract signature:** After receiving the bids and determining the best bid by comparing the terms offered by each company, the government will issue a license or sign a contract with the winner. There are often some bilateral negotiations to fine-tune the agreement at this stage.

There are arguments for either type of licensing, based on the circumstances. If there is good information about the geology of the block and investor interest is high, a competitive process is generally considered the best option. Companies compete against one another, strengthening the government's negotiating position. However, companies are less likely to want to bid where there is limited or low-quality geological data, because there is greater risk of not making a discovery. In these cases, bilateral negotiations can be better at attracting initial companies to the country who can prove the viability of extraction projects.

Reputable companies also want to avoid being involved in corrupt deals and want assurance that they will be treated fairly in the licensing process, without political influence or favoritism shown to other companies. The integrity of the licensing process is therefore essential to attract high-quality companies. This will improve the chances of the discovery and extraction of resources, and the generation of revenues for the government in the shortest time possible.

## The terms of the agreement

“Licenses,” “permits” and “contracts” are legal documents that explain a company’s obligations in exchange for being granted the right to explore or extract the natural resource. What is covered in the agreement varies from project to project, but it often includes information about:

- The geological area where companies have the right to explore or extract
- Timetables and processes for the project
- Financial and in-kind benefits shared between the company and the state
- Requirements for local economic development or infrastructure
- Health and safety standards for labor
- Social and environmental responsibilities
- The process for oversight of obligations by the government.

*These elements are discussed more in [Chapter 4](#).*

In competitive bidding processes and sometimes also in open door processes, some terms may be fixed, which means they are determined either by law or the rules of the bid. In some cases, all of the financial terms are fixed, requiring companies to bid simply on the amount of work and production they will undertake. Variable terms are the parts of the contract that are open for negotiation or for companies to outline in their bidding proposals. Governments often set the bid rules to limit the number of variable terms, to make comparisons across bids easier.

## Keeping track of resource rights

A register or “cadastre” of natural resource rights is a database of those rights, which includes information such as who holds the rights, the coordinates of the license or contract area, when the rights were given and when they expire. In some cases, a cadastre may also refer to the public institution responsible for managing applications and granting resource rights. Registers or cadastres are important for keeping track of who has rights to what, and for creating a well-organized and stable environment for investment. How the information is organized and the extent to which it is publicly available varies from country to country.

Some countries have invested in technology that links licensing information to geospatial data. This can result in helpful maps, often available online, that show what types of licenses are available where. This is the case in Uganda, which offers access to an [online cadastre portal](#) for its mining sector. [Tanzania](#), [Ghana](#) and [Sierra Leone](#) have online mining cadastres that combine license information with payments. These can be accessed for free, but require registration. Some of the most sophisticated versions, like the one for [Mozambique](#), have an interface that allows the user to click on a license to get more information about the contract terms and company ownership.

## Consultation

Consultation is how and whether the community near the extraction site is involved in discussions about the extraction project. Industry experts often refer to a spectrum of consultation, from notifying a community, to Free, Prior and Informed Consent (FPIC). FPIC is a way of engaging a community before extraction takes place, in which its members are able to voice whether they believe the project should go forward. FPIC is required when companies work on land where there are indigenous people, but many companies have elected to use FPIC principles in all their projects. The image below summarizes some mining companies’ policies along the spectrum of consultation.



Overview of public commitments by mining companies to FPIC.

(Source: Oxfam America, Community Consent Index, 2015)

Some governments, like the Philippines, and international institutions, such as the World Bank and the International Finance Corporation, require companies working with them to engage in FPIC.

In practice, effective implementation remains an ongoing challenge. Consultations are often too late for communities to really say no to a project or shape its development. There is also a significant imbalance of power and information between local communities and large extractive companies. This allows companies to get away with tick-box approaches or controversial influencing tactics involving bribing, incentivizing or pressurizing of local leaders

## Government goals when entering a licensing process

### Picking the right company

The government has an interest in selecting a company which will do the work efficiently and safely, while providing profit-based taxes and local content. There are different kinds of extractive companies and the requirements for the “right company” will depend on the type of license and the context of the extraction.

In mining, for instance, some companies specialize in exploration (often

termed “junior companies”). On making a discovery, the company must either secure further funding or be bought out by a larger company with the resources to conduct operations. New or less experienced companies can be successful in mining exploration, because, in contrast to oil extraction, it costs less to determine whether a mining project will be profitable. As a result, if a government grants an exploration license to a small company with little experience, it is not necessarily a sign the government picked the wrong company. However, some companies acquire licenses only to speculate on their value, holding the license without conducting work and later selling it at a profit, while the country is yet to see benefits.

## Limiting corruption

Corruption allows elites or connected people and dishonest companies to capture or take the benefit of the country’s resources, while the country as a whole loses out. Corruption disrupts the normal selection process, increasing the chances that an unqualified company is chosen, the terms of the deal are not as good for the country as they could be, or public money is stolen.

Corruption can take many forms, from companies bribing public officials who have influence over the selection process, to using secret ownership structures that hide who really stands to benefit. In 2017, NRGi analyzed over 100 cases involving accusations of corruption during licensing in the oil, gas and mining sectors. The study found 12 red flags that showed patterns of potential corruption. When a deal has one of these flags, it does not mean corruption necessarily took place, but is a sign that more questions should be asked about the process.

The full report is available [here](#). See also the investigative tips in the Story Leads and Research Steps section below.

## Knowing who stands to benefit from licensing: Beneficial ownership

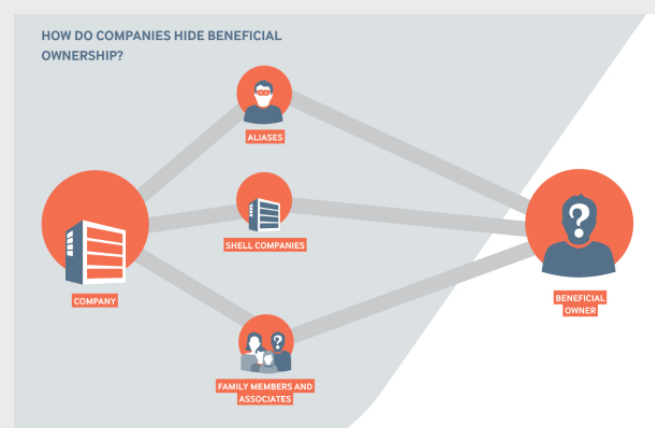
Hidden beneficial ownership of companies is a major way for corrupt people to benefit from licensing. Using anonymous shell companies allows companies to hide bribes, and politically exposed people (PEPs) to hide the benefits they receive. PEPs are people with a prominent public function, for example, as a politician, minister or general. They can use their position of power to influence the licensing process. This is why most countries make it illegal for government officials or their close associates and relatives to own companies applying for extractives licenses. However, regulators are rarely required to check whether such PEP interests exist when screening license applications. As a result, global campaigns for governments to disclose who effectively owns and controls a company that applies for or holds resource rights have grown significantly in recent years. The example of the *Nigerian Premium Times* in the reporting examples below shows how journalists can play a critical role in monitoring PEP involvement in the award of licenses, in particular by scrutinizing how PEP interests are being screened.

- 1 The government allows a seemingly unqualified company to compete for, or win an award.
- 2 A company or individual with a history of controversy or criminal behavior competes for, or wins, an award.
- 3 A competing or winning company has a shareholder or other business relationship with a politically exposed person (PEP), or a company in which a PEP has an interest.
- 4 A competing or winning company shows signs of having a PEP as a hidden beneficial owner.
- 5 An official intervenes in the award process, resulting in benefit to a particular company.
- 6 A company provides payments, gifts or favors to a PEP with influence over the selection process.
- 7 An official with influence over the selection process has a conflict of interest.
- 8 Competition is deliberately constrained in the award process.
- 9 A company uses a third-party intermediary to gain an advantage in the award.
- 10 A payment made by the winning company is diverted away from the appropriate government account.
- 11 The agreed terms of the award deviate significantly from industry or market norms.
- 12 The winning company or its owners sell out for a large profit without having done substantial work.

12 red flags showing main corruption risks in the licensing process.

(Source: NRGi)

NRGI’s 2018 *briefing* on beneficial ownership screening provides practical details about reducing corruption risks relating to secret company ownership. This *short guide* includes infographics and simple explanations that may be helpful to communicate to a broad audience.



How companies hide beneficial owners. (Source: NRGi)

# Story Leads

## Research questions and reporting angles

### —A

## Does the government apply good practice in an ongoing licensing round?

**1. Find out the rules.** Research what the law says about the allocation of resource rights in a country and check whether the proposed rules for this award process are different from the law.

**Establish the general rules for licensing.** Key places to look for rules on the bidding process, apart from national sources, include:

**The Resource Governance Index.** The *Resource Governance Index* (RGI) country profiles may give an overview of the licensing process. Users can obtain more detail by downloading the *data explorer* and reviewing the research findings for individual RGI questions. Question 1.1c provides information on how the legal framework allows the government to allocate resource rights. By following the source documents for the questions related to a specific country, it is possible to see the laws or policies about the country's licensing process.

**EITI reports.** EITI reports must explain the rules that apply to the allocation of resource rights. These reports are usually published annually and can be found on national EITI websites or the international *site*.

**Investigate which rules apply for the ongoing licensing round.** The rules may differ or be more specific for the current licensing round. Usually, the regulating agency for licensing (a state-owned enterprise (SOE) or ministry of petroleum or mining) will announce the rules for a specific licensing round, usually called “bid protocols”, on its website or through a press conference. The industry press is also a good source of information about ongoing bidding rounds (see “Sources” below).

**2. Compare a country's process with other countries.**

**The Resource Governance Index** assesses the transparency of resource-rich countries' licensing in their legal frameworks and in practice. The “value realization” aspect of the index includes several questions on different aspects of licensing. The *Compare Countries* tab of the website can compare how up to three countries perform on different aspects of the index. By opening the licensing component (under “value realization”), users can compare country performance on the transparency or clarity of different aspects of licensing.

**The RGI Data Explorer.** The *RGI Data Explorer* allows for more detailed investigation and comparison of each licensing question, with explanations of the results and links to underlying source documents. This can be used to compare countries or entire regions.

**3. Compare a country's current process to global standards.**

Transparency is at the core of licensing processes good practice. A reporter can look for previous assessments of the country's transparency or compare the country's transparency with standards of good practice.

**EITI validation.** The EITI checks or “validates” implementing countries periodically, to see whether they are disclosing information in line with the EITI Standard. A detailed *validation scorecard* is available on national and international EITI websites. The scorecard shows whether a country made satisfactory progress in disclosure for each of the aspects of licensing. There is a brief explanation for each score.

**Good practice.** *Open Contracting for Oil, Gas, and Mineral Rights* is a guide published by NRG and the Open Contracting Partnership in 2018, describing global norms and good practice



for allocating resource rights. It outlines how good practice requires public disclosure of:

- How the licensing system is meant to work and the actors involved
- The planning process, including decisions about which areas should be subject to licensing
- The rules that will lead to the actual allocation and award of contracts and licenses
- The terms of the agreement struck with the winning company
- The implementation process, so citizens can check on whether the government and companies are meeting on their obligations.

#### 4. Follow up with human sources.

Public officials or relevant staff at the regulating agency can explain whether they have considered how other countries do in comparison and why a particular country falls short. Their explanation of differences can help bring updated considerations into the analysis.

## -B

### Is the company the government picked qualified?

**1. Find out the rules.** Research what the law says about what company qualifications, if any, are required in your country.

**Establish the general rules for licensing.** Key places to look for rules on the bidding process, aside from national sources, include:

**The Resource Governance Index.** The *Resource Governance Index* (RGI) country profiles may give an overview of the licensing process. Users can obtain more detail by downloading the *data explorer* and reviewing the research findings for individual RGI questions. Question 1.1c provides information on how the legal framework allows the government to allocate resource rights. By following the source documents for the questions related to a specific country, it is possible to see the laws or policies about the country's licensing process.

**EITI reports.** EITI reports must explain the rules that apply to the allocation of resource rights. These reports are usually published annually and can be found on national EITI websites or the international [site](#).

#### Investigate which rules apply for the ongoing licensing

**round.** The rules may differ or be more specific for the current licensing round. Often, the regulating agency for licensing (an SOE or ministry of petroleum or mining) will announce the rules for a specific licensing round, usually called "bid protocols", on its website or through a press conference. The industry press is also a good source of information about ongoing bidding rounds (see "Sources" below).

**2. Understand the context.** The geology, timing and geography can influence what type of company skills are best suited for a particular extraction site. Industry press and experts can provide useful insight into the context:

**Geology.** What type of mineral is being extracted and what is the grade? Are there other minerals in close proximity to the mineral that will make it easier or harder to extract? What type of extraction process is most common for this type of mineral?

**Timing.** How does this extraction project fit into the country's overall story of extraction? Is it the first project of its kind or does the country have a proven history of supporting extraction projects like this? What is the global demand for this product at this time? What is the country's current global reputation for supporting business?

**Geography.** How easy or hard is it to reach the extraction site and transport the mineral to the market? Are special skills needed to reach or transport the mineral?

**3. Assess the qualifications of the winning company.** Research into the company itself can provide insight into whether its skills fit the criteria required by the government (if these exist) and the needs of the context. Useful sources of information about the company include:

**Company website.** A company's website usually lists details of projects it has worked on, its clients, assets and financing, and whether it is publicly listed. This information can show whether the company has experience working on projects in similar contexts or with similar requirements. Reporters can also follow up with contacts or news outlets in countries where other projects took place, to find out about the company's performance on those projects. Note that if a company does not have a website or does not list this information, it does not prove lack of qualification, just that reporters need to find the information elsewhere.

**Research industry sources.** The industry press (*see chapter 1*) can offer useful insight into a company's past experience. Reporters can also interview industry experts about a company's reputation and experience. Again, a lack of information in this area does not necessarily show a company's lack of qualification, but it does

signal the need for reporters to ask more questions.

**Bid applications and government assessment.** In some countries, the government publishes bids and gives an explanation about why a particular company was selected. In this case, reporters can assess whether the application fits with other information available about the company or criteria for the bid round. Follow-up questions can also be directed towards the government officials making these decisions. Did the winning bid receive the highest-ranking score from whoever evaluated bids? If not, why was it chosen?

**Check company registration.** To bid, companies usually need to be formally registered somewhere. Check the national corporate registrar for the country where a company is registered, or online foreign registrar databases. Databases like [Open Corporates](#) can provide key information for some public companies. Several categories can offer useful insight on a company:

**Find the date when the company was set up.** How long did it exist before it applied for or won the license?

**Assess personnel.** Try to find names and identifying information (such as date of birth, addresses, pictures or work history) for the company's principal officers and directors. Through interviews and online materials (CVs, biographies or social media profiles), assess whether they have relevant work experience. Industry sources can also reveal whether the company has the human resources needed to develop the license (such as engineers, project managers or geologists).

**Check the company's official purpose.** In many countries, when a company is formally registered, it has to specify its intended corporate purpose or scope of work. Do these relate to the kind of work needed to successfully develop the license?

**Visit the office.** Obtain the company's registered address or physical office address (from its website, a business card, a tender advert, its corporate registration file or its license application). Visit the address and see whether there appears to be a functioning office there—or whether the address even physically exists. If there is an office, how many people are working there? Is the company sharing the space with anyone else? The official office address is not proof of qualification, but its description can add color to a story, and seeing it can lead to additional questions. Journalists should follow adequate safety measures when reporting from the field.

**4. Investigate the company's progress in exploration and production.** In some instances, companies who have become license holders will sit on deposits, without developing them, purely for speculation. This can result in significant revenue loss for the country.

**Check whether exploration is effectively underway.**

Some companies will report their exploration progress in their quarterly or annual reports to investors. If the project has potential to be very large, it is even possible that exploration progress is reported by the company in separate updates. However, the absence of the information does not mean that exploration is not underway. Companies are much more likely to report on exploration progress if it is going well, especially to impress current and potential investors.

Another way to check whether exploration is underway, especially in the oil and gas sector, is to find out from industry contacts whether the license holder has hired a seismic exploration firm or other technical surveyors to explore the licensed block.

**Check whether production is taking place.** Although gaining access to an extraction project is unlikely, reporters can take alternative approaches to assess whether extraction is taking place. Beyond on-the-ground observation (for example, are trucks leaving the site?) and interviewing locals, desk research can also be useful:

**Look up production figures.** Reviewing production figures can indicate whether the company is extracting effectively. Sometimes the relevant ministry provides timely figures about production volumes, disaggregated at the project level—for instance, through the cadastre system. If a country implements the EITI, this information will be in EITI reports. Some companies also publish monthly or quarterly production statistics on their websites.

**Find out whether taxes or royalties have been paid.** Payments received by the government for a specific project can be an indication that extraction is underway. Several sources can be useful:

**EITI reports.** If a country implements the EITI, annual EITI reports will show whether a company is making any payments. Find the relevant national website [here](#).

**The NRGi database of company payments to government.** NRGi's [resourceprojects.org](#) website compiles payment data released by companies that are subject to mandatory disclosure laws in the EU, Norway and Canada. The data is searchable by [country](#) or by [company](#) to show whether there are any payments associated with particular licenses.

**Company websites** and other national websites, such as Ghana's Public Interest and Accountability Committee.

**Look at trade data.** If a project is the only one for a particular mineral in a country and there is no production data from the above sources, [UN COMTRADE](#) will show whether the mineral is being exported from the country. If there are exports, there must be production.

## —C

## Did someone have influence who should not have?

In its *Twelve Red Flags report*, NRGi looked at over 100 cases of potential corruption in licensing (see also Basics). In over half of those cases, there were signs that the winning company had ties to a politically exposed person (PEP). Instances in which an official/PEP is listed as a company's legal shareholder are nevertheless rare. It is therefore important to note that hidden ownership can almost never be conclusively proven and is not easy to investigate. Usually, the best a journalist can do is amass different pieces of circumstantial evidence and present them carefully. Journalists may not be able to publish everything they uncover—for example, if it is too speculative, potentially defamatory or would risk exposing the source of the information (see also safety tips in chapter 1).

**1. Find out the rules.** Check whether there are rules about excluding PEPs in the application process:

**Resource Governance Index.** The *Data Explorer* RGI question 1.1.7b assesses whether there are rules requiring disclosure of beneficial owners of extractive companies. Question 1.1.8b shows whether those have been followed in the period covered by the 2017 RGI, covering 2015-2016. Questions 1.1.7a and 1.1.8a can also help show whether there are asset disclosure requirements for public officials and whether these requirements have been followed in 2015-2016.

**EITI.** Starting in 2020, EITI reports will contain information about the identity of beneficial owners of extractive companies, the level of ownership and details about how ownership or control is exerted.

**2. Look into the people involved.** Understanding who is involved in the company on paper can help indicate connections of people who should not be involved:

**Shareholders, directors, officers.** Lists of the company's legal shareholders, directors and officers are usually available as part of the registration or tax payment process. This information may also be found on the company's website or in its annual report, stock exchange filings, a corporate register or various online databases. Review the list for:

- The names of any known government officials or PEPs.
- Business, family or social associates of an official or PEP.
- Any potentially fake or suspect names. These could include the name of a person or company for which no public records exist, a name that appears to have been deliberately misspelled, one that no one

with relevant knowledge recognizes, a name that otherwise closely resembles some other, identifiable name, the name of a deceased person, or a known or suspected alias, particularly of a PEP.

If the company's legal shareholders include other companies, be sure to check who owns those as well.

If possible, show the list to knowledgeable industry sources and ask them:

Do the names on the list match their understanding of who owns or controls the company? Is anyone missing?

Do they know any of the people on the list? How did those people come to have a place in the company? Do they have any close political relationships?

### The name of the company.

If the company has an unusual enough trade name (such as "Dragon Wing Petroleum," rather than "Oil Services Co. Ltd."), run variations of that name through the local registrar, *Open Corporates* or other open-source corporate databases and see who owns the companies that come up.

Does the company have initials in its name (e.g., "DEM Corp.")? Could its name be a combination of different initials or names, or an anagram of a person's name? These can sometimes be unscrambled or matched to the name of an official who owns the company, or to their associates or family members. This is not uncommon practice among corrupt officials. You can also try this with named assets of the company (e.g., if it has a drilling rig called the "Maria Christina" and a suspected official has a wife named Maria and a daughter called Christina).

### Explore further potential connections.

Check land, tax, operational safety and other regulatory records (if available) to see who owns, leases or pays dues on the company's office building and other real or personal property, such as cars, planes or field equipment.

Check the company's registered or physical address by searching online or at the corporate registry, to see which other companies or individuals are linked to the address. Then ascertain who owns or controls those.

Carry out social network analysis. See which officials the company's legal shareholders, officers, directors or lower-level employees are connected to on social media or through other social ties. They may have attended the same schools or places of worship, sat together at weddings, funerals or other social events, or have family members, business associates or close friends in common. Or they may be from the same region, village, ethnic group or political party or block. Online research, interviews and paper sources such as school yearbooks, gossip magazines and event programs can all be helpful. Pay special attention to the connections of nominee shareholders.

Is the winning company "close" to any official with decision-making authority over the license? In what way? What is the basis

for their relationship (for example, employment or consultancy, shareholding, or social or family ties)? Is there any chance the official gave the company special treatment because of such links?

**3. Investigate inappropriate relationships and anti-competitive behavior.** Below are some broad questions covering common types of situations and behaviors that could suggest a company received undue advantage in a license award process. The right sources of information will vary by the question: Some will be documentary (e.g., records from the bid evaluation process), while others are things to ask human sources. Note that some of this information is not likely to be readily available in many countries.

Did the winning bid receive the highest ranking/score from whichever actors evaluated bids? If not, why was it chosen as the winner?

Did any official with high decision-making authority set aside or ignore the recommendation of whoever evaluated bids and choose another company instead? If so, what was the reason?

Did an official with decision-making authority tell a company that it had to partner with another firm if it wanted to win, effectively “forcing a marriage” between the two? What was the reason for this? Who owns or controls the other firm?

Did the winning company actually place a bid for the license it won or was it just declared the winner?

Is the winning company “close to” any official with decision-making authority over the license? In what way? What’s the basis for their relationship (e.g., employment/consultancy, shareholding, social or family ties)? Is there any chance the official gave the company special treatment because of that?

Did the winning company receive a right of first refusal or other preferential bidding rights over the license? Why? How was that good for the country?

Did the government exempt the license from competitive bidding and allow the company to bid for it alone? Would a competitive bid have served the country’s interests better?

Are there other companies complaining that they were not allowed to bid for the license? What happened? Why do they claim they were excluded?

Was the time window the government set for bidding reasonable or was it too short for some companies to put their bids together

in time?

Are the companies that submitted bids for the license you’re interested in truly separate companies, or are they secretly working together to create the appearance of competition? Evidence could be common shareholders, officers or directors, shared offices or other corporate assets; one or more of the companies submitting a bid that looks unreasonable or defective.

Did the winning company renegotiate the terms that it bid after it won? In particular, did the government allow it to renegotiate terms that were more favorable to it after it won the bid?

Why do the losing companies think they lost?

## –D

### Was everyone involved who should have been?

**1. Check for a broad plan.** Best practice is that before licensing begins for a specific project, the government creates a Strategic Impact Assessment and policies that show the big picture of how it plans to balance issues of land use, social and environmental impacts, and potential revenues.

**Investigate documents.** Reviewing national extractive policy documents can lend insight into these broad tradeoffs. [Resourcedata.org](https://www.resourcedata.org) is a large database of country laws and policies on extractives that can be searched by country or content area.

**Ask key players.** Ask government sources and oversight actors whether there is a concerted plan for how the government intends to involve various actors in weighing the positive and negative implications of extraction.

**2. Find out the rules.** Research what the law says about the consultation process and what might be applicable for this extraction project.

**National consultation rules.** To understanding what, if any, requirements the country has for consultation, see national policies or laws on [resourcedata.org](https://www.resourcedata.org), or in the description of the legal framework that is part of EITI reporting.

**International obligations.** Some special cases mean that certain types of consultation are required by law:

**Indigenous people.** The *United Nations Declaration on the Rights of Indigenous People* requires that indigenous people give Free, Prior, and Informed consent (FPIC) for any project on their land. Reporters need to understand whether indigenous people are likely to be impacted to know whether FPIC applies.

**World Bank Projects.** Projects funded by the International Finance Corporation or another branch of the World Bank must meet *specific requirements* for consultation throughout. If a project has funding from an international financial institution, even if not the World Bank specifically, reporters should ask whether these standards are being met.

### Good practice standards.

**Industry standards.** The International Council on Mining and Minerals has created *resources* for its members to support stakeholder engagement. These include how companies approach communities and understand their perspective. Larger companies often have their own internal standards for how consultation should take place for their projects.

**Civil Society Perspectives.** Oxfam has created a *guide* to FPIC in multiple languages. This gives perspective on the standards civil society expects when companies seek consent.

**3. Check on what type of consultation took place, with what information, when.** Consultation ideally takes place with multiple actors across different phases of the project. Interviewing different actors about their experience of consultation, when it took place and the information they were given is necessary to verify whether obligations were met. This includes interviewing:

**Local community.** People who live in the community may not all have the same opinion or experience. To get a “community” perspective, reporters should talk to different types of people, including men, women, the young, the elderly and those from minority groups. These different perspectives can reveal whether a company’s rules and intentions were followed.

**Local government.** Local government officials are often seen by the company as community representatives. It can be useful to ask local government officials how they were consulted, and what information they shared with the community, when.

**National government.** National government officials can provide insight into what information they required or heard related to consultation. They can also give perspective on how the consultation results affected the government’s decision making.

**4. Get perspective.** Understanding how consultation takes place at other extraction sites can give reporting perspective and context:

**Within the country.** Reporters can compare the consultation experiences of one community with those at other extraction projects within the country. This can show whether the government is consistently applying standards across different companies or types of mineral extraction.

**From other sites with the same company.** Using contacts in other countries, reporters can research how a company conducted consultation processes in other countries. This can lead to an article that shows company trends or shortfalls in particular locations. International civil society groups can often be helpful connecting reporters to contacts in different countries.

# Examples of Good Reporting Practice

The examples given below can provide inspiration while preparing stories on licensing. Some highlight day-to-day reporting, while others are in-depth investigative reports.

## Alleged bribery in license award (investigative)

### BP to pay billions for suspicious Senegal gas deal

This 10-minute [documentary](#) by *BBC Africa Eye* and *Panorama* describes alleged corruption in a lucrative gas deal off Senegal's coast. A gripping investigation traces steps supposedly taken by the president's brother to influence a licensing round and receive beneficial royalty rates. The report includes interviews with a range of actors and mixes documentary with human sources. It also provides comment from those accused of wrongdoing and gives their responses. The filmmakers take care to use easily understood language and to break down complex steps into digestible information. They also provide context to their audience, who might not be familiar with Senegal or the gas sector. The report could be improved by clarifying what payments the people of Senegal are getting, and comparing the current deal to industry standards.

## President's daughters own gold mine in Azerbaijan (investigative)

### Aliyev's secret mining empire

This [article](#) by the international investigative outlet Organized Crime and Corruption Reporting Project shows how the daughters of the President of Azerbaijan were the secret owners of the country's most lucrative gold mines. Using a combination of interviews, leaked documents and visual graphics, this investigation offers both narrative storytelling and an explanation of how hidden ownership of mines can work in practice. The story has an impact on readers because it offers character details that contrast the

Azerbaijani President's glamorous daughters with a geologist who works at the mine. By giving this attention to everyday people as well as more famous politicians and elites, the report connects with readers and shows how these issues relate to them. This story could be improved by explaining how the mine's suspicious deal has lost the government money and impacted citizens beyond those who work directly at the mine.

## Identifying suspicious trends in mining ownership in Uganda (day-to-day)

### Who owns the rights to Uganda's minerals?

This brief [investigation published in the Ugandan national paper, the Daily Monitor](#) found that a prominent pastor and the former energy minister owned most of the rights to the minerals in Uganda. This story does an excellent job explaining data from the Ugandan Directorate of Geological Surveys, while creating a narrative about the beneficial owners of these mining rights. The author also uses humor and characters to tell the story. While the story highlights gaps in Uganda's mining license allocation process, it could have gone further in explaining why having so few owners could be a problem for the citizens of Uganda. It could also be the beginning of a deeper investigation into the dangers of politically exposed people being involved in licensing.

## Covering licensing delays in Tanzania (day-to-day)

### Minister clears air on LNG project delays

After months of delays on a liquid natural gas (LNG) project, this [article](#), published in the Tanzanian national paper, the *Daily News*, explores why the project was late. In addition to providing

perspectives from different branches of government and industry, the article explains the complexities associated with negotiating the terms of a large gas deal. As a result, it helps manage readers' expectations about how long negotiations should take and what risks can be involved. The author does not seek blame with either government or companies, as can often happen in reporting with multiple sides, and instead explores the reasoning provided by different actors. This type of reporting could be deepened by adding perspectives from neighboring countries on how quickly or slowly gas deals were negotiated and with what rates of success.

## Money changing hands during licensing in Nigeria (investigative)

### Investigation: The fraud called Malabu Oil and Gas (Part 1)

This [article](#) was published in the Nigerian daily newspaper, the *Premium Times*, several months into the paper's investigation of licensing of an oil block. It summarizes what is known about the involvement of the president and other high-ranking officials in creating a shell company that was awarded an oil block and paid billions of dollars by major oil companies Shell and Eni. The paper's investigation was aided by the release of the [Panama Papers](#), although it had already been working on uncovering corruption at the time. The article is complex, but allows readers who had been exposed to pieces of the puzzle for months to process all the information in a clear narrative.

## Behind the scenes of the Malabu case: Testimony by Nigerian *Premium Times* Reporter Idris Akinbajo



Idris Akinbajo is an investigative journalist whose interest is in reporting cases of corruption, failure of regulatory agencies, and human rights abuses.

He is known for leading the groundbreaking investigation into the grand corruption scandal in

the Nigerian oil sector, popularly called the “Malabu scandal,” while working at the daily newspaper, the *Premium Times*. An early article in the investigation can be read [here](#).

Idris also followed the story across the globe through the courts and political consequences. Since then, he has continued to follow extractive sector corruption cases. He is the former head of the *Premium Times* investigative desk and is now its

managing editor.

Listen to the full podcast here or read the full transcript below:



### [Reporting on the Malabu deal in Nigeria](#)

#### Transcript

#### 1. The Malabu Oil deal is a good example of corruption in the oil and gas sector in Nigeria—and, of course, what's possible in other resource-rich countries. What lessons on the governance of licensing processes can one learn from the Malabu case?

Although the Malabu/OPL 245 contract was awarded during the military era [in Nigeria], I would say two major lessons are to be learnt from the process. One is for relevant government agencies to do their due diligence and ensure that only qualified oil firms are awarded oil licenses. In the case of Malabu, what happened was the creation of a briefcase company that had a non-existent character as a shareholder—which is against Nigerian laws and ordinarily should be a crime that one should be prosecuted and jailed for.

So the first lesson is that relevant agencies should do their due diligence. If CAC [Nigeria's Corporate Affairs Commission] had done its due diligence then, if DPR [the Department of Petroleum Resources] had done its due diligence, then Malabu would never have been awarded OPL 245. That for me, is a major lesson to learn. The other lesson is to ensure that politically exposed persons are totally removed from having interests directly or indirectly in companies that are bidding for government contracts. Public officials should not in any way, either directly or through relatives or friends, be involved in owning or managing companies that are bidding for government contracts. What we saw with Malabu is that we had a sitting head of state whose son owned 50 percent shares in the company, a serving ambassador of Nigeria whose wife had about 20 percent shares in the company. Though we could say this happened in the military era, it's still happening now, so these are two key lessons that Nigeria must ensure do not occur again.

#### 2. Why should the media care? Why did you and *Premium Times* care?

The first reason why we [*Premium Times*] cared when we first got alerted of the Malabu scandal was the volume of money involved when the 2010–11 agreement was signed. About 1.1 billion [U.S.] dollars, a large chunk going to an individual, and for a country that then was facing several crises—inadequate schools, uni lecturers and doctors on strike—so we were concerned that how can this large chunk of money that should ordinarily go into government coffers go into private hands? Secondly is the value of the oil

block—this was an oil block that by industry estimates could have provided enough oil and gas that could power the whole of Africa for a good period. So the value of the block, the amount of money involved, but also the level of impunity of the whole process made us worry that something like this should not be let go without adequate investigation.

### 3. What challenges did you face in covering this important story?

The first challenge we faced was access to documents.... When we first got notified about the dealings, about the award, the signing of the contracts, we first tried to get copies of the three contracts because the 2010–2011 contract was signed between three parties, but in different forms... so there was one between Shell and the Nigerian government, there was one between the Nigerian government, Shell and Eni, and there was Malabu and Shell... so getting access to all these documents. We were also trying to get access to various older CAC records. We were not only interested in the current CAC records of Malabu, but also all the alterations that had happened since when Malabu was formed in 1998. The third was getting relevant parties to talk, parties who were directly involved in direct negotiations... Getting them to talk even off the record was a challenge. Of course, that's one of the challenges that investigative journalists face, but we were able to surmount the challenges. We got the info we needed.

### 4. What lessons can other journalists learn from your coverage of this story—e.g. tools, skills that are necessary to develop, and general tips?

The first [skill] is patience: never give up when you're pursuing a story of this nature, even if it seems you're facing barriers in accessing these documents or accessing sources. Keep pushing. Some of these investigations take months, years to get done, so never give up. The second thing is to be able to interpret data and

relevant documents. It's very key. You'd see some court judgments, like the U.S. court judgments, related to the matter...very bulky documents and you wonder, why do I have to read this 200-page document? Why do I have to interpret these legal terminologies as a journalist? But you really have to do these things to fully understand the matter. So I'd recommend to journalists that they should be willing and patient enough to read tons of documents that are relevant to the investigations that they're pursuing. The third is to be principled and upright. Someone once asked me why I was not scared for my life in pursuing this story, and even going as far as serving as a witness on the trial in Italy, and I told the person that all the players involved in the Malabu scandal know I've never collected a dime from any of them, despite knowing all of them. So they know I'm not doing it for the money. So for that reason I know there's nothing for me to be scared of. If they had heard that I ever collected money from any of them, then the other party would have been able to say: he's doing it for money, let's go after him. So my advice to journalists, particularly to [my] Nigerian journalists, when you're doing investigations, no matter what you're offered, please be upright. It's very key.

Cultivating sources is very key to investigative journalism. Some of the documents we sourced for this story would not have been got or possible if we had not cultivated [the] sources that we did. Sources both here and in the U.K., sources involved in the negotiations, top government officials, serving ambassadors.

Journalists must ensure, first, for a story like this, that enough story mapping is done. Adequate story mapping is important. If you do your story mapping very well, you'd find that it's not all sources that are difficult to find. You just need to identify the different types of sources that you need. There are some low-level sources that have access to big documents, so, where can I get this document, where can I get this source? Is there a person who served in a certain office that would be willing to talk now that they're no longer in the office? So source cultivation is very key to ensuring success on a story like this, and also working with various relevant groups locally and internationally.

## Sources

Below are sources that can contribute to different angles on stories about licensing. Some will be similar across different aspects of mining, oil and gas reporting and are repeated across chapters, while others apply specifically to licensing. When possible, there are direct links to institutions in the main target countries of "Covering Extractives": Ghana, Myanmar, Tanzania and Uganda.

## Public institutions

### Government bodies

In some instances, a state-owned enterprise (SOE) will be responsible for issuing licenses. This is mostly the case in Myanmar, where the [\*Myanmar Oil and Gas Enterprise\*](#) grants oil and gas exploration and production rights to companies, and the [\*Myanmar Gems Enterprise\*](#) manages the mining licensing process.



In many countries, the relevant ministry or sector regulator is in charge of allocating rights, such as in Tanzania, where the ***Ministry of Minerals*** is the government entity responsible for awarding mineral rights. Similarly, in Uganda, the ***Ministry for Energy and Mineral Development*** has the authority to issue mineral licenses. The ***Petroleum Directorate*** will hold further information about oil and gas licensing, while the ***Directorate for Geological Survey and Mines*** is responsible for managing information about mining licenses. In Ghana, the ***Ministry of Energy and Petroleum*** is the licensing authority, though it consults with the ***Petroleum Commission*** and the ***Minerals Commission*** on some aspects of the licensing decision.

### Oversight institutions

In some countries, parliament is involved in approving the contract after a licensing or negotiation process is completed. In others, parliament can have input into the licensing process or the resulting outcomes through legislating clear rules for the licensing process and holding hearings on its implementation. Reporters can ask members of parliament about what checks they make on the licensing process and how they are monitoring its success.

Staff at other agencies, such as supreme audit institutions, can also provide useful information about their review of the licensing process generally or the result of specific deals. For example, the National Audit Office of Tanzania conducted a ***performance audit*** of the licensing process for natural gas. Similarly, anti-corruption agencies such as the Nigerian Independent Corrupt Practices and Other Related Offenses Commission can be involved in investigating potential corruption in licensing. These agencies often compile documents relevant to in-depth reporting, although these may not always be publicly available.

## Experts, civil society and watchdogs

### National groups

Experts from civil society and academia can be helpful commentators on licensing and allocating rights. They can distance themselves from government or company interests and offer a different view of what is in the people's interest. However, they too can have biases, so seeking a second or opposing opinion is warranted for balanced reporting.

Where relevant, journalists are welcome to ***contact*** NRG country offices, where staff can provide connections with the right expert internally.

Other options for connecting with competent civil society or academic figures include:

***Publish What You Pay*** (PWYP), the global coalition of civil society organizations campaigning for a fair use of natural resources. PWYP

has over 700 member organizations in 50 countries, working on numerous issues, including licensing. Its national coordinators are able to direct journalists to a range of expert contacts.

In ***EITI member countries***, there will be civil society representatives on the national multi-stakeholder group. The national secretariat could also offer recommendations for civil society groups that specialize in licensing.

### International civil society

Licensing and beneficial ownership have become an area of interest to many international civil society and academic groups. The ***Open Contracting Partnership*** is an international effort to add transparency to government contracts and the processes that award them. ***Global Witness*** is respected for investigating corruption in particular cases of licensing that have not benefited citizens.

## International organizations

### International organizations

The International Monetary Fund's fiscal transparency guide sets some basic standards on licensing disclosures, and the World Bank has produced publications and guides exploring the subject in more detail. It can be relevant to contact their country staff to obtain further insight into the allocation of mineral rights.

### Multi-stakeholder initiatives

The ***Extractive Industries Transparency Initiative*** (EITI) is a multi-stakeholder initiative that supports transparency in resource-rich countries through an international standard implemented by member countries. EITI implementing countries are required to annually disclose the process by which licenses were transferred, the criteria used in decision making, the title owner and any deviations from the usual legal framework. Member countries are also required to publish the beneficial ownership of all licenses and, from 2021, will have to publish all contracts of each award. Although EITI data is often published slowly, the descriptive reports and the types of information available can be used to ask questions of ministries for more current stories. The national multi-stakeholder group that oversees a country's EITI process can also be a source for discussions on what information about licensing should be publicly available.

The ***Open Government Partnership*** (OGP) is an international multi-stakeholder initiative that supports countries in processes of transparency and accountability. Multi-stakeholder groups within countries that have signed up to the initiative set country goals for openness in sectors they prioritize. **Beneficial ownership** has been a major initiative of the OGP globally and in many implementing countries. Reporters can follow up with national OGP committees.

## Private-sector sources

The industry press can help reporters keep track of upcoming and ongoing licensing rounds, but many outlets require payment. In the oil sector, [rigzone.com](https://www.rigzone.com) is useful for following news about exploration activities and has the advantage of being free. The [\*Oil & Gas Journal\*](#) is very useful for background knowledge.

It can be important to contact companies involved in the licensing round to understand a different perspective and hear how this investment fits into their overall portfolio. Reporters can contact the national office, which may give information about a specific project, or the international headquarters, which can provide context about a company's good practice when participating in licensing and negotiations. In addition, companies often release information about a prospective oilfield or mine site on their website, to attract or reassure investors.

## Data sources

### Beneficial ownership

To help investigate who owns a company, the Global Investigative Journalism Network (GIJN) has a useful tip sheet on [\*how to research corporations and their owners\*](#). A growing source of information about beneficial ownership is the [\*Open Ownership register\*](#), which is global and links across jurisdictions and industries to publish data about beneficial owners. The data comes from regulatory sources such as the U.K.'s Persons of Significant Control Register, from EITI reports and in some cases from companies themselves which have voluntarily submitted the information. In addition, crosschecking a corporate name on [\*OpenCorporates\*](#) can provide insights into the links between companies. With information about more than 100 million companies, OpenCorporates is the largest open company database in the world and can be a helpful tool to make connections between different companies or jurisdictions.

GIJN also provides more specific advice on how to approach [\*asset disclosure by public officials\*](#). This can be practical if you suspect that a PEP is involved in the company you are looking at.

### Cadastre and license registries

Most countries have a database where they keep track of the geospatial information about where licenses are allocated. This usually includes helpful maps, often available online, that show what types of licenses are available—as in Uganda, which offers access to an [\*online cadastre portal\*](#) for its mining sector. This type of information was used in the reporting example above by the *Daily Monitor*. [\*Tanzania\*](#), [\*Ghana\*](#), and [\*Sierra Leone\*](#) have online mining cadastres that combine license information with payments. These can be accessed for free, but require registration.

## Voices

In the short videos below, a South African civil society representative and two Argentinian stakeholders, one from the Ministry of Production and Labor and the other from the Chamber of Mines, share their views about the allocation of licenses.

- ▶ [\*Managing an open cadastre\*](#)
- ▶ [\*Corruption risks in allocating mining rights\*](#)
- ▶ [\*Why a transparent cadaster is good for business\*](#)

## Learning resources

### Video overviews

In this 15 minute [\*video\*](#), Mark Moody Stuart, Chairman of Hermes Equity Ownership, provides an overview of where and when companies decide to invest in an extraction process.

In a [\*19-minute presentation\*](#), Paulo de Sa from the World Bank gives an overview of how rights are allocated in the extractive industries. He shows the World Bank's perspective on good practice with six different principles: a focus on predictability, security, transparency, disclosure, and a lack of discretion and discrimination.

### Key reports

NRGI has a five-page plain-language [\*primer\*](#) on licensing that gives an overview of the process of allocating resource rights.

Two leading reports provide background about when and where to spot corruption in extractive licensing process:

NRGI's [\*“Twelve Red Flags: Corruption Risks in the Award of Extractive Sector Licenses and Contracts”\*](#) identifies trends based on analyzing hundreds of cases of corruption in licensing. It provides 12 situations when oversight actors such as reporters should begin asking more questions because of corruption risks.

Following extensive research in 18 resource-rich countries, the non-profit organization Transparency International published a comprehensive [\*report\*](#) looking at what can go wrong in the approval process for mining licenses. The report focuses on key corruption risks in the different licensing phases, offering case studies and key recommendations on how the process can be improved to limit corruption. Its risk assessment tool can also be useful to journalists.

## 03

# State-Owned Enterprises

## State participation in the sector

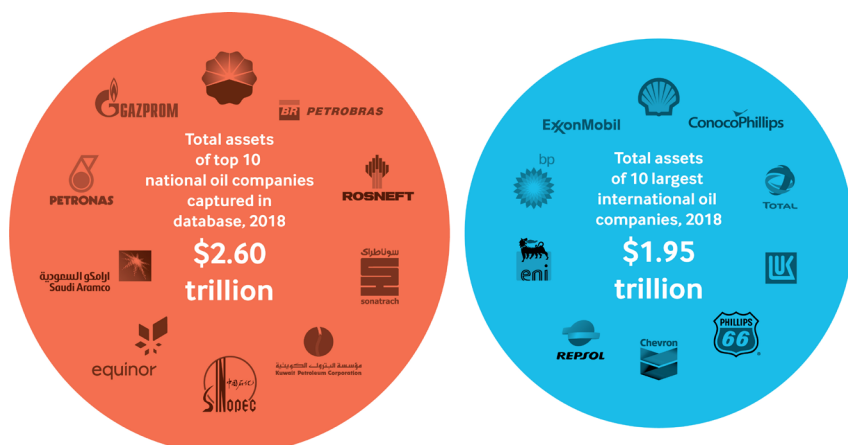
### Jargon buster

• **State-owned enterprise:** A company that is either wholly or partially owned by the government, which is created to undertake commercial activities on its behalf. Also known as a state-owned company (SOC), or national oil company (NOC) in the oil sector.

## Why it matters

### Why does this matter to your audience?

- State-Owned Enterprises (SOEs) control very large amounts of oil, minerals and gas. Nationally owned oil companies produce more than half the world's oil and gas.
- SOEs control significant sums of money. The combined total assets of the top 10 national oil companies were USD 2.51 trillion in 2017—half a trillion U.S. dollars more than the combined assets of the top 10 international oil companies.
- SOEs often control a high proportion of money within a country. In at least 25 countries, national oil companies collect revenues equivalent to more than 20 percent of the government's total revenues. In places like Venezuela, Malaysia and Kuwait, the national oil company collects more revenue than the rest of the government combined. This often means that they have extensive power in areas beyond oil, gas and mining.
- A number of SOEs have been the source of huge corruption scandals in resource-rich countries. For example, the Brazilian national oil company Petrobras was at the heart of allegations that billions of dollars in illegal payments had been made to company executives and political parties.
- State-owned companies are often a major source of national pride and have a big impact on the national economy. In some instances, such as in Chile and Saudi Arabia, SOEs have been used to create high-value jobs. In other countries, they are involved in a wide array of industries, ranging from selling insurance to building hospitals and running schools.



National oil companies' assets outstrip those of the world's largest international oil companies (based on the NRGi NOC database)

# The Basics

Governments in many resource-rich countries try to increase their revenue and their control over the oil, gas or mineral sectors by creating a company focused on natural resource extraction. Government-owned companies, usually called state-owned enterprises (SOEs), tend to be industry specific. Some countries have one focused on mineral extraction and another for oil and gas, usually called a national oil company (NOC). This overview will discuss the different roles SOEs can play in a country, and their potential benefits and challenges.

## Roles of SOEs: The range of company responsibilities

Governments can create companies focused on extractives that have several different roles, including commercial responsibilities, regulatory responsibilities, policymaking and national development. In many countries, an SOE's work cuts across several of these categories.

### Commercial roles: Acting like a private company extracting and selling resources

Some state-owned companies choose to act like a private oil or mining company and directly participate in the exploration, development and production of an oilfield or mine. In some cases, the SOE will manage the project alone or will be the lead operator in a partnership with other companies. In other cases, the SOE plays a secondary role in the management of a project. Often these companies own a percentage of a project with one or more private partners. When this happens, the SOE is usually entitled to a share of the project's oil or mineral production, a share of profits the project generates, or both.

When an SOE is acting like a private company, it may take on some of the risk of the project. This means the SOE must pay money upfront and will not get the money back if exploration is unsuccessful. In some cases, the SOE's risk is "carried" by its partners, meaning it does not have to pay a share of upfront costs for unsuccessful projects.

The level of SOE involvement in a particular project varies based on country and project. For example, the Ghana National Petroleum Corporation (GNPC) is usually the minority partner in oil projects in Ghana, while Saudi

## Covering NOCs' commodity trading activities

In many oil-producing countries, the national oil company (NOC) sells large quantities of oil and gas. This oil and gas comes from the NOC's upstream activities (the oil and gas the NOC produces itself), the government's share of a partnership (joint ventures or production-sharing contracts), or in-kind payments made by private companies.

For many NOCs, commodity trading is the way the company makes the most money. In 2016, oil sales revenue made up 95 percent of the total revenues of NOCs analyzed by NRGi in 35 countries. This often translates into important revenue for the government. For example, in Nigeria, oil trading represented more than 50 percent of the government's total revenue in one year.

### Oil sales revenue generated in 2016

Despite the vast sums of money involved, commodity trading is largely secret, creating corruption risks. Very few NOCs disclose detailed information on the buyers, volumes and prices of individual sales of oil and gas. Only three commodity traders—Trafigura, Glencore and Gunvor—disclose the payments they make to governments for the purchase of oil and gas.

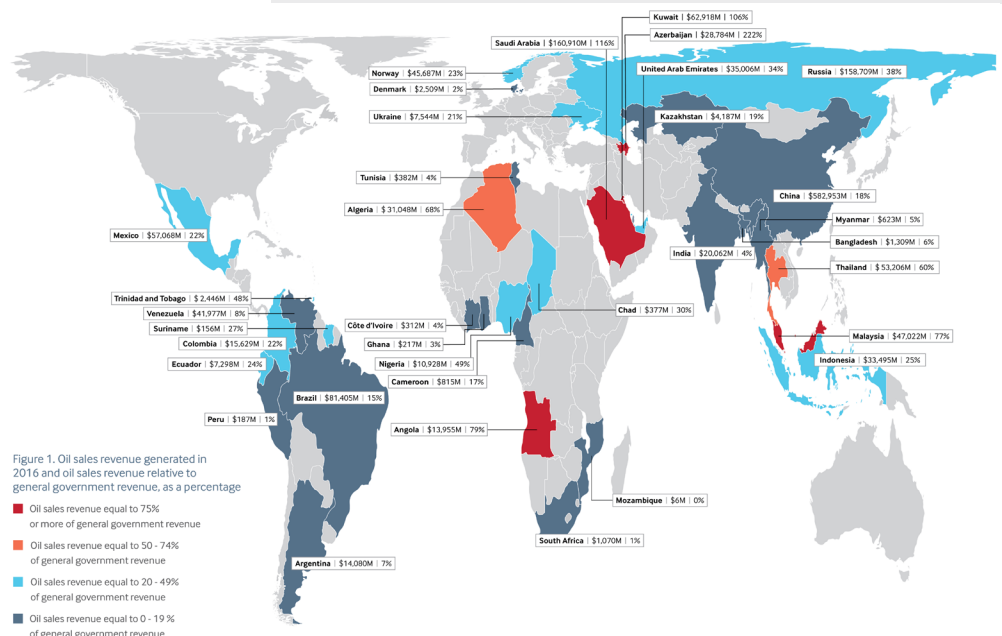


Figure 1. Oil sales revenue generated in 2016 and oil sales revenue relative to general government revenue, as a percentage

Arabia's Aramco usually runs projects alone. Some SOEs apply their experience in the extractive industries at home to participate in exploration and extraction in other countries. Petronas, a Malaysian state-owned company, has extensive reach throughout Africa and Asia.

### Regulating roles: Making and enforcing the rules

SOEs often have a role setting or enforcing the rules of a country's extractive sector. This can include tax collection, assignment of operating rights, monitoring and management of cadastres, setting rules governing performance, ensuring corporate compliance, and approving company operation plans.

Sometimes one part of an SOE will regulate another part of the same SOE. For example, in Malaysia, Petronas both extracts oil and regulates extraction across the country's oil sector. In contrast, Mexico's Pemex is regulated by separate agencies, the National Hydrocarbons Commission and the Energy Regulatory Commission.

### Quasi-fiscal roles: Spending money to build things or deliver services

Instead of transferring their revenue to other parts of the government, several SOEs directly provide services to citizens. Projects funded by SOEs are often called quasi-fiscal expenses, and can range from building or maintaining roads to promoting health and education, providing consumer fuel subsidies and purchasing arms. This role can create corruption risks, because it involves spending outside the normal checks and balances within budget processes. Angola's Sonangol, for example, spent more than \$27.3 billion over three years on quasi-fiscal projects, such as housing, railways, shipping, aviation and other infrastructure. All this spending took place outside Angola's usual budget process involving the treasury.

## Why have an SOE? Benefits of SOEs in extractives

### Financial benefits: making more money for the government

Many countries look to their SOEs as an opportunity to generate public revenue from extraction. Without an SOE, the state derives revenues from its natural resources via taxes and royalties from private companies. SOEs can create additional opportunities to earn revenues by giving the state a share of profits as an operator. The infographic on the right gives an overview of revenues that flow to and from an SOE:

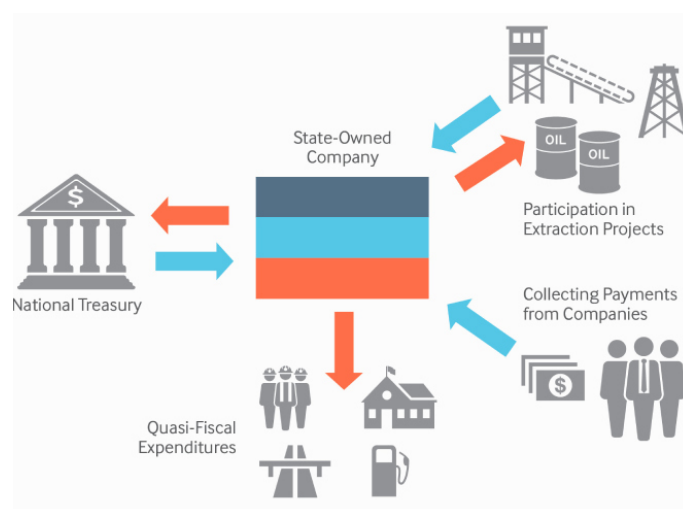
### Workforce development: Creating jobs and expertise in a new industry

SOEs can be key tools to create expertise and high-paying jobs in the country. Many governments require their SOEs to become centers of technical expertise, with the idea that the technologies and approaches they develop can be used elsewhere in the economy. The challenge is that there are often very few jobs in the extractive sector and they require a high degree of specialization.

### Increased monitoring and fostering of local content

In countries where SOEs engage in joint ventures with private companies, SOEs are viewed as a way of having a seat at the table to better monitor what private companies are doing. Timing the pace of exploration and extraction according to national macroeconomic goals—such as building national capacities before extracting large quantities of minerals—can be difficult for a government that works mainly with private companies driven by market considerations. In Algeria, Malaysia and Saudi Arabia, NOCs have each decelerated oil production at certain times to maximize revenue, save some resource production for future generations or mitigate the effects of the resource curse.

SOEs are also seen as strong drivers of local content. Because they can focus on a broad national mandate rather than short-term profits, SOEs can prioritize involving local workers and suppliers in a way that purely profit-driven private companies may not.



SOEs and money flows. (Source: NRGi)

## Performance and oversight challenges

### Revenue and “Parallel Treasuries”: Spending outside the regular protections

While most SOEs generate income, they are also big spenders. Many spend on company operations and quasi-fiscal activities, such as schools or roads. The size of SOE spending can create a risk that these companies serve as a de-facto parallel treasury. For example, Myanmar Oil and Gas Enterprises (MOGE) is among several of Myanmar’s SOEs that **seem to be** moving billions of dollars into bank accounts not subject to the regular annual budget process. This could have a big impact on the government as a whole, as MOGE accounts for 16 percent of government oil revenues and 10 percent of expenditure in one year.

**NRGI data** reveals that most of the 71 NOCs in the National Oil Company Database transfer less than 25 per cent of their gross revenues to the government, spending the rest on their operations and investments. If this spending results in long-term benefits to the country, it can achieve value for money. However, spending can also be wasted in the absence of proper oversight. In Ghana, for instance, Parliament ordered the national oil company GNPC to stop its annual sponsorship of \$3 million to the Black Stars football team in 2017. This followed a report by an independent oversight body, the Public Interest and Accountability Committee, which found GNPC’s spending to be outside its core role.

### Opacity: Secrets about revenues, spending and rules

Many SOEs suffer from an extreme lack of public transparency. More than 65 percent of SOEs scored “weak,” “poor” or “failing” grades for transparency of revenue and operations in the **Resource Governance Index**. Where SOEs disclose such little information, it can be difficult for citizens and oversight actors to know how well they are managing the industry and public revenues.

One way for SOEs to combat a lack of transparency is through public reporting. This means having systems in place to ensure that actors

meant to monitor an SOE—such as parliamentary committees, regulatory departments or legislative bodies—have access to comprehensive, reliable and regular data on SOE finances and operations.

### Risk of Corruption: Lack of oversight

In recent years, several SOEs have been at the center of some of the biggest corruption scandals in natural resource extraction. An investigation called “Operation Carwash,” begun in 2014, revealed that Brazil’s Petrobras conspired with a group of subcontractors to massively overpay for services, leading to billions of dollars in losses for Brazilian taxpayers. For years, the Nigerian National Petroleum Corporation sold large portions of the country’s crude oil production to unqualified companies, often referred to locally as “briefcase companies”. These small, little-known intermediary firms—typically connected to a political heavyweight—lack the financial and operational capacity to sell oil. Instead they re-sell, or “flip,” the oil they receive to larger, more experienced commodities traders, and collect a margin on the sale—sometimes to the benefit of Nigerian and foreign politically exposed persons (PEPs). This resulted in significant revenue losses for the Nigerian state.

Corruption risks include large amounts of revenue being managed, the political power of the institutions involved and the lack of oversight. One tool that can check corruption is auditing. Audits are independent examinations that verify the company’s figures and information and assess the effectiveness of internal controls. They can be carried out by external companies such as international accounting firms—for example, Ernst and Young or KPMG—or by the national auditing institution.

### Debt

Many SOEs carry big debts, either to commodity traders, governments, banks, bondholders or international oil companies. Venezuela’s Petroleos de Venezuela (PDVSA) and Angola’s Sonangol have debt that exceeds 20 percent of GDP. Several NOCs have required multi-billion-dollar bailouts from the state. Namibia, for example, does not even produce oil, yet the state needed to bail out the SOE with \$260 million.

## Story Leads

### Research questions and reporting angles

Below are story angles to facilitate reporting on the impact of SOEs in a particular country, based on following a sequence of research questions. More generic story planning guidelines can be found in Chapter 1.

#### —A

### Are the roles the SOE in my country plays risky?

#### 1. Find the SOE you want to research.

Country profiles in the **Resource Governance Index** (RGI) provide the name of SOEs for each sector, when they exist. Information about the SOE's disclosure policy and practice can be found under the "value realization" section in the RGI **country profile**. Note that in some countries there is more than one SOE in the same sector and the RGI chooses just one to assess.

**The NOC database** will display the major SOEs for a given country. When a country is selected, a drop-down of different company names will appear.

#### 2. Find out the roles the SOE plays in a country.

Three sources provide useful starting points to investigate the role of an SOE: RGI questions, SOE websites and the laws that govern the SOE.

**RGI questions:** The **RGI country profile** provides a text description of an SOE in a country, based on RGI questions. The **Data Explorer**, which can be downloaded, provides the research answers for each RGI question and links to the source documents. The following questions cover whether SOEs play specific roles: non-commercial activity (question 1.4.4 a), non-commercial spending (question 1.4.4 b), production value disclosure (question 1.4.6 a) and sales volume disclosure (question 1.4.6 b).

**SOE legal documents and disclosures:** Resourcedata.org has a large collection of documents that back up the answers in the RGI and data in the NOC Database. The site allows users to filter by

country and precept (in this case, **Precept 6: Nationally Owned Resource Companies**). Documents that might be useful include:

**Annual reports.** These provide an overview of what the company says it did over the last year, often including a description of roles, responsibilities and activities. Annual reports are usually available on a company's website, or at resourcedata.org. If the company is listed on a stock exchange, its annual reports may also be there.

**EITI reports.** If a country is part of the Extractive Industries Transparency Initiative, it is required to include a description of its SOEs and the laws that govern them in its EITI report. Recent country EITI reports are likely to be available on the **global EITI website**.

**Laws.** An SOE's roles are usually defined in legislation or policy documents. In particular, legislation or documentation around the time of an SOE's creation may provide information about its purpose and mandate.

**The company website.** Descriptions on the website of an SOE's departments, such as regulation, commodity-trading or downstream, could provide leads about its different roles. Many SOE websites also provide links to foundational legal documents and annual reports.

#### 3. Investigate the risks of those roles.

**Consider transparency.** An SOE's transparency in fulfilling these roles can be revealed by:

**Checking for disclosures.** The **NOC database** shows how many key financial and operational data points the NOC makes public. This can be followed up by asking staff at the SOE why certain data is not disclosed and whether there are risks associated with sharing (or not sharing) that information.

**Comparing with other countries.** The RGI **"Compare Countries"**

tool enables comparison of a country's SOE disclosure performance against those of other countries, while NRG's [Guide to Extractive-Sector State-Owned Enterprise Disclosures](#) provides examples of good practice. This information can show whether a country is doing better or worse than its neighbors. It can also be helpful to ask SOE oversight actors whether they know how other countries do in comparison, and how they explain other countries performing differently.

**Consider oversight.** The different roles performed by an SOE may have different oversight actors. Identifying whether the SOE oversees itself or there are clear lines of oversight—and how these differ from oversight of other government activities—can help explain the risk associated with some SOE roles. The following may be useful in identifying oversight:

**Audit.** RGI question 1.4.3b provides explanation about an SOE's financial audit requirements. Finding out which institutions are involved in those audits can show the level of oversight.

**Parliament.** Parliamentary committee lists should describe which committees in parliament have oversight of an SOE. If the SOE is legally required to report to parliament, RGI question 1.4.3c can provide insight into when and which part of parliament must receive reports from SOEs.

**Regulator.** Consider whether there is an independent ministry within the government tasked with providing oversight of the various roles of the SOE.

**Consider potential conflicts of interest.** The extent to which the SOE plays overlapping roles can increase the risk of conflicts of interest—for example, if an SOE allocates licenses that it also competes for, or self-regulates safety and environmental protection. RGI questions 1.4.10a on an SOE's code of conduct and 1.4.10b on the independence of an SOE's board of directors can offer insight into conflicts of interest.

### Consider mandate and size.

**Compare with other countries.** The NOC database allows comparison between an NOC and one in a neighboring country or with comparable oil reserves. The [“Explore by indicator”](#) page offers a range of indicators that can be compared across different NOCs. Different filters can be applied to narrow a search, for instance, to a specific timeframe, region or set of companies.

**Contextualize.** This can be done by considering whether the roles intended for the SOE match the likely scale of the industry in a country. How big is the revenue the SOE manages compared to the overall budget? How involved is the SOE compared to the size of the sector and its level of experience?

## –B

### Where does the SOE's money go?

#### 1. Find out the SOE's revenue.

Several sources offer information about how much an SOE says it collects in revenue and has in assets:

**NOC Database.** The [NOC database company page](#) has a “Revenues” tab that shows the total revenues the company collects. Note that this database is not comprehensive, but includes the major players.

**Annual Reports.** These provide an overview of what the company says it did over the last year. They can often be found on the company website or by searching online. The reports usually have a descriptive section and a financial reporting section which should detail the revenues collected.

**EITI reports.** EITI member countries must publish information about their SOEs' revenue in the annual EITI report. Reports are shared on country websites or the international secretariat's [country page](#). The reports can be searched for the name of an SOE. Note that the timing of EITI reports is often delayed.

#### 2. Track how much of the revenue the SOE says it retains or transfers.

Data sources offer insight into how much revenue stays in the company, how much goes to other parts of government and how much is spent:

**NOC Database.** If a company is in the NOC database, the “transfers to government” tab shows whether there is information about how much has been transferred to different parts of government. The “expenditures” tab should show how much the SOE has spent. Source documents for this data can be found at [resourcedata.org](#).

**EITI and annual reports.** The company's annual reports and EITI reports can show whether information is published on transfers to the government. SOEs in EITI-implementing countries have to report their quasi-fiscal expenditures. As a result, money they spend on public social expenditure, such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, should be available.

**RGI Explorer.** Question 1.4.1a and 1.4.2.a and b will reveal information about any legislation that requires transfers between the SOE and other areas of government. The explanation and background material related to this question give further insight into SOE financial transfers and expenditures.



### 3. Analyze or monitor transfers and expenditures.

**Compare expenditures with business roles.** Consider the rationale for expenditures. Does the SOE pay for things that another part of government would normally cover (such as repaying debts or buying the president an airplane)? Is the SOE involved in politicized spending that benefits the administration in power? Based on this understanding of expenditure, interviews with human sources can support reporting on the rationale behind the spending.

**Monitor the impact.** Expenses outside core extractive activities (like owning a football team or managing a hospital) can be tracked in a similar manner to traditional budget tracking. Reporters should look for formal audits or conduct an investigation of impact.

**Formal audits.** Formal audits of spending should reveal information about whether expenditures are reaching their intended goals. Question 1.4.3b on the RGI helps show whether formal audits are required and whether they are made public. In addition to audits done by the SOE, a national supreme audit institution may also conduct periodic audits of revenues and expenditures of government agencies.

**Budget tracking investigation.** Expenditure data points can be compared against direct observations and multiple source interviews that assess impact. This requires combining site visits with interviews about expected and actual outcomes. This *investigaton* from Joy FM in Ghana shows strong revenue tracking reporting.

## —C Who is involved in management of the company?

### 1. Assess corporate governance systems.

**Find out how management of the SOE is organized.** Company websites and annual reports usually have sections describing the company organization and how the management team is held accountable. Searching the [ResourceProjects.org](https://ResourceProjects.org) portal for documents related to the SOE (Precept 6) should reveal the legal framework for how the SOE is organized.

**Check what safeguards are in place to promote effective and accountable management.** Corporate policies can be found through company websites or annual reports, detailing the principles that guide the management of an SOE. RGI question 1.4.10a provides information about whether an SOE

has a corporate code of conduct and will link to the source documents. If information on policies is not publicly available, it might be found via the SOE's press office. Reporting on policies can include questioning whether they include strong standards requiring experience and integrity as pre-qualifications for board membership, whistleblower protection for employees who report wrongdoing, merit-based hiring and promotion, and anti-corruption training.

### 2. Review board composition, competency and independence.

Most SOEs are overseen by a board of directors responsible for ensuring that the company delivers against performance targets and objectives set by the government.

**Check who sits on the board.** Board composition can usually be found online at a company's website or in its annual report, or at business press websites, such as bloomberg.com. If the list is not online, call an SOE's press secretaries.

**Consider independence.** *The OECD Guidelines on Corporate Governance of State-Owned Enterprises* (2015) recommend that boards of directors are free from government interference, to allow for objective and effective oversight of the SOE. Question 1.4.10b of the *Resource Governance Index* considers whether the majority of an SOE's board of directors are independent of the government (meaning at least half of all board members do not hold positions in the current central government). The OECD guidelines outline further principles of good board governance, including conflict-of-interest policies that prevent board members from having any material interests or relationships with the SOE.

**Consider professionalism.** To profile board members, the Global Investigative Journalism Network offers a *toolbox* on researching people and companies' background. Reporting on the board profile should cover whether members are experienced professionals with expertise in mining or oil and gas, or political appointees with limited relevant experience.

## Examples of Good Reporting Practice

The examples given below can provide inspiration while preparing stories on SOEs. Some highlight day-to-day reporting, while others are in-depth investigative reports.

### SOEs and debt in Myanmar (day-to-day)

#### Oil and gas responsible for half of Myanmar's debt

This **article** published in the national newspaper, the *Myanmar Times*, covers an EITI report showing that half of Myanmar's government debt comes from the oil and gas sector. The story works by being clear, direct and to the point. It gives the main countries and companies to which the Myanmar government owes its debt. The story also calculates how many years it will take Myanmar to pay back its debts at current repayment rates, which can help readers understand the meaning of the large figures. It would be even stronger if the reporter had been able to contact Myanmar's oil and gas SOE for comment.

### SOEs and subcontracting scandal in Brazil (investigative)

#### The carwash scandal

This 25-minute **documentary by Al Jazeera** provides a detailed overview of Operation Carwash, an ongoing investigation into money laundering and bribery by top Brazilian officials and executives at the SOE Petrobras. It uses documents and interviews to explain the massive money-laundering scandal spanning a dozen countries. The film is effective because it gives broad context and specific details about characters and companies involved. By visiting key people and places, including the board of directors in the seaside headquarters of the huge construction company at the center of the scandal, the documentary draws in viewers to make them feel engaged with what happens next.

### Prices of commodity trading in Ghana (day-to-day)

#### Discounted crude oil sales justified; Finance Ministry erred-GNPC

This **article** by the multi-media forum Citi Newsroom in Ghana covers the response by the state-owned Ghana National Petroleum Corporation (GNPC) to questions from the Ministry of Finance about how gas was priced in commodity sales. Ken Ofori-Atta, Minister for Finance, questioned why GNPC allowed buyers to choose the lowest possible price when a higher price could have been achieved, costing the state USD 34 million in lost oil revenue. The article is successful in providing space for both the criticism and the SOE's response. It includes a long video interview with the chief executive officer of the company, asking for responses to specific questions raised by oversight bodies and civil society about the SOE's operations. Even though it covers very complicated topics, the report does well in providing examples of what is standard in the industry, and using plain language when possible. It could appeal to a wider audience by providing comparisons that related the financial figures to meaningful items in readers' daily lives.

### Uganda's SOE and the promotion of local content (day-to-day)

#### UNOC to invest \$840m in oil and gas sector

In this **story**, the reporter from *The Independent* looks at UNOC's plans to ensure Uganda's economy can benefit more broadly from extracting oil and gas. On the basis of an interview

with UNOC's CEO, he explains how the USD 840 million in announced investments will go towards joint infrastructure projects – refinery, pipeline, storage tank, bulk trading and an industrial park. The story does well in providing readers

with additional background and information about the latest developments affecting the extraction of oil in Uganda.

## Sources

**Below are sources that can contribute to different angles on stories about SOEs. Some will be similar across different aspects of mining, oil and gas reporting and are repeated across chapters, while others apply specifically to SOEs. When possible, there are direct links to institutions in the main target countries of “Covering Extractives”: Ghana, Myanmar, Tanzania and Uganda.**

### Public institutions

#### Home country SOEs

Reporters can identify their home country's SOEs by consulting the Resource Governance Index country profile. While covering a story, it can be helpful to access human sources in several parts of an SOE. The press office should cover general enquiries, but building relationships within specific departments will bring depth to a story. For example, the investor relations department can provide information about corporate governance and financial performance. For insight on financial report releases, it is helpful to interview people responsible for accounting or spending within the company. Many SOEs have a department of strategy or similar division that can be a good source of information on the company's ambitions and how it sees its role. In EITI member countries, SOEs often have representatives who serve on the EITI multi-stakeholder group, and who may feel a strong sense of responsibility for public engagement and reporting.

#### Oversight institutions

In many countries, SOEs must report to parliament. Although the legislature's powers of inquiry will vary between national contexts, parliamentarians generally have a mandate to check that an SOE fulfills the mission set out for it in the law. For example, in Ghana, Parliament created the **State Interests and Governance Authority** to oversee SOEs, including the state-owned oil company. Contacting relevant parliamentary committees and individual parliamentarians can offer insight into how well an SOE is performing. Additional scrutiny is usually provided by supreme audit institutions. For example, the Supreme Auditor of Nigeria conducted a **forensic audit** looking into the payments

between the SOE and the country's federal states, highlighting billions of dollars of missing money.

The ministry responsible for overseeing the SOE, usually the ministry of petroleum or mines, can provide insight into how the SOE's performance is meeting expectations. For example, in Tanzania, the Ministry of Minerals oversees the State Mining Corporation and the Ministry of Petroleum oversees the Tanzania Petroleum Development Corporation. In other countries, like Myanmar, there is less clear institutional oversight of the state-owned company. Beyond sector-specific institutions, it can be helpful to ask ministries responsible for financial management or environmental protection about the roles and actions of SOEs. For example, the Ministry of Environment in Ghana is responsible for monitoring the environmental impact of all extraction, including projects by the state-owned Ghana National Petroleum Corporation.

### Experts, civil society and watchdogs

#### National groups

Experts from civil society and academia can be helpful commentators on SOEs. They can distance themselves from government or company interests and offer a different view and analysis of what is in the people's interest.

Where relevant, journalists are welcome to **contact** the NRG country offices, where staff can provide connections with the right expert internally.

Other options for connecting with competent civil society or academic figures include:

**Publish What You Pay** (PWYP), the global coalition of civil society organizations campaigning for a fair use of natural resources. PWYP has over 700 member organizations in 50 countries, working on numerous issues, including SOEs. Its national coordinators are able to direct journalists to a range of expert contacts.

In **EITI member countries**, there will be civil society representatives on the national multi-stakeholder group. The national secretariat could also offer recommendations for civil society groups that specialize in SOEs.

## International civil society

International think-tanks that produce research on SOEs include [Chatham House](#), the [International Institute for Sustainable Development](#) and [the Baker Institute for Public Policy](#).

## International institutions

### International financial institutions

The World Bank often advises governments on their management of SOEs. This can include [analyzing](#) the pros and cons of SOE impact on economies and governance. In 2017, the World Bank Group [committed](#) not to finance new upstream oil projects, so the bank is unlikely to fund new projects related to upstream work by SOEs. In addition to World Bank country offices, thematic experts based at its headquarters may be able to supply information about how a particular country's SOEs compare to global standards.

### Multi-stakeholder initiatives

The [Extractive Industries Transparency Initiative](#) (EITI) is a multi-stakeholder initiative that supports transparency in resource-rich countries through an international standard implemented by member countries. EITI implementing countries are [required](#) to annually disclose information about any SOE, including the scale of government ownership in companies and the structure for revenue transfers between SOEs and other parts of government. Although EITI data is often published slowly, the descriptive reports and the types of information available can be used to ask questions of ministries for more current stories. The national multi-stakeholder group that oversees a country's EITI process can also be a source for discussions on what information should be made available about SOEs.

## Data sources

### National Oil Company Database

The [National Oil Company Database](#) brings together useful information about the finances and operations of 71 NOCs in 61 countries from 2011 to 2017. NRGi will update the data every few years. The content can be searched by company name or by [indicators](#) such as number of wells, operational expenditure or income per employee. Data is presented to allow for easy comparison across companies. This [article](#) from *The Economist* is an excellent example of how to use the NOC database, giving a regional analysis of NOCs in Latin America. NRGi has created a short [video](#) with information on using the database.

## Voices

In the short videos below, a member of Parliament in Ghana, the CEO of the Ugandan national oil company and a civil society representative from Myanmar share their views about SOE performance and oversight in their respective countries.

- ▶ [The oversight role of Parliament in the oil sector](#)
- ▶ [The role of the national oil company in Uganda](#)
- ▶ [State-owned enterprises in Myanmar's resource sector](#)

## Learning resources

### Video overviews

This two-minute [video](#) from UNU-WIDER gives an overview of the challenges NOCs face and some of the steps they can take to be successful.

In a 12-minute [video](#), NRGi's Patrick Heller goes into more detail about what NOCs do, how they are most successful and what types of questions can be used to monitor them.

### Key reports

NRGI has a seven-page plain-language [primer](#) on SOEs which gives an overview of the different roles SOEs can play and how they are managed.

Three strong reports on SOEs have been published recently:

In 2019, NRGi published a [report](#) based on the data available in the NOC database. A summary report identifies trends such as the large sums controlled by NOCs and the strong potential they have for impacting a nation's debt. A more [academic](#) version gives detail about the forms of analysis that can be carried out with the NOC database, and some early findings.

Chatham House has published multiple reports on SOEs, based on close case-study analysis and collaboration with NOCs around the world. This [report](#) discusses the financing of NOCs.

In 2018, the EITI published [Upstream Oil, Gas and Mining State-Owned Enterprises](#), which gives an overview of international reporting guidelines for SOEs in oil, gas and mining. It examines what information SOEs should disclose, when and how.

## 04

# What's in the deal

## The ins and outs of oil, gas and mining contracts

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### Jargon buster

• **contract/permit:** An agreement or set of legal terms whereby a government entity or its representative (e.g., a state-owned enterprise) grants a company the right to explore and/or extract a resource in a given area, in return for paying the government royalties, taxes or other consideration. Also known as a lease, license, concession, block, mineral development agreement (MDA) or production-sharing contract (PSC), among others.

• **fiscal terms/regime:** The set of terms and instruments (e.g., taxes, royalties, dividends) that together determine how the revenues from extractive projects are shared between the state and companies.

• **royalty:** Payment due to the resource owner, based on either *ad valorem*, a percentage of the value of the resource extracted (e.g., four percent of the sale value of gold extracted), or on a “per unit of extraction” basis (e.g., 4 percent on each ounce of gold produced).

• **stabilization clause:** Terms of contracts that determine how the contract interacts with other laws in the country. They often limit the potential for changes in laws to influence the terms of the contract for a period of time or in a particular area (e.g., changes in the fiscal regime).

• **transfer pricing:** The process for setting the price of a transaction between two entities that are part of a group of related companies. The manipulation of these closed transactions (“transfer mispricing”) to avoid taxation can result in significant losses to government revenue in resource-producing countries.

## Why it matters

### Why does this matter to your audience?

- An extractive deal, usually finalized in a contract between the national government and an extractive company, should balance the interests of the government, the company and the local community. It is often difficult to tell whether there are enough benefits and protections for the different actors until after the deal is finalized.
- The deal includes how much money the government is going to get, for what, and what the company has to do, when.
- Sometimes companies try to take advantage of loopholes in deals, which can cost the government millions. For example, the Australian tax authorities recently made Chevron pay USD 300 million after Chevron tried to avoid taxes by using intra-company loans as a means of shifting profits.
- In some countries, governments feel they have not got good deals, either because they did not understand the industry or due to corruption among the negotiators. Some bad deals have lost countries billions, such as the contract signed by the government of Guinea with Beny Steinmetz Group Resources (BSGR) in 2008 for the Simandou iron mine.
- Journalists and civil society around the world have used contracts to hold governments and companies accountable. By following up on small terms about the timing of project cycles, civil society in Belize effectively put an end to oil drilling in protected coral reefs.
- If deals are kept secret, it is difficult for reporters and other oversight actors to keep track of whether everyone involved is playing by the rules. Over the past 10 years, the details of some deals have been made more public, but much work is still needed to make sure they are being followed with citizens’ best interests in mind.

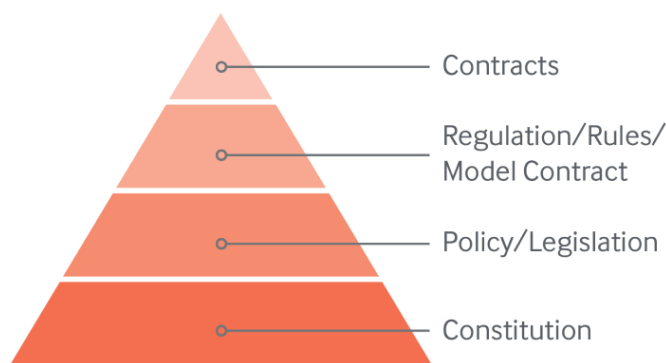
## The Basics

Each natural resource extraction project has rules governing the rights and responsibilities of governments, companies and citizens. These are defined through a country's constitution, laws, regulations, policy and the contract between the government and a company for a particular project. Contracts contain project-specific rules, often in categories, including exploration and development, operations, who will make and receive what payments, social and environmental impacts, health and safety, and requirements for whom the company should hire to provide labor, products or services. It is hard to tell whether any part of a contract represents a good deal by itself. Yet as more and more contracts become available publicly, reporters can play a vital role in taking a critical look at whether a deal strikes the right balance between the costs and benefits of all its different terms. To report effectively on whether a deal is good for a country's people, it's also important to look at whether its terms are being met. When companies try to avoid their obligations, especially financial, this can result in huge potential losses — losses which journalists can help expose.

### Legal frameworks: The rules of the game

For each project to extract natural resources from the ground, there are rules that govern the rights and responsibilities of governments, companies and citizens. Together these rules are called a legal framework, or legal architecture. The rules can be written through a combination of the contract, regulations, policy, laws and the constitution (see the pyramid image below).

Moving from the bottom of the pyramid to the top, each part of the framework usually becomes more project-specific and detailed. All the rules in the different parts of the pyramid should be consistent with each other. Often laws and policy have more authority than a contract—in legal terms, they take precedence.



The legal hierarchy. (Source: NRG1)

When trying to assess the rules for a particular project, it is useful to understand how all these different documents fit together. Some countries have constitutions, laws and regulations that are very specific about the rules governing the extractive industries. As a result, there may be less information in contracts and less for governments and companies to negotiate in each deal. Other countries have vague laws that leave more space for negotiating contracts. In this sense, a country's legal framework around extractives can be characterized as being more "law-driven" (relying on permits and licenses) or more "contract driven" (relying on individually negotiated agreements between the government and a company).

This 10-minute [video](#) provides an overview of legal rules that govern the extractive sector.

#### What is a contract?

When governments decide to develop natural resources, they usually enter into agreements with companies, giving companies the right to extract natural resources in exchange for a share of the profits. These agreements go by many names, including contracts, licenses, concessions or permits.

An extractive deal is made up of many different contracts or agreements. The main "contract" is called a "state-investor" or "host government" agreement. This usually has annexes and amendments which can also be important. To get a full understanding of a particular deal, it is also helpful to see additional environmental documents.

For many extraction projects, the terms of the contract remain secret between a few people in government and the companies involved. In the past decade, however, numerous companies and governments have started disclosing these contracts, so that different stakeholders can understand them and check whether the rules are being followed. All countries that are part of the Extractive Industries Transparency Initiative (EITI) must disclose contracts signed after 1 January 2021. This means that if a reporter cannot access a contract in a country or for a particular project, it will be easier to argue that it should be publicly available.

## The parts of a contract

The document of the contract includes a lot of vital information about a project. A contract usually begins stating the official names of the companies involved in the project. It then describes rules, usually referred to as terms, for the government and companies. The terms are often divided into categories, including the following:

**Exploration, development and operations:** This includes agreements about how often and what type of extraction can take place, when and how the company must report its plans to the government, and how long the company has to meet certain benchmarks. Many activists have found checking whether operational obligations are followed is a key way to get accountability for company behavior.

**Fiscal terms:** These are the agreements about who will receive what payment for the extraction. There can be a lot of variety in these terms, so they are described in detail in the section below.

**Social and environmental impacts:** These terms usually include broad parameters about what companies are obliged to protect and specific rules about when the company is required to report to the government on its impacts.

**Health and safety:** These terms cover the health and safety of employees and day-to-day operations. There may be specific requirements for particular types of processing (for example, for mercury), but usually the terms refer to international standards or national health and safety law.

**Local content:** This specifies any special requirements for whom the company is supposed to hire, either to work at the extraction site or to bring products or services to the project. Sometimes there are minimum requirements for the number of local people to be hired for specific types of jobs.

**Stabilization:** A stabilization clause locks in place the laws and rules at the time the contract is signed. This usually means that

even if a country passes a different law years later, the company can still operate by the rules set out in the contract. This can be very important if a government decides to increase, for instance, a royalty rate. Companies can save large sums of money if a stabilization clause is inserted into a contract giving it a “low tax guarantee.” More recent contracts typically only stabilize key economic and fiscal terms.

**Choice of law and arbitration:** This section sets out what happens if there is a disagreement about the contract. Usually, this involves going to an international arbitration tribunal because foreign investors often lack confidence in a domestic court system's impartiality. International arbitration can be controversial, due to its expense and secrecy.

The entire contract is ideally an effort to balance the costs and benefits of these different terms. It is hard to tell whether any term represents a good deal by itself, making it important to look at the overall picture of a deal and the global price of the commodity in question.

The document of the contract usually sets out these rules, but who checks whether they are followed depends on a country's monitoring framework. Although one ministry is involved in negotiating the contract, many ministries are often involved in monitoring its specific obligations. For example, the ministry of the environment might be responsible for monitoring environmental impacts, while the ministry of finance might be responsible for monitoring tax payments. This can mean that several ministries need to work together to assess whether a company is doing everything it promised.

## Fiscal regimes: Rules for revenue

A fiscal regime is the set of rules (such as taxes, royalties and dividends) that say how the revenues from oil and mining projects are split between the state and companies. A country has many factors to consider when it decides which fiscal tools to use and how to use them. The most important concern is often how to balance maximizing future tax revenue with attracting investment. Higher tax rates can deter investment, but lower tax rates can mean a country does not benefit fully from its natural resources.

Some of the broad considerations include:

### What is the timing of the revenues?

Some fiscal tools provide governments with more money early in the lifecycle of an extractive project, while others do not deliver significant revenues until the project has already made a profit, which can take years. For example, signature bonuses generate revenues early in the extraction project, while profit-based taxes

tend to be paid only after a few years of extraction, once a company's costs (capital expenditure) have been recouped.

### How does government revenue change when profitability changes?

As commodity prices, production techniques and production rates change over time, so does the profit margin for the project. The fiscal regime can affect the government's share of the profits when the project's profit margin increases in three ways:

**Neutral fiscal regimes** give the state the same share of revenue whether profitability increases or decreases.

**Progressive fiscal regimes** give the government a larger share of the profit when profits increase, and a smaller share when profits decrease.

**Regressive fiscal regimes** give the government a lesser share as profits increase, and a larger share as profits decrease.

Each option can be beneficial depending on the desired outcome. Progressive fiscal regimes encourage investment, while regressive fiscal regimes provide a more predictable stream of revenue to the state.

### Who carries the risk?

Not all extraction projects are successful. Fiscal terms are usually agreed very early in the project, before extraction is underway. A company's investment in the expensive infrastructure and supplies necessary to extract natural resources represents a risk, as the investment may not equal future profits. With some fiscal packages, a government shares more of the risk with the company and is subject to losses when a project is not profitable.

Watch this 10-minute [video](#) to learn more about fiscal regimes.

Read this NRG [primer](#) about fiscal regimes to obtain an overview of the most common fiscal tools.

### Tax incentives in mining

Many resource-rich countries offer tax incentives to attract investment in the extractives sector. In general terms, a tax incentive, or tax break, is any special tax rule that allows the company to pay different taxes from those which a company usually would. However, tax incentives are controversial. Companies argue that they are necessary to encourage costly investments in projects with high levels of financial and operational risk. Yet tax breaks can also result in significant losses of public income. The most common **incentives** offered to companies by governments are tax stabilization and corporate income tax incentives, even though these are generally considered less efficient in attracting investments because they benefit profitable projects more than less profitable ones. It is more common for countries to grant incentives in the law, such as mineral or tax codes, than in project-specific contracts—except for reduced royalty rates, which are more often found in contracts. Citizens in resource-rich countries are increasingly questioning whether tax incentives make the country lose out on the full value of its resources. The Organization for Economic Cooperation and Development (OECD) has produced a **guidance note** to help governments analyze tax incentives in order to maximize their tax benefits. This is also useful to help journalists assess tax incentives provided by the government.

See this short [video](#) by Highgrade Media about ways to reduce tax incentives.



## Special challenges in monitoring fiscal terms

Some companies try to minimize the amount they must pay to the government using various loopholes. These different practices are known as “tax base erosion and profit shifting”, or BEPS. The extractive industries are not the only sector where this is an issue, and global reforms are underway in an *initiative* led by the OECD and the G20.

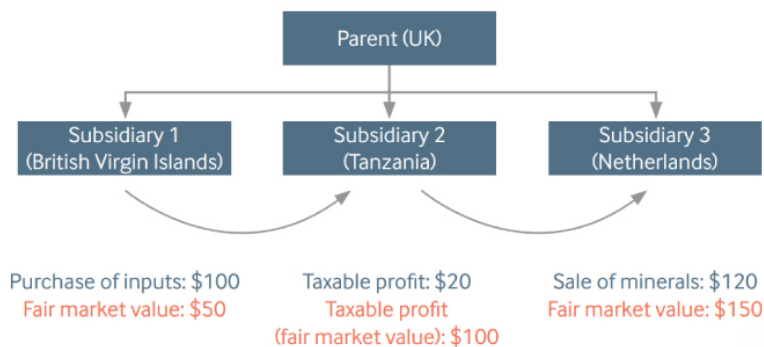


Illustration of transfer mispricing in the mining sector (Source: NRG1)

### Transfer pricing

Transfer prices are prices used in transactions between related companies—for example, if a bulldozing company is owned by the same people as a mine, the mine can transfer profits to the bulldozing company. A company could manipulate transfer prices to move its profit to different jurisdictions, so it had to pay less tax overall. Under-reporting the value of production sold to related entities and over-reporting charges from related contractors, including for debt, are the main transfer pricing risks which tax authorities need to monitor closely.

### Under-reported project revenues

One way companies can try to reduce their tax bill is by under-reporting the value of the mineral product they extract and sell. They can do this by:

- under-reporting the quantity or quality (the grade of raw minerals) of the principal commodity produced
- failing to declare valuable by-products, such as the small quantities of silver typically found in the same ore as gold
- under-reporting the market value of the commodity, by selling at a reduced price to an affiliated company.

For example, despite having negotiated generous fiscal terms, Mozambique lost revenue on an important natural gas project when the company running the project, Sasol, secured an agreement to sell the gas to its affiliate at a fraction of its value.

### Production costs

Another way that companies can potentially decrease payments to a host government is by increasing their production costs. A company can do this by spending more on production than is necessary or efficient. A darker scenario involves companies over-reporting production costs through inaccurate accounting. Governments can prevent this type of abuse by increasing the monitoring and auditing of the company's production costs. In Tanzania, the government created the Tanzanian Mineral Audit Agency (TMMA) in 2009 after discovering that leading goldmining companies were claiming large losses every year to avoid paying income tax. TMMA contributed to a substantial increase in government income from the sector by assessing the quantity and quality of minerals mined.

### Thin capitalization

“Thin capitalization” is a very important and common practice. It may occur when a country allows companies to deduct the interest payments on loans from their taxable profits. This creates an incentive for companies to take out bigger loans, whether or not they need them. Loans can even be made by companies that are part of the same multinational group. In this way, costs to the company that directly owns the asset are increased, which reduces taxable profits. Profits can be taken by a related company, often incorporated in a low-tax jurisdiction, in the form of interest payments. A country can reduce this loss of tax revenues by limiting interest deductions or restricting the debt-to-capital ratio.

This *report*, published in 2018 by Oxfam, explains the many challenges governments face when auditing production costs for petroleum projects.

# Story Leads

## Research questions and reporting angles

Below are story angles for reporting on an extractive deal in a particular country, based on a sequence of research questions. See Chapter 1 for more general story planning guidelines.

### A–

## Is the contract for this project a good deal?

**1. Understand the broad plan.** Any deal is a mix of compromises and balancing different interests. Asking whether something is a “good” deal means wondering which of those interests are most important. Considering various perspectives will help understand the big-picture interests that the country needs to prioritize in extraction.

**Investigate government documents.** Reviewing national extractive policy documents can help uncover these broad trade-offs. [Resourcedata.org](https://www.resourcedata.org) is a large database of laws and policies on extractives from over 80 resource-rich countries. It is searchable by country or content area (under “Precept 1”). Strategic impact assessments and national mining or oil and gas policy documents can provide specific insight into how a government intends to balance trade-offs such as short-term versus long-term interests, or national versus local impacts.

**Ask key players.** Interviewing sources in government and oversight actors about the government’s overall priorities for extraction can help in deciding what types of criteria to use in assessing whether a deal is “good”.

**Ask observers.** Industry and non-profit observers can often offer useful perspectives on what a government has indicated are its priorities for approaching extraction. Connecting with observers who are familiar with the country over time can provide strong background material.

**2. Find the terms of the deal.** The terms of the extraction deal will be split between the constitution, laws and contracts, depending on the country. Usually, the contract will note any references to national law.

**Look for the legal framework.** Possible sources include:

**Resourcedata.org**, which allows users to filter documents by country and by individual precept of the Natural Resource Charter, a governance framework that covers the decision-making chain. Precepts relevant to finding the terms of an agreement include Precepts 4 (Taxation) and 5 (Local effects).

**EITI.** The Extractive Industries Transparency Initiative (EITI) requires member countries to describe the legal framework and fiscal regime that apply to their oil, gas and mining sectors. Published on an annual basis with a time-lag of 1–2 years, reports can be found on the [international EITI website](https://www.eiti.org/) or national websites. While project-specific data is often delayed, the broad descriptions can be helpful towards understanding the industry and where to find current information.

**Industry guides.** International consulting companies publish annual guides about fiscal regimes in different oil, gas and mining countries. These can be a good resource for comparing a specific deal with the general framework. They also can help reporters identify which are the most current laws in the sector. See EY’s [guide](#) on oil and gas and Pricewaterhouse Cooper’s guide on [mining](#).

**Look for the contract itself.** Possible sources include:

**Resourcecontracts.org.** This online database contains publicly available oil, gas and mining contracts.

**Government sources.** Many countries publish contracts they sign with extractive companies on ministry websites or through a dedicated portal. In some cases, the online cadastre system will list the terms associated with each license. From 2021, EITI implementing countries will have to publish all contracts.

**Company websites.** Some companies, such as Total, Tullow Oil, and Rio Tinto, have committed to making contracts publicly available, provided their government counterpart has no objection. Other listed companies may publish selected terms of contracts to their investors, in particular, fiscal terms. These may be available in regulatory filings in the relevant stock exchanges or on company websites.

3. *Analyze the trade-offs within the deal.* The following angles of analysis are useful for assessing a contract:

**Assess the deal against objectives set out in the national strategy.** Does the deal support the country's goals as set out in its big-picture documents or strategies? Does it make economic sense? Does it provide more benefits than costs socially, environmentally and to the local economy?

**Compare the deal against the relevant law.** Do the specific terms in this deal vary from what the law generally suggests should take place? This can be a time-consuming exercise, so it can be helpful to prioritize provisions to focus on. For financial provisions, one shortcut is to consult the industry summary guides for taxes (such as EY's *guide* on oil and gas) and compare them against the specific details within this contract.

**Investigate potential deviations.** If there is a difference between what the law says and the terms of the contract, follow up with human sources to understand why the government might have made concessions for this deal and whether these were reasonable.

**Consider the whole deal.** When looking at a deal, it is important to take into account the overall balancing act between different provisions, including the fiscal regime, compensation for social-environmental damage, local content, profit sharing and debt terms.

**Assess the financial terms.** A key indicator of whether a deal is good for the country is whether government revenue loss is likely under the terms. The table to the right provides an overview of key risk factors that can negatively affect the government's ability to benefit from a deal through tax revenues. It shows the differences between risks related to the tax rate and risks that affect the taxable revenues. The table can help show how well a government has crafted a deal to guard against these risks. Detailed financial modelling of economic and fiscal terms is needed to fully assess some of these risks. *Constructing such models* requires experience. Alternatively, reporters can ask civil society or industry experts for their understanding of the risks related to the fiscal terms.

**Consider local content provisions.** For many countries, a way to make sure the project benefits the local economy, beyond generating revenue, is by including in the deal provisions that require the company to hire local labor and procure services and goods locally (See Chapter 6). What are these "local content" targets in the contract and are they appropriate? Does the deal give priority to employing local people and locally based firms, and do local workers have the required skills?

#### Textbox 1:

Revenue Risk Framework and Case Studies

	Risks to Revenues	Examples
Tax Rates	<b>TAX BREAKS</b> <ul style="list-style-type: none"> <li><b>Tax Incentives</b> <ul style="list-style-type: none"> <li>Accelerated depreciation</li> </ul> </li> <li><b>Tax Holidays</b> <ul style="list-style-type: none"> <li>Corporate tax exemptions</li> </ul> </li> </ul>	<b>Peru Mining:</b> Accelerated depreciation <b>Mali Mining:</b> Corporate tax exemptions
	<b>TREATY SHOPPING</b> <ul style="list-style-type: none"> <li><b>Withholding Taxes</b> <ul style="list-style-type: none"> <li>Dividend payments</li> <li>Interest payments</li> </ul> </li> <li><b>Capital Gains Tax</b></li> </ul>	<b>Turquoise Hill</b> (Mongolia / Netherlands) <b>Heritage Oil</b> (Uganda / Mauritius)
Tax Base	<b>UNDER-REPORTED PROJECT REVENUES</b> <ul style="list-style-type: none"> <li><b>Production Volumes</b> <ul style="list-style-type: none"> <li>Under-reporting production</li> <li>Non-reporting of by-products</li> </ul> </li> <li><b>Sale Price</b> <ul style="list-style-type: none"> <li>Intra-firm sales agreements</li> <li>Excessive marketing fees</li> <li>Forward sales / price hedging</li> </ul> </li> </ul>	<b>Congo Brazzaville:</b> Diamond smuggling <b>Chile:</b> Tax avoidance on tailings production <b>Uranium Sales:</b> Cameco (Canada) <b>Natural Gas:</b> Mozambique South Africa <b>Iron Ore Sales:</b> Sierra Leone <b>Marketing Hubs:</b> Australia / Singapore
	<b>OVER-REPORTED PROJECT COSTS</b> <ul style="list-style-type: none"> <li><b>Ineligible Costs</b> <ul style="list-style-type: none"> <li>Falsified or duplicate invoices</li> </ul> </li> <li><b>Misallocated Costs</b></li> <li><b>Inflated Goods and Services</b> <ul style="list-style-type: none"> <li>Over-priced used machinery</li> <li>Transport (rail, ports, pipelines)</li> <li>Management fees</li> </ul> </li> </ul>	<b>Chile Mining Company:</b> False invoices <b>Indonesia:</b> Cost recovery abandoned due to abuse <b>Timor-Leste:</b> Cost claims against producing block <b>Alaska:</b> Inflated pipeline and shipping costs <b>Tanzania:</b> Inflated costs in the mining sector
	<b>Debt Financing</b> <ul style="list-style-type: none"> <li>Thin capitalization</li> <li>Abusive interest rates</li> </ul>	<b>Chile:</b> Mining company debt financing <b>Chevron Australia:</b> Financing costs disallowed

Resources for Development Consulting (2016)

Revenue Risk Framework developed by Resources for Development Consulting (2016)

**Review environmental and social impact provisions.** What are company obligations to prevent, mitigate and compensate for environmental damage from extraction? Are there any fees the company should pay in compensation? Does the deal discuss responsibilities for financing and carrying out plans for closing the site and restoring the land? Are community development plans considered? What does the deal say about compensation for resettlement?

**Review infrastructure gains the project could bring.** Is the company going to construct a road, railway, port or other transport infrastructure? Does the deal say whether the infrastructure will be available solely for the company's use, or will it be available for other local mining companies or public use? Do the terms indicate if project power supplies will also be available to local populations?

**Consider the overall picture.** Are the trade-offs clearly explained and do they make sense? Contact experts (see "Sources" below) for advice on how to evaluate the overall balance within a deal. Try to mix information gathered through desk research with conversations and interviews with public and company officials and local community members. Civil society groups in the capital or working with communities can also give useful perspectives.

**Consider the deal against others in this sector or region.** To assess whether a deal is favorable to the state, look at similar contracts to assess whether it contains major differences from standard industry practice. Compare contracts that refer to similar minerals and transportation options.

**Find similar deals.** Use [resourcecontracts.org](https://resourcecontracts.org) to find similar deals on similar minerals in your own country or neighboring countries. Make sure the mineral is the same and that the agreements are no more than a few years apart. It can also be useful to compare deals beyond your region, as long as they share points of comparison, such as type of extraction (off-shore or on-shore drilling, open pit or underground mining), maturity of the extractive sector, geological prospects, political and economic stability in the country, and proximity to end-market. For example, terms in oil and gas contracts in Senegal could be compared with those in other new producers like Mauritania, Mozambique, Tanzania or Guyana, but not with established producers like Norway or Kuwait.

**Check whether terms are comparable.** In the oil, gas and mining industries, there can be legitimate differences between deals. Is the process for extracting the mineral the same, or do the projects use different mining techniques or drill at vastly different depths off-shore? Was the likelihood of finding commercially viable resources roughly the same when the deals were struck or was one much riskier than the other? Is the general infrastructure (transportation, power) in each country of similar reliability? What are the governance levels within each country, including political stability and absence of violence?

## B-

### Are there signs that the company is not fulfilling its promises?

Because of the complexity and variability involved in extraction projects, it is unlikely that a reporter would be able to gather full evidence for whether revenue is being paid as required by law. It is more likely that reporters can look at the commitments made in a contract and check whether there are signs that what is happening does not align with expectations. In these cases, the story angle often calls for additional monitoring or explanation of how the contract terms are being met.

**1. Understand the broad plan.** Any deal is a mix of compromises and balancing different interests. Asking whether something is a “good” deal means wondering which of those interests are most important. Considering various perspectives will help understand the big-picture interests that the country needs to prioritize in extraction.

**Investigate government documents** Reviewing national extractive policy documents can help uncover these broad trade-offs. [Resourcedata.org](https://resourcedata.org) is a large database of laws and policies on extractives from over 80 resource-rich countries. It is searchable by country or content area (under “Precept 1”). Strategic impact assessments and national mining or oil and gas policy documents can provide specific insight into how a government intends to balance trade-offs such as short-term versus long-term interests, or national versus local impacts.

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**3. Select the term that will be the focus of the reporting.** Many terms may seem important, but prioritizing investigation in one area can facilitate a clear story. Terms could include company payments, production levels, employment clauses, or social and environmental obligations.

**4. Find reporting obligations for that term.** Companies are usually required to report on how they meet the terms of a contract. It is useful to know where and when to expect those reports. Key sources include:

**The contract.** When the contract is available, look for terms or sections that discuss the reporting obligations (often indicated in the table of contents). For some contracts, [resourcecontracts.org](#) offers a helpful advanced search function that allows users to search contracts via a set list of “annotation categories,” including reporting requirements.

**The law.** Finding the applicable legal provisions often requires checking different pieces of legislation. For instance, tracking employment terms in a mining contract requires review of the mining code and the relevant employment code. Most contracts include references to relevant pieces of legislation under which the agreement falls, although it is important to check whether there have been any changes in the law since and whether they apply to the contract. If stabilization clauses have been included in contracts, changes in the law may not apply.

**5. Check for company reporting.** The types of information available will differ depending on the obligation. This list focuses on where to find reporting of financial terms, but it can also be used to look for reporting on other information. Likely sources include:

**Resourceprojects.org** This database compiles payment information released by companies subject to mandatory disclosure laws in the EU, Norway and Canada. Users can review the data by [country](#) or by [company](#) to check whether there are payments related to a particular deal.

**Company reports and statements.** Publicly listed companies are usually required to file numerous reports, including quarterly and annual reports, country reports, stock exchange filings (such as the F-20 form on the U.S. Securities and Exchange Commission) and sustainable development or corporate social responsibility reports. The [OpenCorporates](#) database allows users to search public domain documents available from over 185 million companies.

**EITI.** Companies operating in countries that have joined the EITI must provide information about their activities, which are then reconciled with figures provided by the state. The [EITI Standard](#) sets a series of reporting requirements for companies to submit data about their tax filings, production, employment rates and social expenditures.

**6. Consider whether reporting meets expectations.** Again, these suggestions focus on reviewing financial terms, but similar tactics can be used for checking other types of terms.

**Cross-verify.** When reporting information is available in multiple locations, check across those reports to see whether figures are consistent. This could mean checking a payment in an EITI report against one in a stock exchange report, or checking a payment figure from a company against a revenue figure from a government entity. There may be legitimate reasons why these figures differ, so additional investigation will be necessary after this step.

**Check figures against calculated expectations.** When one figure, like the total royalty revenues from a project, is available, then reporters can use the production figure and the royalty rate to see whether the figure meets expectations. It is important to interview industry and government officials when discrepancies occur, to see whether there are legitimate reasons for differences.

**Look for trends.** Extraction projects usually follow a similar trend of exploration, development, production and closure. The cost and revenue curves over the lifecycle are usually similar across projects. Charting the data available over time can show whether a project is deviating from an expected curve. If so, reporters can ask additional questions of human sources to find possible explanations.

**Ask experts.** Interviewing industry and civil society experts about their expectations for a project at a particular phase is a helpful way to understand whether a company report is in line with expectations. Often these interviews can also give direction for further research.

**7. Check for government monitoring of a term.** The government and oversight actors are likely to have formal responsibilities to monitor whether a term is being fulfilled. Understanding the government resources for monitoring that term can help inform stories as to whether companies are likely to be held accountable if they fail to meet obligations.

### Find out which ministry is responsible for monitoring a term.

The contract term or the associated reporting often describes the ministries involved. EITI implementing countries usually give a good description of different ministries' roles in the introduction to their annual EITI reports.

**Consider ministry monitoring practice.** Ministries often have set ways for how they like to monitor an extractive term. Interviewing industry experts, government officials and experts from international organizations like the World Bank can reveal good practice for particular terms.

**Consider ministry resources.** Understanding the tools, revenue and number of employees the ministry has available to conduct monitoring can suggest its priorities. If these figures are not readily available, interviewing ministry staff or filing freedom of information requests can be effective.

## C

### Is information about the deal reasonably available?

1. *Establish what the rules are for contract transparency.* Key places to look, apart from national sources, include:

**The Resource Governance Index (RGI).** RGI country profiles may give an overview of contract transparency laws and practice. More detail can be obtained from the research findings for individual questions by downloading the [Data Explorer](#). Under licensing in the “country profile” [tab](#), users can find a country's rules for making contracts public and whether this has taken place between 2015 and 2016. Answers to questions 1.1.9a, 1.1.10a and 1.1.10b in the [Data Explorer](#) include links to the legal framework related to contract transparency.

**EITI reports.** The EITI requires member countries to describe their policy on contract disclosure. For countries with a proactive disclosure policy, this includes an overview of contracts already in the public domain and information about where to find them. All

member countries will be required to make any contract signed or amended after 1 January 2021 public through their government websites. Those reports are usually published annually and can be found on national EITI websites or the international [site](#).

2. *Compare a country's transparency law and practice with other countries.*

**The Resource Governance Index.** The “value realization” aspect of the RGI includes several questions on different aspects of licensing. The [Compare Countries](#) tab of the website can compare up to three countries on different aspects of the index. Under the licensing component (under “Value realization”), users can compare country performances on the transparency of contracts. The [RGI data explorer](#) allows for more detailed investigation and comparison of each licensing question, with explanation of the results and links to underlying source documents. This can be used to compare countries or entire regions.

3. *Compare a country's current process to global standards.* Transparency is at the core of understanding a deal and monitoring obligations. A reporter can look for previous assessments of the country's transparency or compare the country against good practice.

**EITI validation.** EITI implementing countries are checked, or “validated,” to see whether they are disclosing information in line with the EITI Standard periodically. A detailed [validation scorecard](#) is available on the national and international EITI websites. The scorecard will show whether the country made satisfactory progress in disclosure for each of the expectations around licensing. There is a brief explanation for each score.

**Good practice.** Looking at good practice guides, such as [Open Contracting for Oil, Gas, and Mineral Rights](#) by NRG and the Open Contracting Partnership, can give detailed perspective on what is ideally expected.

4. *Follow up with human sources.* Ask public officials or relevant staff at the regulating agency whether they have considered how other countries do in comparison and why a particular country is less transparent. Their explanation of differences can bring the latest issues into the analysis.

# Examples of Good Reporting Practice

The examples given below can provide inspiration while preparing stories on extractive deals. Some highlight day-to-day reporting, while others are in-depth investigative reports.

## Taxes and transfer pricing in Namibia (investigative)

### Mines on tax honeymoon

This [article](#) investigates why 30 mining companies' tax payments combined to be far less than the taxes of one joint venture between the government and De Beers in Namibia. It was the result of a three-month collaboration between the investigative unit of *The Namibian*, a national daily newspaper, and [Finance Uncovered](#), an international investigative journalism non-profit.

The story poses questions based on data from the Chamber of Mines of Namibia, national budget documents and mining companies' annual reports. It explores their implications through interviews with various industry and non-profit experts. Additional articles on this topic could strengthen the impact of this investigation by helping the reader understand the impact of the tax payments on their lives.

## Fiscal terms after election in the DRC (day-to-day)

### Mining amid regime change in the DRC

The election of a new President in the Democratic Republic of the Congo (DRC) is the starting point of this [article](#) in the regional *Africa Business* magazine. The story looks at how the new president is likely to implement the recently amended Mining Code and how this is perceived by foreign investors. Using a news hook, the article offers an overview of DRC's mining sector and current tax regime. The analysis is grounded in facts and digestible figures and is complemented by quotes from expert interviews. Concrete characters, such as a newly elected political leader, make the story easy to follow. The article was well shaped for its business audience. To be relevant to a national audience, it could discuss the implications of revenue loss on the DRC's budget.

## Impacts of fiscal stabilization clause in Burkina Faso (investigative)

### Low tax guaranteed: how a Russian mining giant has saved \$16.5m in Burkina Faso

This [story](#), published in the national [L'Economiste du Faso](#) and regional Cenozo, revealed the money saved by a giant Russian mining company thanks to a fiscal stabilization clause. Journalists working in Burkina Faso and London noticed Nordgold, a major Russian mining firm, boasting in its annual report about a favorable tax deal on a gold mine in Burkina Faso.

The journalists obtained the gold mine contract from sources and government gold production data from the mine. Working with these documents, they were able to calculate tax paid at the favourable "fiscal stabilization" rate. They then compared the amount to what the mining company would be paying if it did not have a fiscal stabilization clause. The difference—USD 16.5 million—was more than the country's entire school supply budget. The article does well to contextualize these figures in the real poverty experienced in Burkina Faso and the wealth of those in the mining industry. To provide balance, the reporters also incorporated perspectives from the mining company and industry experts.

## Loss of government income in the exploration phase in Nigeria (investigative)

### How Nigeria loses trillions of Naira to deep offshore oil operations

In this well-researched [article](#), the Nigerian *Premium Times* highlights how Nigeria is losing money in the oil exploration phase due to an outdated law which applies royalty rates unfavorable to the Nigerian state. The reporter does an excellent job of putting into context the complex

topic of royalties. To do so, he presents key facts to help his audience understand why this topic matters to them. He then uses examples from other countries to put the Nigerian experience into perspective. Data visualizations support his explanations and help the reader grasp complex calculations behind royalty rates. The reporter ensured his piece is balanced by bringing in various expert voices and explicitly stating when interview requests were refused.

## Behind the scenes of contract investigations in Burkina Faso: Testimony by Finance Uncovered co-Founder Nick Mathiason

Nick Mathiason has been a business and finance journalist for close to 30 years and has broken a sizeable number of impactful stories that have had international prominence.

One of the first UK journalists to report on industrial-scale tax avoidance, in 2012 Nick founded and today co-directs *Finance Uncovered*. The non-profit organization focuses on training and supporting journalists covering illicit finance-related news.

In 2018, Nick partnered with *Cenozo – the Cell Norbert Zongo for Investigative Journalism in West Africa* – to research a story about an unusually favorable tax deal obtained by the Russian gold mining company Nordgold in Burkina Faso. The **story** was eventually published in *L'Économiste du Faso* and showed that the stabilization clause granted to Nordgold cost the government of Burkina Faso USD 16.5 million in mining royalties.

Nick agreed to be interviewed via Zoom to share insights about the investigation. You can watch the interview here or read the full transcript below:

### ▶ ***Investigating stabilization clauses in mining contracts***

#### Transcript

#### **1. In 2018, you published an article about the terms of a contract signed by the Russian mining company Nordgold with the government in Burkina Faso. What is the story about?**

My name is Nick Mathiason. I work at Finance Uncovered and with Cenozo – the West African Investigative Centre and *L'Économiste du Faso* in Burkina Faso, we produced a story, nearly two years ago, which revealed that citizens of Burkina Faso missed out on an estimated \$16.5 million in gold mining royalties that could have funded vital public services. They missed out on these royalties thanks to a special a low-tax

deal that the former dictator made with a big Russian company.

#### **2. Where did the idea for the story start and how did it evolve?**

The story goes back quite a long way. Quite a few years ago I attended a conference looking at African tax avoidance. One of the delegates was talking about how progress in this area wasn't happening. They made some policy progress, but then they discovered that there were these things called fiscal stabilization clauses in oil contracts which basically gave low-tax guarantees and overrode national legislation, so progress in terms of transparency, they were arguing, was limited. And I thought to myself "this issue of low-tax guarantees or fiscal stabilization clauses is very interesting, I'd like to one day do something about that." And then about two and a half years ago, I was working with a great journalist, who was coordinator for Cenozo, which is the West African Investigative Federated Centre, they kind of are an umbrella organization and the name of the journalist was Daniela Quirós-Lépiz, and she was very keen to do some work on Burkina Faso gold companies and looking at the contracts there. And so we started looking at the biggest gold companies in Burkina Faso and one of these companies was Nordgold. And as we look through their accounts which, they're a [publicly listed] company or they were at a time, and so we could look through their accounts. And we were looking at the sections in Burkina Faso where they were producing gold, though they were producing gold all around the world. But in Burkina Faso we could see that one of their mines had a very low tax rate, which the company was boasting about to its investors. So we thought there could be a story here, and so that's how the story started really.

#### **3. How did you investigate the story and what were some of the challenges?**

We started building up the research by, first of all, looking at all of the publicly available accounts that Nordgold produced. And we could see that they had this special fiscal stabilization clause, which they were boasting about in their accounts. So the next step was to look at the Burkina Faso legislation to double check what the royalty rates were, because basically Nordgold got a special royalty rate at Taparko [gold mine] and we had to check how that compared with the national legislation. So we could see that they got a three percent royalty rate, no matter what the gold price was, and we could see a national legislation in Burkina Faso, depending on what the gold price was, the royalty rate moved. The higher the price, the higher the royalty rate. We could see that during the last few years the gold price was pretty high, so the royalty rate was moving to between 4 and 5 percent, whereas Taparko only had a royalty rate of 3 percent, so we can see they were benefiting very much from having this fiscal stabilization cause. Now it wasn't very easy to get the information about how much gold was being produced from this specific mine. We worked with a journalist at *L'Économiste du Faso*, Elie Kabore, who is a great journalist. He's a member of Cenozo and



he worked with Daniela in order to get information out of the Burkina Faso Ministry of Mines. So we got official gold production rates coming out of the Ministry of Mines and we also got how much royalties Taparko (as well as other gold mines in Burkina Faso) was producing. We knew that the royalty rate was just 3 percent, so it was quite easy to calculate how much gold would be produced if Taparko didn't have a fiscal stabilization clause and if that gold had a royalty rate that all the other mines in Burkina Faso had, and we calculated that difference basically. And that was a team effort.

#### 4. How did you ensure your story was reliable and balanced?

One of the jobs of journalists is to be fair and the other big job is to be accurate. And so we always have to get a company's view and context. And so once we have the data, we have to fact-check it, give it to a couple of experts to make sure that they agree that we're in the right place, and then we contact the company. And I think Daniela and Elie were the people who contacted Nordgold in Burkina Faso, but I was involved in trying to email their head office, as well as Daniela, so there were two organizations working together who are directly talking to the company, so that was quite helpful. And we also needed to understand that Burkina Faso's kind of floating royalty rate was negotiated at a time when there was social unrest in Burkina Faso, where the gold price was going up and yet the economy wasn't benefiting, so they needed to get more money into government coffers, so that's when they did increase the royalty rate. So we needed to understand the wider context of this

particular situation, but that's part of making a story, part of making a decent substantial story is really trying to understand the context in which the country and the company were operating, as well as the actual social issues linked to what could be seen as a favorable tax rate.

#### 5. What lessons can other journalists learn from your coverage of this story?

One of the lessons that journalists and researchers can take from this story is looking at the big mining or extractive industry companies operating in specific countries, and if they are quoted on stock exchanges then they will be reporting on specific countries where they operate, and they do actually report quite a lot of detail. So initially this story got off the ground because the company itself disclosed what they thought was a beneficial tax rate, and that was from publicly available information, so it's really worth understanding the major global companies that are operating in a country that you're focused on and then reading the reports where they describe the country-specific operations; they're always disclosed in those annual reports and that can really take you places. Once you have that, then you can then start to ask experts or use your own experience to build up a story. That's probably the primary lesson.

The other great thing is that it was good working in a team. We had people working in Burkina Faso and I was around to be a sounding board and also direct certain situations as well. So it's good working in a team where there are different people with different experiences.

## Sources

**Below are sources that can contribute to different angles on stories about contract deals. Some will be similar across different aspects of mining, oil and gas reporting and are repeated across chapters, but others apply specifically to contracts. When possible, there are direct links to institutions in the main target countries of "Covering Extractives": Ghana, Myanmar, Tanzania and Uganda.**

### Public institutions

#### Government entities

Extractive deals usually involve a chain of government bodies, from negotiating the contract to enforcing the agreement and monitoring its implementation. In some countries, there is a team across ministries that works together for negotiations. For example, in Tanzania, the Minister of Constitutional and Legal Affairs oversees a multi-ministry negotiating team.

Monitoring the terms of a contract involves several different entities. The ministry of finance often plays a prominent role in collecting taxes

from companies in accordance with the deal. It might have a dedicated department for revenues from the extractive industries, which can give further insight into the income generated by a specific deal. Some revenues may be collected by different government agencies, such as surface taxes collected by local governments. In EITI-implementing countries, the EITI report should list all the government agencies that collect revenues.

Other government bodies involved in implementing and monitoring whether the parties fulfill the terms of the deal include the relevant environmental agency and different departments at the relevant ministries—including the one overseeing health and safety regulations, or responsible for checking production timelines. Some countries, such as Mexico, have independent regulatory agencies in charge of monitoring extractive resources (mining and petroleum), environmental protection or water preservation.

#### Oversight bodies

Parliament often has a mandate to approve or look into the deals signed by the government. In many countries, parliamentarians use that right to make enquiries about certain terms or to ask whether renegotiations are needed. For example, in Tanzania, the government

can renegotiate contracts with mining and energy companies if they contain “unconscionable”, or unreasonable, terms.

Independent audit institutions are another important source of information. They are entitled to investigate whether the deal was signed using proper procedures and whether it is being followed. Audit reports are usually submitted to parliament, meaning the minutes of parliamentary debates can provide further background. The U.S. Government Accountability Office, an equivalent body to a supreme audit agency, conducted a **review** of royalty collection in the United States which found that government receipts were significantly below market rates.

## Companies

Companies often interpret the terms of a contract differently from the government or civil society. This may be informed by their corporate practice, investment strategy or experience with similar incidents. Companies are often unwilling to comment on the terms of a specific contract, but many will respond to questions about principles that guide their choices.

For publicly listed companies, it may be possible to find annual reports, investor presentations and technical reports on their websites, in stock exchange filings or in databases such as **OpenCorporates**. Private companies might also be required to release relevant information in their annual reports or their national company registries (such as Companies House in the U.K., *Kamer van Koophandel* in the Netherlands or the Australian Securities and Investments Commission).

## Experts, civil society and watchdogs

### National groups

Experts from civil society and academia can be helpful commentators on licensing and allocating rights. They can distance themselves from government or company interests and offer a different view of what is in the people's interest. Note, however, that they too can be prone to biases. This is why it is important to look for second or opposing views.

Where relevant, journalists are welcome to **contact** the NRGJ country offices, where staff can provide connections with the right expert internally.

Other options for connecting with competent civil society or academic figures include:

***Publish What You Pay*** (PWYP), the global coalition of civil society organizations campaigning for a fair use of natural resources. PWYP has over 700 member organizations in 50 countries, working on numerous issues, including contracts. Its national coordinators are able to direct journalists to a range of expert contacts.

In ***EITI member countries***, there will be civil society representatives on the national multi-stakeholder group. The national secretariat could also offer recommendations for civil society groups that specialize in particular extractive deals or contract terms.

Academic institutions may be able to lend expertise on particular types of contract terms, such as fiscal analysis or environmental monitoring.

### International civil society

International policy groups and research institutes that produce valuable research on contracts and taxation in extractives include ***OpenOil***, the ***Columbia Center for Sustainable Investment***, and the ***International Center for Tax and Development***. The International Institute for Sustainable Development is also useful, and hosts the ***Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development***.

## International organizations

### International institutions

The Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and the World Bank all produce regular guidance and analysis on extractive taxation issues. They may be contacted either through country office experts or thematic experts, usually based in their headquarters.

Serious disagreements about contractual issues between natural resource companies in a country or between investors and a government might be settled in an international arbitration court. Those include the International Court of Arbitration in Paris, the International Chamber of Commerce (which has arbitration panels in different countries), the World Bank's International Center for Settlement of Investment Disputes, and the United Nations Commission on International Trade Law.

The ***negotiation support portal*** is an online connection tool that can link host governments to support while they are negotiating extractive contracts. It includes a vast database of resources that can be used to support analysis of an extractive contract.

### Multi-stakeholder initiatives

The ***Extractive Industries Transparency Initiative*** (EITI) is a multi-stakeholder initiative which supports transparency in resource-rich countries through an international standard implemented by members. EITI-implementing countries are required to annually disclose their legal framework for revenue collection. By 2021, all EITI-implementing countries will be expected to publish extractive contracts in full. Although EITI data is often published slowly, the descriptive reports and the type of information available can be used as a basis for questioning ministries for more current stories. The national multi-stakeholder group that oversees a country's EITI process can also be a source for discussions on what information about contracts should be available.

## Data sources

### Legal frameworks

NRGI has been gathering thousands of documents related to extractive sector governance on its website, [resourcedata.org](https://www.nrgi.org/resources/extractive-sector-governance). Documents can be sorted by country and by the precepts used in the [Natural Resource Charter](https://www.nrgi.org/resources/natural-resource-charter).

To support research into mining legislation in Africa, the World Bank has created the [African Mining Legislation Atlas](https://www.worldbank.org/african-mining-legislation-atlas), a useful tool to navigate and compare mining codes in the region.

### Contracts

NRGI, together with the World Bank, the Columbia Center for Sustainable Investment and OpenOil, manages [resourcecontracts.org](https://www.nrgi.org/resources/resource-contracts), a directory of thousands of oil, gas and mining contracts. It features plain-language summaries of many contracts' key social, environmental, human rights, fiscal and operational terms, and [tools](https://www.nrgi.org/resources/tools) for searching and comparing contracts. Contracts can be viewed by country or resource, with advanced search options including searching by company or year signed, as well as by key clauses. The ["Research & Analysis"](https://www.nrgi.org/resources/research-analysis) tab showcases research and analysis carried out using the site.

### Revenue payments

NRGI has a website called [Resourceprojects.org](https://www.nrgi.org/resources/resource-projects) which compiles data about revenue payments made by extractive companies based in the EU, Canada and the U.K. to host governments. The data are released through companies' stock listings and are regularly added to the site, making it useful to sign up for notifications about new data uploads. The data can be filtered by individual projects and by government entities receiving the payments. NRGI has also prepared two briefings to showcase how the data can be used when deeper analysis is applied. One covers [gold mining revenues in Ghana](https://www.nrgi.org/resources/gold-mining-revenues-in-ghana), the other, [oil and gas revenues in Nigeria](https://www.nrgi.org/resources/oil-and-gas-revenues-in-nigeria). Note also that the civil society coalition Publish What You Pay Canada has developed a short [guidance note](https://www.pwyp.ca/guidance-note) on how to access data submitted to Canadian authorities.

### Tax incentives

In 2019, the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development launched a new [database compiling tax incentives](https://www.ifmmsd.org/database-compiling-tax-incentives) across 21 countries. The database can be downloaded as an Excel file for exploration. A helpful practice note helps users understand the information.

## Voices

In the short videos below, a representative from oil company Total, the Chairman of the EITI Commission in Tanzania and a civil society representative from Guyana discuss the issue of contracts in the extractive industries.

- ▶ [Why Total supports contract disclosure](#)
- ▶ [Why the Tanzanian government is committed to contract transparency](#)
- ▶ [Assessing an oil deal in Guyana](#)

## Learning resources

### Video resources

Several NRGI videos explain how a country establishes and implements its fiscal regime:

The [first](#) gives the pros and cons of different types of system and gives reasons why governments might choose one over another.

An 11-minute video outlines [royalty and tax systems](#), detailing ways they can vary in terms of rates and bases.

A video on [Fiscal Regime Implementation](#) discusses how countries try to implement fiscal regimes and some of the related challenges.

UNU-WIDER has produced some shorter videos on [taxation](#) and [taxing the mining sector](#), which use plain language and give an overview of the issues governments consider when creating a tax system, with examples from several countries.

High-Grade Media has a [short interview](#) with Alexandra Readhead, Lead on Tax and Extractives at the International Institute for Sustainable Development, explaining why certain tax incentive structures may not be serving countries as well as they expect.

### Key reports

NRGI has drafted short primers on [contract transparency](#), [fiscal regime design](#) and [transfer pricing](#), which provide overviews of the topics in plain language. There are also longer plain-language manuals on [oil](#) and [mining](#), created by a group of industry experts.

The accounting firm PriceWaterhouseCoopers has a useful [guide](#) to mining taxes and royalties, while EY offers a similar [guide](#) for taxes in the oil and gas sector. Both help readers carry out comparisons between different countries.

Publish What You Pay Canada has released a [comprehensive report](#) on the many ways that companies plan and avoid taxes.

# 05

## Money flows

### Managing extractive revenues

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#### Jargon buster

- **fiscal rules:** A multi-year constraint on overall government finances defined by a numerical target—for example, limiting public expenditure growth to three percent per year.
- **fiscal stabilization:** The policy of mitigating the impact of volatile resource revenues on the government budget by, for example, saving windfall revenues in a fund, paying down public debt when revenues are high, drawing down on public savings or borrowing when revenues are low, thereby smoothing year-to-year spending.
- **resource revenue-sharing system:** an arrangement through which government revenue from extractive activities is shared with subnational authorities. This can be done through direct payments from companies to subnational governments, or transfers from national to subnational governments.
- **sovereign wealth fund:** State-owned entity with macroeconomic objectives that invests at least partly in foreign financial assets.
- **subnational:** Official authority or representative of government at a level lower than national (e.g., state, provincial, district).
- **volatile:** In the extractive context, this refers to the frequent tendency of oil, gas and mineral prices to fluctuate unpredictably and dramatically.

## Why it matters

### Why does this matter to your audience?

- Over the last decade, governments around the world have collected approximately USD 3.8 trillion per year in oil, gas and mining revenues.
- Good management of these revenues can help a country to build valuable infrastructure—such as schools, hospitals and renewable energy—create jobs, ignite an economic boom and attract further investment. But if managed poorly, these resources can contribute to economic stagnation or, in the most extreme cases, finance authoritarian regimes or wars. How resource revenues are managed makes a big difference to whether a country prospers or suffers from natural resource exploitation.
- Revenues from extractive projects come with particular risks. Because they are volatile, finite, big and location-specific, they can be harder for countries to transform into long-term development. This makes it particularly important for people in the country to keep a close watch over how these revenues are used.
- Other parts of the economy can suffer as a result of the quick, large flow of extractive revenues. These can cause inflation, which can hurt local companies. Harmful effects can last decades, as in Russia and Iran, where manufacturing industries have never recovered from their sudden decline.
- The management of money from extractives has often been clouded in secrecy or has taken place through a variety of processes. This means citizens cannot ask questions about important government spending. New campaigns from civil society have made more of this information available.

# The Basics

**Oil, gas and mineral revenues come with different risks and opportunities from other revenues, because they are particularly volatile, finite, large and produced in a specific location. This means that they often need to be managed with extra care.**

## Managing money from extractives

If the revenue from extractives is large in relation to the economy or national budget, governments often consider how to treat extractive revenues differently, for reasons including:

### Planning for volatile revenues

Revenues from natural resources tend to be volatile, going up and down with prices and supply. If a government puts all its revenue into the budget, the country's spending would also go up and down, and be unpredictable, sometimes harming the economy. To prevent this, a government can create rules about how much of the revenue to spend or save each year. Often this includes saving in good times and using savings in bad times. In recent years, Argentina, Ghana, Mongolia and Venezuela have taken on large debts with each downturn in revenues. In contrast, Peru passed a Law on Fiscal Responsibility and Transparency in 1999 that limits public debt. Such laws are called fiscal rules—rules that permanently constrain public finances. Fiscal rules can be a useful tool to help manage boom-bust cycles and keep resource-rich countries from overspending and going bankrupt.

### Mitigating “Dutch Disease”

Some countries' natural resource revenues are so large that they overwhelm the economy, causing local prices to rise and expertise to shift from local industries into the oil or mineral sector. As a result, countries experience the “Dutch disease”, where the discovery and production of natural resources harms other exporting industries and workers. One way to mitigate the Dutch disease is by putting some of the extractive revenues into foreign investments.

### Growing the country's economy using a finite resource

Because natural resources are exhaustible (once taken, there is nothing left underground for future generations to use), countries can consider how much the current generation should benefit versus how

much should be invested for future generations. Investing for the future can take many forms, including saving money in a fund, investing it in financial assets, paying off public debt, or spending money on citizen education, healthcare, and infrastructure that will benefit the whole country. In general, poorer countries can achieve the biggest value by investing more domestically, while richer countries may want to invest more in foreign assets. Governments investing resource revenues domestically must decide whether to invest the money through the normal budget process or through a special institution like a development bank. They must also choose where to invest it, for example, in specific projects such as ports, in specific sectors such as agriculture or tourism, or building a better business environment through initiatives such as better education.

### Sharing the money across the country

The government must decide how to share the revenues from natural resources across the country. Should the benefits be distributed equally across the states or regions, should poorer states or regions get more or should producing regions benefit to a greater degree than non-producing regions? For example, in Nigeria, the national government gives 13 percent of the total revenues from oil sales to the states where oil is produced.

### Managing expectations

Natural resource wealth, or even news of possible discoveries, brings big expectations of quick benefits. Many governments respond to these expectations by increasing public spending before any oil or mining money has started to flow, particularly on large, visible projects like highways and airports. Such spending can be the result of resource-for-infrastructure deals or heavy borrowing against future revenues. However, it is often based on overly optimistic projections of future revenue, putting countries at risk of debt. Policies that can prevent a country from such heavy future debt include honest forecasts of revenues and the risks of extraction, and lowering public expectations through better communications.

The NRG [primer](#) about revenue management provides further details about the special challenges that come with managing public income generated by extraction.

## Where does the money go?

Every resource-rich government makes decisions about how to allocate money from the extractive sector to different levels of government, various institutions or directly to citizens. Below we discuss five of the most important tools used to manage resource revenues:

*The national budget*

*Sovereign wealth funds*

*Development banks or strategic investment funds*

*State-owned enterprises*

*Resource revenue-sharing systems.*

### The national budget

Money from oil, gas and mining is most often spent through the national budget process on government goods and services. However, governments have chosen to spend this money in many different ways.

Choices of which institutions to build and which not to, and how to spend the money, are key to transforming wealth into well-being. Many successful countries have implemented 5- or 10-year development plans that coordinate the spending across the yearly budgets. For example, Malaysia has had success transforming its oil wealth into strong development through 11 medium-term five-year plans since 1971. These plans can encourage governments to focus on spending priorities that trigger sustainable growth, rather than on showy infrastructure projects or increasing government salaries unsustainably.

Another key to successful spending through the national budget can be spending that will help the country diversify the economy and create economic stability. This can include open trade and investment policies, investments in education and macroeconomic stability, and interventions in private markets to encourage certain sectors of the economy.

### Sovereign wealth funds

Governments can establish special accounts of money outside the regular budget process, to manage their revenue. When these funds have bigger economic objectives and invest at least partly outside the country, they are referred to as sovereign wealth funds (SWFs). As of 2019, there were approximately 60 SWFs financed by mineral or

hydrocarbon revenues or by fiscal surpluses in countries dependent on natural resources.

These funds are generally established to save money for future generations, stabilize government spending or create resources to finance a specific government program, such as pensions, environmental protection or education. In some places, like Botswana and Chile, funds were key to the country's success in transforming resource wealth into development. Unfortunately, funds in other countries are riddled with stories of mismanagement and corruption.

One of the most extreme examples is the Libyan Investment Authority, which lost over USD 1 billion through mismanagement. SWFs can also harm a country when they save money and earn a low interest rate, while the government borrows at a high interest rate. In this case, each dollar saved rather than used to pay off debt costs the government money. For example, Ghana quickly increased its national debt after finding oil and establishing a fund with a lower return rate than the interest on the debt.

Countries have found the most success when they have passed well-designed revenue management legislation and instilled a culture of transparency and accountability. Often this includes creating fiscal rules that are clear about how much money the government must save or spend each year. It also requires very close oversight, internally and externally, to make sure everyone with access to the money is using it in the country's best interest. NRG research has found that half of all resource-financed SWFs do not publish quarterly financial statements and are therefore hard to assess.

Read more about adequate investment rules, fund structures and oversight rules in the NRG [primer](#) on natural resource funds and [a guide on establishing a SWF](#), or watch this introductory 11-min [video](#) on sovereign wealth funds.

### Development banks and strategic investment funds

Another way to spend resource revenues outside the national budget is a so-called "strategic investment fund." In practice, these funds act as public-private partnership (PPP) funds, national development banks or other types of state-owned companies. These funds or banks are used to provide loans to projects in the country, which will ideally spur development. Sometimes development banks invest in projects without a private-sector partner, but on commercial terms. The lack of partners increases the risk associated with a given investment.

The global experience with strategic investment funds, PPP funds and national development banks is mixed. Brazil's *Banco Nacional de Desenvolvimento Economico e Social* is widely cited as an example of

an effective domestic investment institution. However, as with SWFs, some strategic development funds and development banks have been sources of patronage, corruption and mismanagement. The Development Bank of Mongolia, for example, has made many bad loans and is a major source of Mongolia's state debt, which led to an IMF-led bailout. The \$10-billion Russian Direct Investment Fund invests in domestic companies almost without independent oversight, creating a source of financing for supporters of the ruling regime, without the need for accountability. Many of the lessons learned from SWF and state-owned company governance can be applied to strategic investment funds and national development banks. These funds should have clear objectives, specific professional roles and regular, accurate reporting mechanisms.

### State-owned enterprises

State-owned enterprises (SOEs) often collect and manage extractive revenues on behalf of the state. Revenues that are kept or allocated to the SOE can be spent on running the company or other projects. As discussed in [Chapter 3](#), large amounts of money can be spent through these companies, on projects ranging from oil rigs to schools and football teams.

Fuel subsidies are one major item commonly covered by SOEs whose cost to society can be enormous. According to the OECD and the [International Energy Agency's World Energy Outlook](#), oil subsidies alone cost the Iranian state \$40.2 billion in 2014, while gas subsidies cost another \$22.3 billion. These energy subsidies are generally regressive, meaning that the marginal benefit to rich people is greater

than to poor people.

Chapter 3 includes more information about the risks and opportunities related to revenue management in SOEs. As with other spending options, the risks are reduced when there are clear objectives for companies and meaningful accountability.

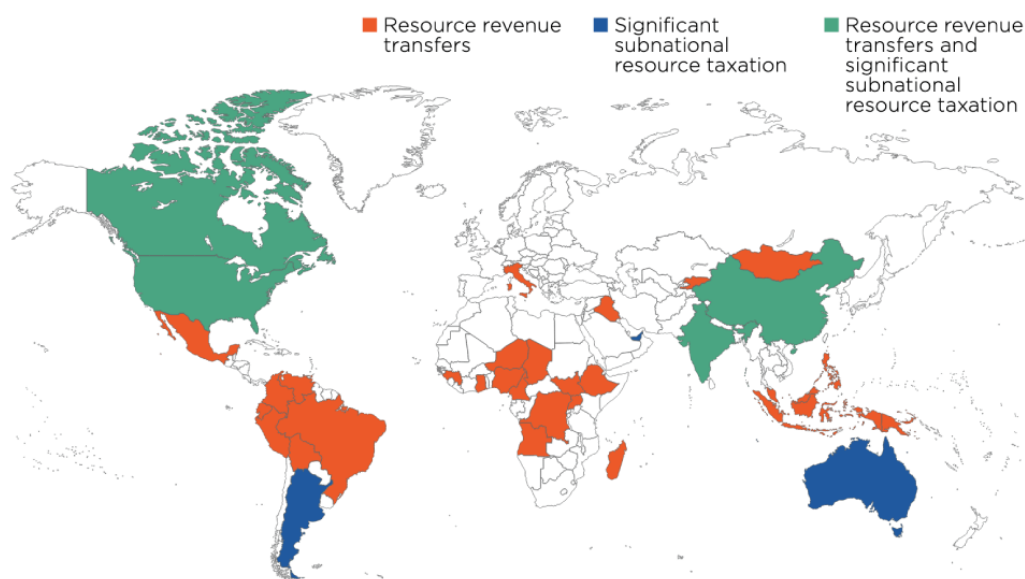
Read more about revenue management risks and policy responses in this [EITI publication](#) and NRGI's report on [national oil companies](#).

### Resource revenue sharing

At least 30 countries have systems to share **resource revenues** with municipal, district, state or provincial governments. These funds mostly come through direct payments from companies to subnational governments, or transfers from national to subnational governments.

**Direct payments:** A company may directly pay a subnational government because of contractual obligations, national law or local regulation. For example, in Argentina, Australia and Canada, provincial or state governments collect a royalty by law from mining companies operating in their state.

**Resource revenue transfers:** Resource revenue transfers are revenues from oil, gas or mineral companies collected by the national government, then transferred to subnational governments separately from other types of revenue. These transfers can go back to the region where they were extracted—called “derivation transfers”—or be based on regional characteristics such as population, education levels or



Map showing countries with natural resource revenue sharing (Source: NRGI, 2016)

poverty indicators. For example, in addition to the 13 percent of its oil revenues the government of Nigeria shares with producer states, it shares another percentage of oil revenues with all states based on their population, social development and revenue generation.

Resource revenue-sharing systems can address local claims on natural resources. They can also compensate producing regions for the negative impacts of extraction and promote economic development in resource-rich regions. In Bolivia, Indonesia, southern Iraq, Kazakhstan, Mongolia, Nigeria and Papua New Guinea, such systems have also helped to preserve or create a degree of harmony between the central government and certain regions.

However, they can encourage wasteful spending at the subnational level, especially in countries where local governments are not well prepared for sudden, large flows of income or are not responsible for providing expensive public services.

Resource revenue-sharing systems work best when the formula is openly negotiated, appropriate revenue streams are shared and revenues are made predictable. Payments from companies to governments should also be fully transparent, otherwise subnational governments are not able to verify whether they are collecting what is due.

For an overview of those specific challenges, see NRG's [primer](#) on subnational revenue management.

## Corruption risks in the management of extractive revenues

Financial benefits from the oil, gas and mining sectors are enormous. In many resource-rich countries, they form more than half of government income. Sadly, in certain contexts, each of the institutions mentioned here has succumbed to severe mismanagement, and in some cases, outright corruption. Corruption can take many forms, but the result is the same: the country suffers, while a few elites benefit.

Funds spent through the national budget can be diverted to politicians' preferred projects, or project costs can be inflated, leading to significant losses and poor project selection. For example, Azerbaijan spent its oil revenues on lavish buildings and monuments, such as a \$28-million flagpole, yet still pays doctors \$300 per month on average.

Sovereign wealth funds, strategic investment funds and development banks can become "slush funds", meaning they are used to finance the ruling regime or its friends. For example, the Angola fund recently invested \$157 million in a hotel complex to be built by a company owned by the fund's principal asset manager, on land he also owned.

There are even cases of corruption and mismanagement of resource revenue-sharing systems. Studies carried out in Brazil, Colombia and Peru have shown that housing, education, healthcare and economic growth did not improve following the receipt of large oil or mineral revenues by subnational governments. Diversion of funds away from local budgets, corruption within subnational governments, and the resource curse—when resource revenues push up prices, rather than resulting in more projects and services—have been suggested as explanations for these unexpected results.



# Story Leads

## Research questions and reporting angles

Below are story angles for reporting on financial flows in a particular country, based on a sequence of research questions. See Chapter 1 for more general story planning guidelines.

### A— Where is the money going?

1. Find out what revenue your government receives from oil, gas, and mining. Inflows of money can be researched through several sources:

#### National sources

Governments usually publish national budgets on the websites of relevant ministries, such as the ministry of finance, or sector-specific ministries. These often show revenue streams disaggregated by source (e.g. oil and gas or royalties).

#### Extractives Industries Transparency Initiative (EITI)

EITI-implementing countries must publish the annual amount of revenues from extractives. EITI [country pages](#) allow users to find revenue data either in the “revenue collection” bar chart or the latest published EITI reports. The revenue data is disaggregated into different streams, including royalties, types of tax, bonuses, license fees and monies paid to the treasury from state-owned companies. Note that EITI data is generally 2–3 years old.

#### Natural Resource Revenue Dataset

NRGI compiles a [dataset](#) on government revenues from oil, gas and mining originating from the EITI, the International Monetary Fund and the International Centre for Tax and Development. These data allow quick comparisons of figures for total revenues between countries, but do not provide disaggregated information by payment stream.

#### Project payment data on [resourceprojects.org](#)

This website shares information from payments by companies based in the U.K., the EU and Canada. Data can be searched by company or government entity, and can be useful to track revenues from a specific project, but are unlikely to be comprehensive for a specific country.

#### Consider the scope of revenues

The scope of revenues may be newsworthy, especially if the amount is particularly big or small in relation to the national budget.

While comparisons between countries of raw figures for resource revenues are rarely helpful, a comparison of the portion of resource revenues in national budgets may be of interest in some contexts.

2. Check how the government plans to use oil, gas and mining revenues.

**Start with the budget.** A budget represents a government’s plan for how to spend (some or most) revenues. To get an idea of how natural resource revenues are spent in your country, seek out the government’s most recent budget and the national development plan, if publicly available. The budget and national development plan are usually published online by the relevant government ministry, such as the budget office or planning ministry. Other ways to find the government’s spending plan, include:

#### Using source documents of indices.

The evidence used for scoring on global indices can be helpful to uncover where certain documents are usually published. Country surveys from the [Open Budget Index](#), an index of budget transparency published by the International Budget Partnership, show whether particular budget documents are publicly available and where to find them if so. Question 2.4.1b in the [Resource Governance Index](#) (which can be viewed through the [Data Explorer](#)) asks whether a national budget has been disclosed and provides the source document if so.

#### Reviewing political promises.

Politicians in resource-rich countries often make promises during campaigns about how they plan to spend resources revenues if elected. These promises occur most often in political speeches, but in some countries they are written into party policy documents.

**Consider whether there are plans for resource revenues to be spent outside the budget process.** National websites are the most likely source of comprehensive information, while the following sources can point towards the best documentation:

The **Resource Governance Index** can provide insight into where revenues are dispersed outside the budget. The country profile tool shows whether the country has a state-owned enterprise (SOE), sovereign wealth fund or revenue-sharing mechanisms. The **Data Explorer** can provide links to government documents for specific countries by looking at questions related to SOEs (question 1.4.1a), sovereign wealth funds (question 2.3.a) or resource revenue-sharing (2.2.a).

**EITI.** EITI-implementing countries must include information about how resource revenues are allocated and spent in their annual reporting. This includes noting whether sovereign wealth funds, revenue-sharing mechanisms and state-owned enterprises exist. Although the data is usually two years old, it can provide a starting place for checking for updated figures. EITI reports are usually available on the national EITI websites or through the international site.

### Consider the proportion of spending within and outside the national budget.

Compare the percentage of total revenues spent within the national budget to those spent through other mechanisms. Stories can emerge from investigating the level of checks and balances, the extent to which the national budget is at risk of volatility shocks, and what level of impact should be expected from the national budget spending.

### Consider the gender implications of spending decisions.

Decisions about where to allocate revenues are not always gender-neutral. Many projects benefit men more than women (see **Chapter 6**). The field of **gender budgeting** analyzes the gender implications of spending decisions. Reporters can carry out their own investigations or ask gender experts to assess the budget information for gender imbalances as a result of the spending decisions.

**3. Check the expenditures.** The budget is the plan for spending, but actual expenditure should represent how much money the government spent on particular projects. This can be assessed through several sources:

**Expenditure reports.** Governments often provide financial accounting of their actual expenditure. Question 2.1.4c of the **resource governance index** considers whether and where a country discloses expenditure. **Open Budget Index** country surveys also provide information about how much a country discloses about its expenditure and where.

**Look for impacts.** When budgets provide for tangible projects, such as roads, teachers or buildings, reporters can check on progress in realizing those plans. This **report** from Ghana is an

excellent example of a journalist tracking specific expenditures related to resource revenues.

**Monitor transfers.** Revenue distributions that are transfers to other parts of government can be monitored by checking that the amount transferred by one institution matches the amount received and used by the next. In most EITI-implementing countries, the annual EITI report includes verification of transfers between national and subnational governments. For example, the Philippines' EITI report includes information about how much a national government agency transferred to a subnational government and how much the subnational government received, and when. Outside the EITI process, transfers can be checked by comparing municipal budget figures against revenue transfer figures from the national budget. This type of verification can reduce the risk of corruption between different government actors.

## B—

### Is there enough oversight of how revenues are spent?

The following research steps focus on national-level oversight, but could be applied when revenues are shared subnationally to the local level.

**1. Assess how easy it is to find information about government spending of resource revenues.** Transparency is a critical first step to proper oversight of how a government spends revenues from oil, gas and mining.

### Consider disclosures checked by indices.

The **Open Budget Index**, an index of budget transparency published by the International Budget Partnership, allows for easy comparison between countries, showing their practices for transparency and participation in creating budgets. Note that this analysis considers the national budget and refers to all government revenues, not just resource revenues.

The **Resource Governance Index** enables comparisons of how transparent revenue management is across countries. By opening the revenue management tabs in the country explorer, users can see how a country compares to others on particular types of transparency. The **Data Explorer** allows more advanced analysis that considers how countries compare to regions on specific questions. Particularly relevant questions include 2.1.1a on online data portal coverage, 2.1.4b on budget disclosure, 2.1.4c on government expenditure disclosure and 2.1.5a on debt level disclosure.

### Consider disclosures within international initiatives.

**EITI validation.** EITI-implementing countries are checked, or “validated,” periodically to see whether they are disclosing information in line with the EITI Standard. A detailed **validation scorecard** is available on the national and international EITI websites. The scorecard shows whether the country has made satisfactory progress in disclosure for revenue collection, allocation and transfers. There is a brief explanation for each score.

The **Open Government Partnership (OGP)** is an international multi-stakeholder initiative that supports countries in processes of transparency and accountability. Multi-stakeholder groups within member countries set national goals for openness in sectors they prioritize. Often these goals include elements related to transparency of revenue management. Each goal is assessed for its level of completion after the two-year implementation period.

### Consider users’ experiences in accessing information.

A strong picture of levels of meaningful information disclosure can be gained by asking a variety of people who might use information related to resource revenues. This can include formal oversight actors, such as parliamentarians and supreme audit institutions or informal actors who want to know what benefits to expect from extraction, such as civil society groups and people living close to an extraction site. Interviewing many different types of people can create an understanding of different types of transparency. For example, in many countries, there are differences between the access women and men have to information about budgets.

**2. Review the effectiveness of oversight mechanisms for checking on government spending of resource revenues.** Transparency of information does not necessarily result in governments being accountable for what that information shows. Reporters can follow up on the extent to which other actors can find accountability for how revenue is managed.

**Identify which public entity is responsible for overseeing public income and expenditures.** Multiple institutions may be assigned formal oversight roles, including parliament, a supreme audit institution or an anti-corruption agency. The appropriate oversight institution may vary depending on the source of revenue or the type of revenue allocation. Several sources can show which institution has the power of oversight:

**The Resource Governance Index (RGI).** Research explanations and source documents in the RGI can show which institutions have responsibilities for accountability. Use the Data Explorer for the following questions:

2.2.4a, on transfer audit requirements, can show which agency audits transfers between government institutions.

1.4.3b, on SOE financial audit requirements, considers who conducts and approves a review of SOE finances.

2.1.2b, on fiscal rule monitoring requirements, considers which agency, if any, monitors the application of fiscal rules.

2.3.5c, on sovereign wealth fund financial audit requirements, shows which agency, if any, reviews how the fund is managed.

The **Open Budget Index**, an index of budget transparency published by the International Budget Partnership, shows which agencies review the entire national budget. The “budget oversight” section reviews the extent to which legislatures and auditors are involved in reviewing budgets and expenditures. Each country profile offers recommendations for how oversight could be improved.

**EITI reports.** The narrative of EITI reports includes a description of a country’s revenue management process. This often, but not always, includes information about who holds responsibility for accountability over different types of revenue.

### Consider the independence and resources of oversight bodies.

Identifying the role of oversight bodies in theory and practice can help reveal the risks related to extractive revenue management. There are several indicators of an oversight actor’s credibility:

**Legal mandate.** What are the roles defined in law of the oversight actor and their mandate to hold others accountable? This may be available on the actor’s website or within legal documents. Consider using [resourcedata.org](http://resourcedata.org) to search for legal documents related to the extractive industry.

**Personnel.** Review whether there are overlapping or related personnel across the oversight actor and the government body responsible for the revenues. Conflicts of interest can arise if people are linked through family, political parties or business dealings. A potential conflict of interest does not necessarily mean there is wrongdoing, but can highlight the need for further investigation.

**Political context.** Consider the strength of the oversight institution during this political cycle. Has it been able to hold other actors accountable? Have its findings been reported on and taken into account by others? Have actions been taken as a result?

**Consider informal oversight actors.** The strength of informal oversight actors, such as the media, civil society and community members, gives an indication of the level of accountability. Interviewing these actors can help uncover whether and when they

have seen accountability for revenue management decisions.

**Consider accountability during announcements.** When there are announcements on government decisions about how to manage resource revenues, background research about accountability can provide story angles on the risk or opportunity around the decision.

## C

### If a country has a sovereign wealth fund, how effective is it in creating long-term benefits?

*1. Find out whether your country has established a sovereign wealth fund (SWF).* Possible sources of information include:

**The Resource Governance Index (RGI)** The RGI has a section that scores funds. Question 2.3a shows whether a fund exists. This can be reviewed in the country profile tool or, for more detail, in the [Data Explorer](#). Note that there may be more than one SWF in a country, but the RGI only reviews one.

**EITI.** EITI-implementing countries must provide information about whether resource revenues are allocated to funds. They are encouraged to include information about the amounts allocated to those funds and how they are overseen.

**The International Forum of Sovereign Wealth Funds.** There is no internationally accepted definition of a sovereign wealth fund, but the [International Forum of Sovereign Wealth Funds](#) offers a place to start. In addition, the American Tufts University published a [Sovereign Wealth Funds Report](#) in 2019 with a useful list of SWFs in the annex.

*2. Learn about the fund's objectives.* Consider whether the fund was created with a clear objective, such as to even out expenditure, save for future generations or save money for certain types of spending. The following sources can provide insight into a fund's objectives:

**Legal framework.** The laws and policies that created the fund may state its purpose. Searches under Precepts 7 and 8 of [resourcedata.org](#) can find the legal documents that established the fund.

**Political context.** Funds are often created by politicians who make public speeches stating their intentions. Whether these are enshrined formally in law, the political purpose of the fund can provide insight into how it is managed.

**Consider whether these objectives are consistent** with national development strategies. Good practice suggests that a fund's objectives should be in line with the national plan. Interviewing

government officials, oversight actors and civil society analysts about how the two align may create a story on the purpose of the fund.

*3. Consider how revenues enter and leave the fund.* Many countries establish rules about how and when revenues are deposited (put into) and withdrawn (taken out of) the fund. How these rules are expressed and followed affects how accountable the fund will be. Details of these rules can be found through:

**The Resource Governance Index**, which has questions on whether the fund has rules about money entering and leaving the fund, in law and in practice. These can be viewed through the country profile or the [Data Explorer](#) (under the "Question explorer" tab).

For deposits (money entering), see:

- 2.3.1c, SWF deposit rule
- 2.3.2b, SWF deposit and withdrawal disclosure amounts
- 2.3.2d, SWF adherence to deposit rule

For withdrawals (money taken out), see:

- 2.3.1a, SWF withdrawal rule
- 2.3.2c, SWF adherence to withdrawal rule.

**Interviews with oversight actors.** If the fund is not covered by the RGI, or the RGI data (2015–2016) is out of date for your purposes, consider asking oversight actors for the same information about the rules for deposit and withdrawal, compared with what takes place in practice.

**When deviations happen.** It can be important to interview different sources about why deviations happen. There may be urgent economic or social needs that require deviation, or it may be that the rule was constructed for a purpose that no longer suits the country's priorities. Interviewing several sources from government, civil society and outside the country can give a balanced view of these decisions. The same can be true if a rule continues to be followed.

*4. Analyze a fund's performance in terms of return on investment.* If invested wisely, funds will attract returns and grow in size.

**Compare performance.** One way to assess the financial performance of a fund is to compare its average annual return rate with other sovereign funds, or other investment return rates. If the rates of growth are comparatively low for a country's resource fund, explore whether the investment is being well managed.

**Check on rules.** Many funds have rules about how money should be invested. Again, these rules and how well they are followed can be researched using the RGI, through questions 2.3.3a, on SWF domestic investment rules, 2.3.3b, on SWF asset class rules and 2.3.4e, on adherence to asset class rules.

## D–

## If a country has revenue-sharing mechanisms, what percentage of revenues should be shared, and is the money getting there?

1. *Find out whether your country has mechanisms for sharing resource revenues subnationally.* Possible sources of information include:

**The Resource Governance Index**, which shows whether there is subnational revenue sharing, under Question 2.2.a. This can be reviewed in the country profile tool under revenue management or, for more detail, in the [Data Explorer](#).

**EITI.** EITI-implementing countries must disclose how and when revenues are allocated subnationally. This includes a description of the rules for subnational allocations, as well as figures for subnational transfers made and received.

**Understand the revenue-sharing rules.** Rules for revenue sharing vary greatly between countries. Several key questions need answering in order to track resource revenue-sharing:

**What percentage of revenue is being shared?** The percentage figure often grabs headlines quickly, but audiences will only accurately understand what is due to the local community if they also know the answers to all of the questions in this list.

**What revenue is being shared?** Different resource revenue streams, such as royalties, taxes or production shares, may be shared differently. To understand revenue-sharing obligations, each revenue stream must be explained separately in terms of the percentage that should be shared.

**Who is it being shared with?** Countries often have multiple layers of subnational government. It is important to understand which government body or community group will receive the revenues. In some countries, the municipal body in a resource-rich area receives a different amount from the provincial government.

**What is the timeframe?** Countries vary as to whether revenues are shared quarterly or annually. This can make big differences in local-level planning.

**Are there any restrictions on spending?** Some countries put restrictions on the types of projects or services local governments can fund with shares of resource revenue.

**Sources:** The questions above can be addressed by reviewing the following:

**Legal framework.** National laws and regulations should clarify revenue-sharing rules, both through sector-specific law (e.g.,

mining law) and laws that define the relationship between local and national governments (constitution, intergovernmental transfer legislation, presidential directive, etc.). Searching [resourcedata.org](http://resourcedata.org) under Precepts 5 and 7 should reveal some of these laws and policies.

**EITI.** EITI-implementing countries must disclose how and when revenues are allocated subnationally. This includes a description of the rules for subnational allocations, often referring to the legal framework.

**Consider the implications.** There is often confusion about what revenues are being shared, at what rate, with whom. Once this is clarified, it can be revealing to interview different stakeholders about whether the legal reality meets with their expectations. Sample calculations can show the relative size of revenue shares compared to budgets or other revenues, giving context for debates about whether revenue-sharing arrangements are fair.

2. **Monitor transfers.** Laws about revenue sharing do not necessarily result in consistent revenue sharing across all local governments for all extractive projects. Monitoring some transfers can help clarify what local governments should expect.

**Double verify.** Monitoring transfers involves asking those who made a transfer (usually the national government) and those who received it (usually a local government) what they paid or received, and when. Comparing these figures shows whether the revenues are flowing as expected.

**Check figures against calculated expectations.** When a figure such as the total royalties from a project, is available, it is possible to use the revenue-sharing formula to calculate the expected transfer amount. Comparing the expected amount with actual transfer figures can be the basis for a story.

**Sources:**

**National and local budgets.** Depending on levels of transparency in a country, it may be possible to see resource revenue allocations in the national budget and receipts in the local budget.

**EITI.** EITI-implementing countries must disclose how and when revenues are transferred subnationally. This includes figures for the actual transfers and subnational receipts.

**Resourceprojects.org** collects information about payments from companies to various government entities, based on where the company is listed in stock markets. This often results in detailed information about a project, though rarely in comprehensive information for an entire country. The data are helpful in calculations to verify whether the revenues shown in budgets match expectations based on company payments of a particular revenue stream.

# Examples of Good Reporting Practice

The examples given below can provide inspiration while preparing stories on revenue management. Some highlight day-to-day reporting, while others are in-depth investigative reports.

## Conflict over sharing of Iraq's oil revenues (day-to-day)

### What is the fate of Baghdad-Erbil's oil-for-budget agreement amid ongoing protests?

This [article](#) in the regional online paper, al-Monitor, analyzes how political changes in Iraq may impact ongoing budget and oil revenue-sharing debates. Published after the Iraqi Prime Minister's resignation in 2019, the article explores how the resignation affects a deal about oil revenue sharing between the national government and the regional government in Kurdistan. It provides a strong example of how to incorporate issues about oil revenue management into day-to-day reporting of political changes. As well as explaining political issues with quotes from multiple parties, the article shows how poor resource revenue management has left citizens without expected services. By describing absent infrastructure and putting large figures into context, the article helps the audience understand the importance of these negotiations for people in Kurdistan. It could be strengthened by providing credible sources to back up allegations of corruption.

## The challenge of managing revenues from a finite resource in Timor Leste (day-to-day)

### Time (and Oil) Running Out for Timor-Leste.

Published after parliamentary elections in Timor Leste in July 2017, this [story](#) from a regional publication, The Diplomat, discusses how the results are linked to ongoing debates about managing oil revenues during an expected decline in oil production and revenues. The story works well because it uses the elections as a hook to explore more fundamental questions around the management of oil revenues. It explains at the start the key issues and provides readers with relevant

facts and figures, quoting many different sources to offer a balanced view.

## Missing impact from Ghana's oil revenues (investigative)

### Documentary series on projects funded by Ghana's oil money.

This excellent series of documentaries by the Ghanaian national media outlet, JoyFM, illustrates gaps in realizing the benefits of Ghana's oil wealth. The [documentary](#), "Leaking Oil," tracks Ghana's oil income to find out that money is often wasted through inflated project costs due to delays and poor execution and maintenance, including projects for various [roads](#).

After several months of investigation and filming, the journalist offers a vivid account of oil expenditures, using documentary sources to put his research into context. He interviews different sources, including citizens unable to benefit from the planned infrastructure, contractors and civil society representatives. This gives the story strong human interest, in contrast with the factual topic of the Petroleum Management Act.

See also below the "Behind the scenes" story by reporter Stephen Nartey of how he covered this story.

## Oil money gone missing in Angola (investigative)

### How western advisors helped an autocrat's daughter amass and shield a fortune.

This [joint investigation](#) by the International Consortium of Investigative Journalists and 36 media partners carefully shows how Isabel dos Santos, Africa's richest woman and the daughter of a former Angolan

president, stole hundreds of millions of dollars—including from Sonangol, an Angolan national oil company. Rather than focus on the angle of African corruption, the reporters used a wealth of leaked documents to show how western accountants and consultants helped legitimize dos Santos’s empire, and how weak western regulation enabled this. Although the central report is over 4,000 words long, the authors provide the key messages at the top of the article and give a [visual explainer](#), a three-minute [video](#) and a [data explorer](#).

The strength of this deep investigation lies in placing a familiar story of corruption within the transnational system that enables it.

## Behind the scenes of Ghana’s oil money: Testimony by JoyFM reporter Kwetey Nartey

**This podcast** gives an account by journalist Stephen Nartey of how he developed and researched his coverage of Ghana’s oil spending. The **documentary**, “Leaking Oil,” tracks Ghana’s oil income to find out that money is often wasted through inflated project costs, due to delays and poor execution and maintenance, including projects for a school, a dam and various **roads**.

Listen to the podcast or read the full transcript below:

### [Tracking oil money - Ghana.mp3 podcast](#)

### Transcript

My name is Kwetey Nartey, I’m an investigative journalist from Ghana, and I’ll be talking about how I tracked oil monies, from starting with scanty data to getting everyone talking about how the government had utilized the country’s oil revenues over the last decade.

When your government claims it’s using oil revenues to the benefit of the citizenry, it gets you wondering, why are the beneficiaries of these projects not being heard or talking about it? Like individuals such as Osman Ibrahim, a former Assembly member of Nakore in the Upper West region of Ghana. Eleven years ago, the government awarded a contract of over \$160,000 to a contractor to rehabilitate an irrigation dam in this community.

In many instances, the implementing authorities will present data suggesting oil projects have been completed. Don’t believe this as a reporter yet, go to the ground and check whether it is accurate. And that is what this project of “Tracking the Oil Cash” sought to do. The findings were immensely amazing, because I found out the authorities – the Irrigation Development Authority – was peddling untruths.

This presented an opportunity to explore the bigger picture of what

the situation was across the country. I started this project by first researching on what existing data was available. I found some work that had been done by the Public Interest Accountability Committee – a supervisory body that has oversight responsibility for how the government utilizes oil revenues. No one had acted on their report, even though the findings were revealing, as explained by the Committee Chairman Dr Steve Manteaw.

He gave me further insights on how these oil monies have been misappropriated, but, as has been the case, the government was indifferent towards the details.

The task ahead was daunting, given the millions of dollars that had been pumped into oil projects across the country. What I did was to list and plot similar projects across eight regions. The next thing I did was to identify the communities where these projects were sited and the institutions/individuals who were awarded the contracts. This process of plotting the project on what I would describe as investigative scoreboard made it easier to track my own progress.

What was critical, though, was that I needed evidence. I relied on local networks, like local reporters and opinion leaders when I visit the communities. These individuals facilitated my transportation and aided in identifying where I could speak to the persons that mattered. It explains how I was able to connect with motor riders who took me to reach communities, and opinion leaders opening up to me.

The fundamental tips are:

- Relate to the townsfolk, establish a means of communication, find the opinion leaders. They will be your map to identify the projects and those affected by them.

- After I completed gathering the evidence, I approached government agencies and institutions who were supposed to act on it. Sometimes, these agencies will not give attention to your work.

Don’t be deterred, go ahead and publish your findings. They will come running later begging to be heard. For instance, I approached the Irrigation Development Authority on this project.

They ignored me. But when the story started gaining currency, they were calling me every day simply to give their side of the story.

- In terms of the broadcast strategy I used with this project, I used a multimedia storytelling approach. The story was on TV, radio, online and all social media platforms. So if someone missed the story on TV, they would hear it on the radio or read it on social media.

That’s what got the story to make impact. And by impact, I mean, the supervisory body PIAC has signed a Memorandum of Understanding with me to join forces to track oil money. One of the biggest oil companies, Tullow Ghana, is looking into the issue. Some of the road contractors who had done shoddy jobs issued statements explaining what had transpired.

That’s how “Tracking the Oil Cash” became a success.

## Sources

Below are sources that can contribute to different angles on stories about revenue management. Some will be similar across different aspects of mining, oil and gas reporting and are repeated across chapters, but others apply specifically to revenue tracking. When possible, there are direct links to institutions in the main target countries of “Covering Extractives”: Ghana, Myanmar, Tanzania and Uganda.

### Public institutions

#### Government entities

Administering revenue from oil, gas and mining usually involves different government players. The bodies involved in collecting and spending revenues vary between countries, but can include ministries of finance, budget or planning; state-owned enterprises; sovereign wealth funds; the central bank, or subnational governments.

EITI-implementing countries offer overview of the ministries involved in revenue management in the narrative section of their EITI reports. The Resource Governance Index [country profiles](#) usually include the key ministries involved. Contacting staff at different government entities can help bridge information gaps and provide a useful perspective, but it is important to assess any information received and verify it with further sources.

Below is a list of websites to access for these different government entities—ministries, central banks and SWFs—in the “Covering Extractives” target countries:

#### • Ghana

##### [Ministry of Finance](#)

Ghana has two SWFs, the [Ghana Heritage Fund](#) and the [Ghana Stabilisation Fund](#)

##### [Bank of Ghana](#)

#### • Myanmar

##### [Ministry of Planning, Finance and Industry](#)

##### [Central Bank of Myanmar](#)

#### • Tanzania

##### [Ministry of Finance](#)

##### [Bank of Tanzania](#)

#### • Uganda

##### [Ministry of Finance](#)

Uganda’s SWF, the [Petroleum Revenue Investment Reserve](#)

##### [Bank of Uganda](#)

### Oversight bodies

In most countries, parliament is responsible for approving the annual state budget. It also adopts the rules that apply to spending and distributing resource revenues. In Uganda, Parliament must review the national budget by 31 May each year. In Ghana, in addition to the parliamentary budget committee, the Public Interest Accountability Committee also reviews the spending of oil revenues. The committee’s bi-annual reports show how revenues were spent, and are a useful source for journalists following the impact of resource revenues.

Supreme audit institutions also provide important oversight of whether resource revenues have been allocated and spent according to the rules. Their mandates allow them to investigate public spending at various levels of government, and their reports offer valuable insight into the effectiveness of resource revenue management. For example, the Supreme Audit Institution of Ghana conducted an audit reviewing the management of the country’s [Petroleum Fund](#), while the Auditor General of Niger [reviewed](#) all national oil revenues.

### Experts, civil society and watchdogs

#### National groups

Experts from civil society and academia can be helpful commentators on revenue management. They can distance themselves from government or company interests, and offer a different view of what is in the people’s interest.

Where relevant, journalists are welcome to [contact](#) the NRG country offices, where staff can provide connections with the right expert internally.

Other options for connecting with competent civil society or academic figures include:

[Publish What You Pay](#) (PWYP), the global coalition of civil society organizations campaigning for a fair use of natural resources. PWYP has over 700 member organizations in 50 countries, working on numerous issues, including revenue management. Its national coordinators are able to direct journalists to a range of expert contacts.

In [EITI member countries](#), there will be civil society representatives on the national multi-stakeholder group. The national secretariat can also offer recommendations for civil society groups that specialize in revenue management.

The International Budget Partnership (see below) usually contracts a national civil society group to conduct the analysis for its [Open](#)



**Budget Index.** The group involved in the index for a country is likely to be familiar with the overall national budget process and may also be able to provide information on extractive revenue management.

## International civil society

Many global transparency efforts have their roots in revenue management. The **International Budget Partnership** promotes transparency and accountability in budget processes. Although its programs are focused on a few countries, many of its resources and analyses are applicable in others. Oxfam America, another international NGO, is well known for its advocacy on extractive budget and revenue transparency. It has also recently **produced work** that gives insight into how women can most effectively be engaged in revenue management to reduce the gender gap associated with extractive impacts (see Chapter 6). Contacting experts at these organizations can give context and credibility to national reporting.

## International institutions

### International financial institutions

The Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and the World Bank produce regular guidance on fiscal and economic policies. They also often monitor national revenue management and produce regular analysis of national economies, which can be useful background in national reporting. For example, the IMF produces “**Article IV**” consultations that assess an individual country’s economic health and often comment on its revenue management. Reporters can sign up on these organizations’ websites for alerts when particular country reports are published. Publications often include the email addresses of staff involved in the analysis or press contact information for follow-up questions.

### Multi-stakeholder initiatives

The **Extractive Industries Transparency Initiative** (EITI) is a multi-stakeholder initiative that supports transparency in resource-rich countries through an international standard implemented by members. EITI-implementing countries are required to annually disclose extractive revenues paid, transferred and collected. This includes an overview explaining which ministries collect which revenue streams, as well as a comparison of the figures that government agencies state they collected and what companies say they have paid. These figures can be used to understand overall government revenue and where challenges with revenue collection

may lie. The report also outlines information about how revenues are used, and details revenue sharing to subnational governments when appropriate. Although EITI data is often published slowly, the descriptive reports and the types of information available can be used as a basis for asking questions of ministries for more current stories. The national multi-stakeholder group that oversees a country’s EITI process can also be a source for discussions on what information about licensing should be available.

The **Open Government Partnership** (OGP) is an international multi-stakeholder initiative that supports countries in processes of transparency and accountability. Multi-stakeholder groups in countries that have signed up to the initiative set national goals for openness in sectors they prioritize. Many OGP countries have included commitments related to budget transparency or participation, sometimes focusing on the use of resource revenues. Reporters can follow up with national OGP committees.

## Data sources

### Revenue payments

**Resourceprojects.org** compiles revenue payments made by extractive companies based in the EU, Canada and the U.K. to host governments. The data are released through companies’ stock listings and are regularly added to the site. Payment information can be filtered by individual project and by government entity. NRGi has also prepared two briefings to showcase how the data can be used when deeper analysis is applied. One covers **gold mining revenues in Ghana** and the other, **oil and gas revenues in Nigeria**.

EITI member countries are required in their annual EITI report to provide information about income from the extractive sector and how it is distributed. The reports are available on national and international EITI **websites**.

### Budget performance

The International Budget Project **publishes** a survey analyzing the openness of budget practices in 115 countries. Data from the survey can be found online, with easy views for comparison, or downloaded and analyzed. A questionnaire for each country also provides source documentation to allow easy follow-up research.

## Voices

In the short videos below, a company representative from Repsol, a member of Congolese civil society and a government official from the Philippines share their perspective on the management of oil, gas and mining revenues.

- ▶ [Paying taxes for sustainable development](#)
- ▶ [Managing subnational revenues from extraction](#)
- ▶ [Collecting taxes from mining companies](#)

## Learning resources

### Video overviews

In this 11-minute [video](#), petroleum economist and Ghana's Deputy Minister of Energy, Mohammed Amin Adam, describes challenges that come with managing revenues from oil, gas and mining. He also explains some of the measures governments can take to respond to these challenges in this 16-minute [video](#).

Further NRGi videos on managing extractive revenues include one on [natural resource funds](#) and another on [revenue sharing](#).

UNU-WIDER has produced several short videos discussing how best to invest extractive revenues for long-term benefit. This two-minute [video](#) discusses how to invest the revenues in assets above the ground, and this three-minute [video](#) looks at long-term versus short-term investment strategies.

## Key reports

NRGI has several primers that summarize resource revenue management issues in plain language, including an overview on [revenue management](#), [revenue sharing](#) and [resource funds](#).

There are also useful longer reports that draw comparisons between country case studies:

NRGI and the United Nations Development Program looked at different ways governments in resource-rich countries allocate resource revenues to different levels of government, different institutions or directly to citizens. The resulting [report](#) presents key lessons from 30 case studies.

NRGI worked with the Columbia Center on Sustainable Investment on a survey of natural resource funds across 40 countries. In addition to [reporting](#) lessons of good practice, there are country profiles on numerous resource funds, explaining the rules that govern those funds.

## 06

# Local winners and losers

## Impacts on people and the environment

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### Jargon buster

- **community development agreement:** Agreements between companies, governments and communities that seek to improve the welfare of the community near the project site.
- **environmental and social impact assessment (ESIA):** This is an evaluation of social and environmental implications of a project's extraction activity. It is usually required before the project begins and approved by the government.
- **Free Prior and Informed Consent (FPIC):** The principle that communities (often indigenous communities) have the right to give or withhold their consent to proposed projects that might affect the lands they own, occupy or otherwise use. It also often encompasses a process of consultation necessary for obtaining valid consent.
- **local content:** Non-tax benefits to the national economy and communities through the use or development, by extractive sector operators, of domestic labor, suppliers, goods and services, capital and infrastructure.
- **strategic impact assessment:** A methodology for a government to evaluate the overall benefits and costs for the country of licensing areas. This is sometimes known as strategic environmental assessment (SEA).

## Why it matters

### Why does this matter to your audience?

- Extractive projects have the potential to generate immediate benefits for local communities, through employment and the greater demand for goods and services.
- Companies spend more money on subcontracts and procurement than on paying taxes and royalties. A study of gold mining companies found that they spend USD 35 billion on payments to other businesses and less than USD 10 billion on royalty and tax payments to governments.
- Communities close to extraction projects suffer the direct consequences of extraction, such as loss of land, environmental degradation and health hazards. This is particularly true for women, who tend to bear more of the negative impacts of extraction, such as social and environmental costs, and are less likely to be able to participate in the local benefits, such as job opportunities.
- Environmental and social impacts can be significant, and may even be greater than government revenues. Studies on gold mining in Ghana, for example, have emphasized that losses in agricultural productivity from air pollution caused by mining in a particular year were larger than the fiscal revenues that gold projects generated for the nation in that year.

# The Basics

**Oil, gas and mining projects can provide jobs and business opportunities, access to good roads, healthcare facilities and other basic amenities for the communities hosting extractive activities. At the same time, extraction is often the source of major environmental and social disruption to those living around project sites.**

**Whether communities close to oil, gas and mining projects will win more than they lose is a complicated question, requiring perspectives from many different stakeholders. The national government is usually involved in setting the rules for negotiating with the company and deciding how or whether local communities should be involved. Local government officials are then in contact with extraction companies as representative leaders on issues, whether or not they represent all the people in the area. Different people may be impacted differently based on their gender, ethnicity and use of the land before the extraction starts.**

**A company may be following the rules it was given, even if that results in some people being negatively impacted. Understanding these various perspectives is necessary for reporting on the local winners and losers.**

## Social and environmental risks of extraction

### The environmental impact of oil, gas and mining projects

The environmental impacts of extractive activities are complex. They can affect different natural elements, such as water, air, soil and biodiversity, and vary over the lifecycle of a project (see below). The types of impact depend on factors such as the geography and topography of the project, the technology necessary for extraction, the method of transportation required and the ways people used land before the project started.

#### Common risks in mining

The process of taking a mineral out of the ground and separating it from the other minerals that are part of the same rock often creates a large amount of waste. Usually, more rock without value is extracted than rock that is going to be sold. Although there are technologies that can reduce this waste, they are often very expensive. Some of the most frequent types of environmental impacts from mining relate to the waste created, including:

#### Water pollution and depletion

Water contamination happens when mining waste, often called tailings, ends up in waterways. Tailings are usually a mud-like

substance made of ground-up rock left over after taking out the valuable mineral. Tailings often contain toxic minerals, which can make water unsafe for drinking, fishing, farming or swimming. Water can also be contaminated when the separation of rocks brings toxic substances to the surface that are carried into waterways by rain. Separating minerals and reducing the associated dust often requires large amounts of water, which can reduce the amount available for nearby communities. In water-scarce areas, this can result in significant impact on communities' ability to maintain farming, forestry and cooking practices.

#### Air pollution

When rocks are crushed, some of the particles can be released into the air. If these are toxic minerals, the results can be very serious, increasing the likelihood of disease and health impacts for local people, particularly children. Even if the particles are non-toxic, such as dust, they can increase the likelihood of respiratory illness and damage crops.

#### Soil pollution and land degradation

Mining tends to have a large footprint on land, often making the area where extraction takes place and waste is stored unusable for long periods afterward. The moving of rock can also lead to erosion in other areas, particularly in open-pit and mountaintop removal mining. Other soil can be impacted through water and rain contamination.

### Deforestation and loss of biodiversity

The land footprint of a mine can also directly reduce the forest and biodiversity that previously lived on that land. Changes in the noise, air quality and space for migration in the area can also impact the wildlife near an extraction project.

### Risks across the lifecycle of a mine

The risks of environmental impact change during the lifecycle of a mine, from exploration to development, production and closure. Below are some of the potential environmental impacts throughout this lifecycle:

#### Exploration

As the company conducts surveys and seismic analysis and drills for samples, the risk of spills and contamination is low, but the process can cause noise disturbance and disrupt local wildlife. The impacts can increase during the exploration phase, as more heavy machinery is introduced and people who may have been environmental caretakers are targeted for resettlement.

#### Development

As a company prepares for production, it will build infrastructure, arrange resettlement and increase drilling or digging, which can generate noise and disturb habitat. The land footprint increases, as companies construct the mine and waste-holding areas.

#### Production

Field operations involve waste disposal, different forms of product processing, transportation and maintenance of infrastructure. These can increase the impact on the local ecosystem through erosion, noise, deforestation and water, air or ground contamination.

#### Closure

As the mine is closing, the company is responsible for securing waste, removing infrastructure and usually restoring the environment. Environmental impacts can be felt in the form of continued risks of spillage and contamination, and in difficulties for the local flora and fauna to return to their previous habitat.

This short [video](#) provides an overview of environmental challenges in mining.

### Common risks in oil and gas extraction

The types of environmental impact from oil and gas extraction differ from mining, because the technology used for extraction and transportation are different. The environmental impacts also change if there is on-shore or off-shore production, and depending on the type of extraction process used. Environmental risks for oil and gas extraction differ from mining in several ways:

### Flaring and Venting

Other gases are often released from the earth along with the desired oil and gas. These gases are often dealt with either by flaring or venting. Flaring, which is burning the gas, can have a large impact on air quality for communities and animals close to an extraction point. Venting, which is releasing the gas into the air, may also impact local air quality, but is also a major source of concern for its potential impact on Earth's overall atmosphere and climate change.

### Leaks and spills

In mining, the risk of contamination is often from less valuable rocks that are removed from the desired commodity. In oil extraction, there is risk of leakage and spill of the commodity itself. This can happen at the extraction point, as when the Deepwater Horizon oil well was poorly controlled and blew vast amounts of oil into the Gulf of Mexico. Spills and leaks can also take place during transportation, either through pipeline failures, as in Nigeria, or tanker failures, like the Exxon Valdez in Alaska. When oil leaks or spills into the environment, it can spread quickly, making the water unusable for drinking, fishing or farming, and significantly impacting local wildlife.

### Climate impact

Many environmentalists are concerned about the impact of oil and gas extraction because of the potential use of the extracted product. When oil and gas are burned, they affect the atmosphere, increasing the risk of climate change. This environmental impact does not take place at the point of extraction, but is likely to impact the world more broadly.

The stages of oil and gas extraction each involve key risks:

#### Exploration

The impacts of oil and gas exploration are often greater than of mining, as the drilling necessary after seismic testing requires more equipment. As a result, there is a greater land footprint earlier in an oil and gas project.

#### Development

As in mining, during the development phase, a company will be building additional infrastructure for drilling and transportation. For oil and gas, transportation often requires impacting a narrow pathway of land across a long distance for laying a pipeline. This phase often includes additional test drilling which can result in similar environmental impacts as production drilling.

#### Production

During production, there are local risks to water, air and soil, due to intentional or unintentional release of oil and gas. The land area of the extraction platform will also impact biodiversity. Some types of extraction processes, such as fracking, also involve risks of

seismic activity during production. Risks of leaks or spillage during transportation are highest during the production phase.

### Closure

Decommissioning of an oil project must include closing the well and removing machinery. The well must be carefully sealed so that the pressure beneath and above the closure is equal, ensuring oil does not continue to leak.

### Social and cultural impacts of extraction

The social impacts of extraction include all the factors that affect people, whether directly or indirectly, on a day-to-day basis or over the longer term. This includes people's way of life and their culture, community, political systems, environment, health and well-being, rights, livelihoods, fears and aspirations. The table below offers an overview of both potentially positive and negative social impacts relating to the extractive industry:

TYPE OF IMPACT	POTENTIALLY POSITIVE EFFECTS	POTENTIALLY NEGATIVE EFFECTS
<b>Health</b>	<ul style="list-style-type: none"> <li>■ New healthcare facilities</li> <li>■ Increased access to medication, vaccination, and health services</li> <li>■ Improved health awareness</li> <li>■ Increased capacity of local healthcare workers</li> </ul>	<ul style="list-style-type: none"> <li>■ Increased prevalence of diseases (including HIV/Aids) from in-migration</li> <li>■ Increased illness due to land, water and/or air pollution</li> <li>■ Health risks associated with water, air and land contamination</li> </ul>
<b>Culture and Traditional Way of Life</b>	<ul style="list-style-type: none"> <li>■ Community works together to preserve traditional way of life of community</li> <li>■ Cultural heritage sites can be improved or receive better access roads, protection</li> </ul>	<ul style="list-style-type: none"> <li>■ Reduced land access and loss of ability to hunt and gather or live traditional way of life, leading to malnutrition and dependency</li> <li>■ Damage to sites of cultural and spiritual significance</li> </ul>
<b>Community Impacts</b>	<ul style="list-style-type: none"> <li>■ Increased access to services including schools, health facilities, water &amp; sanitation</li> <li>■ Increased transport and communication access to other communities</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase in crime and disorder including potential alcoholism, drug use and sexual exploitation</li> <li>■ Increasing inequality and community tension due to uneven distribution of resources</li> <li>■ Bribery and corruption</li> <li>■ Increased conflict over resources</li> </ul>
<b>Economic Impacts</b>	<ul style="list-style-type: none"> <li>■ Direct employment for community members</li> <li>■ Indirect employment due to economic growth and contracting/business opportunities</li> <li>■ Investment into the local community from the companies</li> <li>■ Enhanced skills and training of community members</li> </ul>	<ul style="list-style-type: none"> <li>■ Higher costs of local goods and housing</li> <li>■ Loss or change of traditional livelihoods</li> <li>■ Reduced food or fish production due to environmental degradation or limited access (for example, during seismic surveys)</li> </ul>
<b>Environmental Impacts</b>	<ul style="list-style-type: none"> <li>■ More resources for protection of natural parks, research and conservation of endangered species.</li> </ul>	<ul style="list-style-type: none"> <li>■ Soil and water degradation</li> <li>■ Noise and air pollution</li> <li>■ Loss of ecosystems</li> <li>■ Impacts on wildlife and habitats</li> <li>■ Increased traffic</li> </ul>

Social impacts of extraction (Source: *Practical guide for local communities, civil society, and local government on the social aspects of oil, gas and mining*, Cordaid, 2016)

A positive impact for one community can have negative consequences for another. Inwards migration, which often results from expectations of economic gain, can support economic growth and educational opportunities in one situation, but result in rising levels of crime and drug use in another. Equally, experiences will vary across different population groups. Initial assessments of community impacts sometimes count only the impacts on certain types of people, such as men or people from a dominant ethnic group. The context of an extraction site can also exacerbate the social effects of a project. For instance, in an area where several extractive projects are located at the same time, the impacts of extraction can be cumulative.

### Women in extractives: higher risks, lower rewards

Women experience the impact of extractive activities differently from men. Women tend to be more likely to experience social and environmental impacts because of differences in health risk and land use. Women have greater formal health needs through reproduction, and culturally tend to be carers within their families, so are more impacted by the health implications of extraction. Women carry out most of the agricultural work in traditional communities, and are responsible for fetching water and firewood, so face greater impacts if extraction disrupts these activities. Studies have shown that unless compensation is given in a gender-informed way, it tends to disproportionately benefit the men in the household, who may not incorporate the impacts on women into their decision making. In addition, women are less likely to benefit directly from jobs in the extractive sector. Studies have shown that women's formal employment in the service sector may increase during an extraction period, but they are more likely than men to lose their work at the end of an extraction project.

At the same time, women have been an important source of protecting community interests in many extractive regions. They have often been at the front lines of protest against extraction companies involving civil disobedience, when the community believes it is not receiving a fair share of the benefits from extraction.

For more detail on how to measure the gendered impact of extractives, see this Oxfam report on [Gendered Impact Assessments](#)

### Land-related conflicts

To get natural resources out of the ground, extractive companies must have access to land above the ground for excavation and distribution operations. If the government does not already own the land, it often tries to gain ownership through a process of expropriation, known in some countries as "eminent domain." Expropriation means the government seeks to become the owner of the land so that it can use it for the public good, in this case extracting natural resources. In other situations, even if the state does not expropriate the land, the government and extractive companies have mechanisms to oblige landowners to allow exploration or exploitation on their property. International law and most constitutions require the government to provide fair compensation to landowners if their land is going to be used partially or completely taken. This includes making payment for the value of the land and for any improvements or structures on the land, and if there is resettlement, full restoration of livelihoods that addresses loss of connection to roads, income-generating activities, and ancestral lands. This resettlement and compensation process is usually undertaken by government and company officials. When executed poorly, it can cause local anger and undermine the goodwill towards the company that helps it to operate. The process can be complicated when the government does not have clear documentation of land ownership, either because of weak tenure systems or poor impact assessments.

[This report](#) by Resource Equity summarizes best practice in land management with mining.

## Responding to environmental risks

The government has primary responsibility for overseeing companies' management of environmental and social impacts. Before beginning licensing for an extraction area, governments often conduct strategic impact assessments (SIAs) that identify the potential social and environmental risks of extracting in the region. Governments also create standards of environmental protection and systems for anticipating, monitoring, reporting and responding to environmental impacts.

### Documenting and planning for the risks

During the development or exploration phase of a project, companies are almost always asked by the government to conduct an environmental and social impact assessment (ESIA). These large documents record the company's expectations about the social and environmental impacts of the project and how it plans to respond to those impacts. They typically include:

- An assessment of direct, indirect and global risks from the project, in the short and long terms.

- A management and mitigation plan that includes how the company will avoid, reduce, repair or compensate for the impacts of extraction.

- The final project closure and decommissioning plan, including rehabilitation and reclamation of affected areas; decommissioning, removal and disposal of unwanted equipment and facilities; transfer of any useful assets (including company-owned housing, health or educational facilities) to local authorities or communities; post-closure site monitoring, if needed, and ensuring the continued viability of affected communities.

Governments usually need to approve this plan, but they do not all require companies to publish the ESIA.

#### 1. Avoid

- Making changes to the project or plan (or potential location) to avoid adverse effects. This is the most acceptable form of mitigation.

#### 2. Reduce

- Where avoidance is not possible, adverse effects can be reduced during design, construction or decommissioning.

#### 3. Repair

- Where adverse effects cannot be reduced further, measures can be introduced to limit their influence by restoring, rehabilitating or remediating the affected environment.

#### 4. Compensate in kind

- Where new benefits are not possible, and there are still residual impacts, it may be appropriate to provide compensatory measures that attempt to offset the adverse effect with a comparable positive one.

#### 5. Compensate by other means

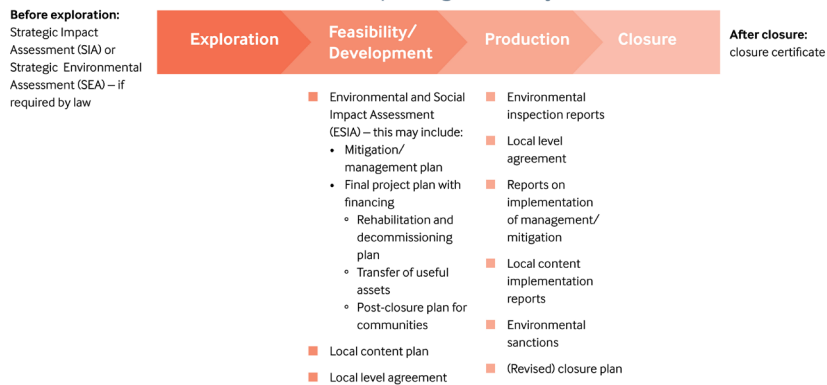
- Where compensate in kind is not possible then, as a last resource, attempt can be made to compensate by other means.

Recommendations by the International Association for Impact Assessment (IAIA) on how to address adverse effects of projects. (Source: IAIA, **Social Impact Assessment Guidance, 2016**).

## Monitoring

Governments usually require companies to submit periodic reports that show their environmental impact and their efforts to respond to those impacts. Government agencies, usually the ministry of the environment, are responsible for reviewing and approving these reports. In addition, most governments have staff trained to independently monitor the environmental impact and the progress of the company's mitigation plans. However, these monitoring teams are usually extremely under-resourced in relation to the number of extractive projects in a country. In many countries, civil society and the media are needed to provide oversight of government and company activities throughout the different stages of extraction. Journalists tracking information released by governments and companies about environmental impacts can expect the following reporting at different stages of the extractive cycle:

### Environmental reporting over lifecycle of mine



Environmental reporting over lifecycle of a mine (Source: NRGi)

This [video](#) provides a brief overview of ESIA's, while this [manual](#) from the Environmental Law Alliance Worldwide gives steps for how to review an ESIA.

## Engagement: consultation, community agreements and grievance mechanisms

In most countries, an extraction company negotiates and signs an agreement with the national government. When and whether the communities close to an extraction site are involved in discussions with the company depends on the context. Most companies have found that early and genuine engagement with communities improves the social goodwill needed for smooth operations and reduces the likelihood of disruption by angry communities.

### Consultation

Consultation is how and whether the community near the extraction site is involved in discussions about the extraction project. Industry experts often refer to a spectrum of consultation, from a community being informed, to its members giving Free, Prior and Informed Consent (FPIC) for a project. FPIC is a way of engaging a community before extraction takes place, enabling its members to voice whether they believe the

project should go ahead. FPIC is legally required by international law when companies work on land where there are indigenous people, but many companies have elected to use FPIC principles in all their projects. The image below summarizes some mining companies' policies along the spectrum of consultation.

Some governments, like the Philippines, and international institutions,



Overview of public commitments by mining companies to FPIC.

(Source: Oxfam America, Community Consent Index, 2015)

such as the World Bank and the International Finance Corporation, require companies working with them to engage in FPIC.

In practice, effective implementation of FPIC remains an ongoing challenge. Consultations are often too late for communities to really say no to a project or shape its development. There is also a significant imbalance of power and information between local communities and large extractive companies. This allows some companies to occasionally use superficial approaches or controversial influencing tactics, including bribery or political pressure, to persuade local leaders to support the project.

### Community development agreements

In addition to the agreement between the company and the national government, companies are increasingly making agreements with the local community that seek to improve the welfare of people living near the project site. While such agreements are generally referred to as community development agreements (CDAs), there are many other terms used to describe them, including impact benefit agreements, benefit sharing agreements, indigenous land use agreements, cooperation agreements, social responsibility agreements and participation agreements. An example is the Social Responsibility Agreement set up between Newmont Ghana Gold Ltd and the Newmont Ahafo Development Foundation, which is run by a board of trustees and composed of company and community representatives. The beneficiaries are limited to the communities directly affected by the mine and located within the boundaries of the concession. The agreement set out that the foundation will receive revenue from the project, which can be applied towards programs for developing infrastructure and delivering other services. It also established an Agreement Forum, granted oversight responsibility for implementation of the agreement, and a Community Consultative Committee to

manage information and communication between the company, the community and other stakeholders. Their remit includes developing programs for the closure and reclamation of the mine.

CDAs are sometimes required by national law, as in Mongolia. Their key benefits include greater predictability for all parties on their respective obligations, improved mutual understanding via clearly defined shared responsibilities, and better development prospects as communities have the chance to shape their long-term development goals. However, as with all agreements, CDAs do not always have their intended results. Insufficient flexibility or poor consultation can undermine the usefulness or practicality of these agreements. Poor design of CDAs can result in duplication of existing local and regional initiatives, or in interest groups who are not part of the community (such as migrant workers) being overlooked. Key factors for success include effective consultation with communities, including women and marginalized members, when designing and agreeing community development plans. Coordination with local and national government, as applicable, and participation of the community in monitoring implementation is also important.

Columbia University and the community legal empowerment group Namati have collaborated to create a **guide** for communities negotiating investments. This includes a plain-language overview of the CDA process.

### Grievance mechanisms

A grievance mechanism is a way for community members to raise concerns about an ongoing extraction project or related issues. Sometimes these concerns are sent to the company and sometimes to different government authorities. Companies often benefit from legitimate grievance mechanisms as a way to avoid problems before they escalate. The UN Guiding Principles on Business and Human Rights have created criteria to help companies understand whether a grievance mechanism will be effective in protecting human rights. These criteria include a mechanism being legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continuous learning and based on engagement and dialogue.

The International Council on Mining and Metals has a **toolkit** for companies creating grievance mechanisms that goes through the steps required to be effective.

### Using “local content” to ensure benefits to the local economy

“**Local content**” is the value that an extraction project brings to the local, regional or national economy, beyond the revenues from extracted resources. A leading area of local content is the employment



that the natural resource discovery generates, whether direct, indirect or induced (jobs in industries that interact with the natural resource economy, such as transportation or accounting). Businesses, goods and services, capital and infrastructure are further non-tax benefits that can be accrued from extractive projects. Countries can encourage local content through requirements and targets written into national laws and individual contracts.

## Developing a local content policy

To encourage local content, governments often create requirements for extractive companies to include local labor, products or companies. They use a variety of tools to reach their goal of benefiting the local economy through the extraction project, including:

**Quotas:** Found within laws, regulations or contracts, these are provisions that require companies to award a certain percentage of hires, contracts or equity ownership to local companies or professionals.

**Training program requirements or incentives:** These require or encourage companies to build skills among the domestic workforce.

**Public education initiatives:** Through these, the state or the company opens training centers, establishes programs or organizes overseas scholarships to build a cadre of expertise in sectors with strategic links to oil and minerals.

**Incentives for small business development:** Such incentives can include fostering better access to credit for small business owners or opening business incubation centers. This can be done by the government or the company.

**Processing and production of derivative products:** This includes refining crude oil or smelting minerals, which can capture significant economic benefits if carried out domestically, but also can be expensive and complicated to construct.

## Overcoming technical barriers and limiting corruption when implementing local content

**The technical requirements** of the extractive industry can make producing strong results around local content very difficult. For example, Tanzania has some experienced welders, but when BG, a British multinational oil and gas company, was looking for welders to help with the construction of its large offshore gas platform, it found few who could weld the specific types of piping necessary for the job. Existing welders required advanced training to be able to meet the needs of the company. This is why local content rules are often flexible enough to allow companies to use human or other resources from outside the host country if labor or service needs cannot be met locally.

**Corruption** is the other important obstacle to ensuring that local content

policies deliver tangible benefits to citizens and local communities. Rules that require local suppliers or that equity ownership goes to local companies can be a backdoor for the corrupt plans of those pretending to create local companies to profit from the law. Requirements that governments partner with local companies can lead politicians, business elites and PEPs (politically exposed people) to hide behind “local” shell companies. Open and transparent procurement procedures are essential to prevent this opportunity for corruption.

Governments face a question about the benefit or sustainability of investing in local content, making it a controversial policy tool. Because extractive resources are finite, it can be detrimental to create more economic focus on the extractive industries. Some development specialists suggest creating a broader economy by using local content provisions to develop a workforce with skills that can be transferred to other sectors once extraction projects are over.

### Extractive-linked infrastructure

Natural resource companies need large infrastructure systems for water, power and telecommunications to serve their extraction sites. They also need pipelines, ports and railways to get resources to market. These projects are called extractive-linked infrastructure.

The infrastructure that serves citizens, as well as the extraction site, is called shared-use infrastructure. For example, natural resource companies can build water or power infrastructure that can also be used by the community living near the extraction site.

In contrast, enclave infrastructure is when mining or oil and gas companies have built a parallel system of development that serves the needs of the extractive company, but not the local community. In Sierra Leone, for example, mines included their own power-generating systems without linking to the national electric grid or sharing power with local communities.

Enclaves can make sense from an investor’s perspective, as it is often difficult for companies to coordinate sharing the costs and use of infrastructure. Some companies can see a competitive advantage when they are the sole operator of infrastructure, as this allows them to better market themselves to the government to win future concessions in the area. For example, sole use of a railway, without all the coordination necessary when sharing such a system, can help prevent delays at a port.

However, enclave infrastructure projects can be risky for governments. Enclaves can increase the possibility of stranded assets—“ghost” infrastructure projects that sit unused and serve no purpose following the final phase of an extraction project.

The NRCI [primer](#) on this issue offers further reading. For greater detail, consult the [list](#) of resources put together by the Columbia Center for Sustainable Development.

# Story Leads

## Research questions and reporting angles

Below are story angles for reporting on the local impacts of extraction, based on a sequence of research questions. See Chapter 1 for more general story planning guidelines.

Some of the story leads in other chapters can also be useful for covering local impacts:

Chapter 2, story lead D. on consultation

Chapter 4, story lead B. on monitoring revenue collection

Chapter 5, story lead D. on monitoring whether revenue transfers are received subnationally.

### A—

## Who is getting jobs from the extraction site?

**1. Find out the rules.** The rules for who should be hired for the project will come from both the law and the contract for this project. Usually, the contract will note when there are references to national law.

**Look for the legal framework.** Possible sources include:

**Resourcedata.org.** This is a repository of documents relevant to resource governance, including legislation from many countries. Documents can be filtered by country and by the individual precept of the Natural Resource Charter, a governance framework that covers the whole decision chain. Precepts relevant to finding the terms of the agreement include Precepts 10 (private-sector development) and 5 (local effects).

**EITI.** The Extractive Industries Transparency Initiative (EITI) requires member countries to describe the legal framework, including references to local content. Reports are published on an annual basis with a time-lag of 1–2 years and can be found on the [international EITI website](#) or national pages.

**Look for the contract itself.** Possible sources include:

**Resourcecontracts.org.** This is an online repository of publicly available oil, gas and mining contracts.

**Government sources.** Many countries publish contracts they sign with extractive companies on ministry websites or through a dedicated portal. In some cases, the online cadastre system will list the terms associated with each license. EITI implementing countries will have to publish all contracts from 2021.

**Company websites.** Some companies, such as Total, Tullow Oil and Rio

Tinto, have committed to making contracts publicly available, provided their government counterpart has no objection. Other listed companies may publish selected terms of contracts, in particular fiscal terms, to their investors. These may be available in regulatory filings in the relevant stock exchanges or company websites.

**2. Investigate expectations.** Expectations for employment in extraction projects are often extremely high and may have little correlation to the formal rules. Understanding these expectations, and where they may have come from, is important for understanding community and government responses later in the project.

**Consult the community.** Interview different types of people from communities near the extraction site about their expectations of who would be employed by this project. Including men, women, leaders and minorities can help balance reporting. To understand what sources are most credible in the community, it is important to ask why people had certain expectations.

**Consult the government.** Interviewing national and local government officials about their expectations of how many people, from where, would be employed by the project can also help show how realistic the legal framework is. Asking the basis for their assumptions can help explain their policy decisions.

**Consult the industry.** Interviewing the extractive company and peer companies about their expectations for employment can help draw out what challenges may have emerged once extraction started. For example, a company may have intended to hire local personnel as welders, but had trouble finding people with the right experience, or the welders may be needed sooner than the time it takes to train individuals.

**3. Find employment figures.** Different sources can show how many people are being employed, with varying levels of detail:

**Extractive Industries Transparency Initiative (EITI).** EITI-implementing countries are required to disclose figures for how many people are employed, including from the country of the extraction site, broken down by gender. Some countries also publish the information broken down by those who live near the extraction site, compared with those of the nation overall.

**Company sources.** Public companies often report employment figures to investors or make corporate filings. U.K.-registered companies must report the gender breakdown of their employees. These figures do not always reveal whether employees are of national or foreign origin, and they rarely show which part of a country the employees come from (e.g., close to a project site). Searching the [OpenCorporates](#) database should reveal corporate stock exchange filings, while reviewing the company website may reveal informal reports. Private and state-owned companies often have different reporting requirements and may not make this information available.

**Government sources.** In some countries, sectoral ministries or ministries of labor publish figures annually about national employment rates at various projects. This is particularly true if there is a strong local content component to the national strategy for benefiting from extractives. Even if these figures are not published proactively, interviewing ministry officials should reveal the level of employment at different sites. If this still is not available and there is a freedom of information law, consider making a formal request for the national tracking of the employment figures.

**4. Explore gaps between obligations, expectations and actual numbers.** If the information shows that the company is not meeting its obligations, it is worth investigating:

**The labor supply.** Asking ministry and industry officials why there is a gap may reveal a mismatch in needed skills. Are any training programs run by the government or industry to resolve this over time? It is also useful to understand the realistic timeframe for education for these roles and whether this is feasible during the timeframe of the planned extraction.

**The hiring process.** It is important to understand where and how a company is seeking to fill roles and what it is doing to include nationals. Are there types of job that are hardest for it to fill? What types of skill are most needed?

**Local reactions.** It is useful to ask the people who live closest to the extraction site—both leaders and the general population—about who is getting jobs in the industry and how this happens. Do their stories match up with what the industry and national government are saying? If not, what are the gaps?

## B

### Are there signs that the environmental impact is different than expected?

**1. Understand expectations.** Taking minerals out of the ground is going to have an environmental impact because it requires a change to the environment. There are often very different expectations for what that impact will mean, and different understandings across stakeholders of what is “normal”. Understanding the starting point for people’s expectations can lead to a balanced inquiry into whether the current situation is cause for alarm.

#### Informal expectations

**Consult the community.** Interview different types of people from the community close to the extraction site about their expectations of how the environment would be impacted, in what timeframe. Including men, women, leaders and minorities can help balance reporting. To understand what sources are most credible in the community and what information people were given during the consultation process, ask why they have certain expectations.

**Consult the government.** Interviewing national and local government officials about their expectations of the types and timing of environmental impact can also reveal how realistic their mitigation plans might be. Asking them the basis for their assumptions can help explain their policy decisions.

**Consult the industry.** Interviewing the extraction company and peer companies about their expectations of environmental impact can help uncover unexpected challenges that may have emerged once extraction started.

#### Formal expectations

**Environmental and Social Impact Assessments (ESIAs)** (or their summary). These are very lengthy documents that describe the company’s expected social and environmental impacts and how it plans to address any issues. They are usually formally submitted to the government for approval. Because these are very long, it can be useful to refer to their executive summaries or company press releases that summarize the key findings—but note that the company has an interest in minimizing the impacts in the summary. If the document is daunting, it is also possible just to read about the particular types of environmental impacts currently causing concern. These reports may be found via:

**Company release.** Companies often need to release this information to attract investors. Some stock exchanges ask for it as part of a technical

report (e.g., the NI 43-101 on the Toronto Stock Exchange). Stock exchange websites can show such reports as part of their filings. Company websites are also useful, as even smaller companies may release this information to show the feasibility of a project.

**Government disclosure or review.** Some governments post environmental impact assessments once they have been reviewed. If they are not publicly available, government officials from the ministry of the environment or the sectoral ministry may have access to the document. Governments often make a statement of approval for an ESIA that may include summary information.

**International financial institutions.** Some international financial institutions, like the *International Finance Corporation*, require transparency of the ESIA. Such institutions usually have a searchable database on their website containing ESIA's.

**Consulting experts.** Expert consultations can be invaluable when considering environmental impacts. Interviewing both civil society and industry experts about the types of environmental impact from certain mineral extraction techniques can provide context to the expectations for a particular project. They can also help define terms and raise questions that should be answered for a project.

**2. Understand signs of impact.** Investigating perspectives on the actual impact can be a daunting task, often requiring advanced degrees in environmental science. Reporters can highlight areas for further inquiry through:

**Formal monitoring.** Companies usually submit to governments periodic reports on their observations of environmental impact, with the reporting period likely to be in the contract. However, companies tend to have an interest in characterizing impacts as minimal. Government agencies usually review and approve these reports, with many governments legally obliged to independently assess the environmental impact—even though they may lack the resources needed. These reports can be useful, but if there is not time to review them entirely, asking government officials about their assessment of company monitoring to date can provide information on corporate and government perspectives.

**Informal monitoring.** Reporters do not need to conduct monitoring directly. Instead, they can relay different perspectives on the current impact. Consider interviewing the following:

**The community.** Interview different types of people from the community close to the extraction site about their experience of the environmental impacts of extraction. Include men, women, leaders and minorities to help balance reporting. Often it may help to narrow reporting to one type of environmental impact (such as soil, water or air), as different members of the community may be impacted in different ways. Encourage community members to be specific about the timing and extent of the impact, and ask them how they know that this is different from before the extraction (especially in cases of less visible impacts). This helps establish the credibility of your sources.

**The government.** Interview national and local government officials about their understanding of the types and timing of environmental impact, to uncover their awareness of the situation.

**The industry.** Interviewing the extraction company and peer companies about their understanding of environmental impact is an important factor in balanced reporting. Asking them to comment on whether this differs from their expectations can provide perspective on the situation.

**Civil society monitoring.** In some cases, civil society organizations conduct their own monitoring of the impacts of extractive projects. This can range in technical expertise from counting the number of trucks on a road to analyzing soil samples. Reviewing civil society reports can reveal the extent of the impact. These reports can also be used to further interviews with other stakeholders.

**3. Consider implications.** During day-to-day investigations, reporters are unlikely to be able to carry out a complete technical analysis that compares the initial impact assessment to current environmental impacts. However, by giving space for different perspectives, reporters can follow some helpful story angles:

**Do experiences differ from expectations?** There may be a newsworthy story if experiences differ significantly from expectations, either across stakeholders or across the timeframe. Asking industry and government officials to respond to these differences is essential to providing a credible, balanced report. This angle may also reveal something about what the local community heard about extraction and how they were involved in consultation, instead of just being about the actual impact.

**Has this occurred before?** If expectations are not being met, it is often helpful to understand whether this type of impact has happened at other extraction sites in the country or managed by this company. Civil society groups specialized in this sector can offer useful perspective on this.

**What are the company and government plans for next steps?** Even if the impacts do not match expectations, there may be expectations that the impacts will be addressed. It can be helpful for audiences to know the next steps to expect from company and government officials. This may also be a time to report on whether grievance mechanisms exist and how they can be used.

# Examples of Good Reporting Practice

The examples given below can provide inspiration while preparing stories on local social and environmental impacts. Some highlight day-to-day reporting, while others are in-depth investigative reports.

## Social and environmental impacts of mining in Myanmar (investigative)

### The Wild West: Gold Mining and its Hazards in Myanmar

This four-part multimedia *investigation* by Radio Free Asia contrasts the high expectations for wealth from gold mining with the social and environmental impacts in the communities closest to extraction in Myanmar's Kachin State. The articles successfully provide specific details that show development as a result of mining, such as newly paved roads, alongside environmental impacts, such as destroyed farmland and shrinking lakes. The reporters describe in detail the impacts on culture, workers and the community, and show how the government's licensing rules have allowed these impacts to increase unchecked in recent years. The articles make good use of visualization, such as an interactive map, while a combination of photos, video and thematic stories make the investigation feel comprehensive. It mentions the government view, but would be stronger if it directly sought comment from government officials. This story and others like it influenced lawmakers in Myanmar to make reforms to the small-scale mining sector.

## Missing local content expectations (day-to-day)

### Ghana won't meet target for local content quota in oil and gas sector

This *article* by Ghana Business News, a national business newspaper, explains that Ghana will not meet local content expectations and gives reasons why. It uses the 10-year anniversary of the setting of local content goals as a hook into this investigation. The author successfully links figures for Ghana's performance and expectations with quotes from government, industry and civil society actors to

explain reasons for the gap—including very frank insights from government officials across several ministries. As the article is written for a business audience, it uses industry jargon and refers to ongoing extractive projects without specific background. To find out more, the reporter could ask what trade-offs the government has made with companies resulting in these unfulfilled promises.

## Controversial approval of ESIA in Uganda (day-to-day)

### Total E&P project approved

This *article* in the Ugandan daily newspaper, *The Independent*, does a good job of using a project event—the approval of an ESIA report—to provide readers with different perspectives on the potential impact of an oil project. The reporter interviewed a variety of actors, including from government, civil society, industry specialists and companies, to show different perspectives. In addition to discussing potential environmental impacts, the article also describes the EIA process and the number of local community members involved. These details about process give readers perspective on different viewpoints. The research process is described below.

## Behind the scenes of environmental reporting: Tips from Ugandan reporter Ronald Musoke

Ronald has been a journalist for 11 years and started covering the extractives sector in 2012 after completing a six-month fellowship at the African Centre for Media Excellence on oil, gas and mining reporting. He is now working for the weekly magazine *The Independent*. The advice he shares here relates to a *story* (see above) he wrote about the sensitive environmental impact assessment for a major infrastructure project needed to commercialize Ugandan oil and currently being developed in a fragile ecosystem, the Murchison Falls National Park.



### 1. How did you develop the story idea?

Two contradictory statements about the approval process of the environmental safeguards plans for the project sparked my interest. The first statement was published by the leading private company on this project, the oil major Total, praising the National Environment Management Agency (NEMA) for having approved the project. The second one came from a reputable environmental NGO expressing concerns that the approval had gone ahead without taking into consideration local communities' concerns. I wanted to follow up and started reading about the process, including preparations for the public hearings that were organized by NEMA to consult on Total's environmental impact assessment. This initial research convinced me that I had a good story and I pitched it to my editor who told me to go ahead and write the story.

### 2. How did you then build your story?

I continued my research by gathering further material about the project from the NEMA website. My advice on how to sift through bulky reports under time constraint is to go for the executive summary and to scan the document for particular themes to quicken

your search. I then contacted key sources that could comment on the process and give my story more credibility and balance in voices. Those included AFIEGO (the African Institute for Energy Governance), a think-tank that follows oil and gas issues in Uganda, someone at the Uganda Wildlife Authority, an official at the Uganda Ministry for Tourism, and an independent expert who has experience working on environmental aspects for oil projects around the world. Once I had gotten hold of all those elements, I started writing. The story was built around the question of whether the government—once it had made the decision to extract oil in this fragile area—was following all the required steps and adhering to the law of the country. My research had shown that some of those steps had been sidestepped in pursuit of the oil promise and that's what I tried to tell in my article. It is our role as journalists to keep the authorities on their toes.

### 3. Environmental reporting can be technical and therefore challenging to communicate to a wider audience. What is your advice to others?

The first step towards communicating complex content is making sure you understand it well yourself. Having trained in environmental reporting has been a great help in that regard. The second is to visualize the audience you are trying to address, and in my case, I try to aim for a high-school graduate. That means avoiding jargon and translating technical terms into simple language. One trick is to ask an expert to explain the issue to you so that you can relay it in an accessible way to your audience, without oversimplifying. Working closely with your editor is also very important, as he or she will help flag language that needs further clarification and assist you in making sure the story is relevant to your audience.

### 4. One thing that would have made your report even better?

Going to the field would have given the story more texture. Reporting with your senses makes a story more vivid for your audience.

## Sources

**Below are sources that can contribute to different angles on stories about local impacts. Some will be similar across different aspects of mining, oil and gas reporting, and are repeated across chapters, but others apply specifically to local impacts. When possible, there are direct links to institutions in the main target countries of "Covering Extractives": Ghana, Myanmar, Tanzania and Uganda.**

## Local stakeholders

If a story is about local impacts, it is important to speak to people, including women, from affected communities. Laborers at the mining or oil exploration project site, community-level workers' associations, security guards, farmers and traditional chiefs are not only important human sources, but can also help reporters build convincing characters for storytelling. Where a Community Development Agreement has been signed, it is useful to speak to the community representatives involved in approving the agreement.

As with all sources, community claims need to be verified—for example, against corresponding perspectives from experts (see below), official documentation, and ideally against reactions from public authorities and the company operating in that area. Reporting is particularly valuable when it includes voices that represent a diversity of views, including women and ethnic minorities, who may have different experiences of extraction.

## Public institutions

### Government bodies

At local level, various local authorities—the mayor, municipal employees or governor of the extractive province—can provide information about the role of local government and recent impacts on the community. There are often multiple layers of local government with commitments from the extractive company or responsibilities for monitoring community impacts. Similarly, parliamentarians representing the area tend to have insights on community relations with the extraction company and the impacts people are facing.

At central government level, a range of agencies is involved in making commitments about the local impacts of extraction and monitoring these. In addition to the ministry for mining or petroleum, the following can be involved:

Environmental and conservation ministries often set standards for environmental safeguards and oversee the monitoring of company compliance. Officials in these ministries may also be able to give perspective on how the extractive industries are viewed in comparison to other industries.

While the environmental ministry is usually in charge of assessing whether there is contamination, officials in the ministry of health may be able to comment on the implications of environmental impacts. They also sometimes set rules related to certain types of health impacts.

In countries where human rights are at issue in relation to extraction, a national commission on human rights or government focal point on minorities, such as indigenous affairs, may offer valuable information. Staff from these ministries may not have expertise on extractives, but could provide commentary on how a country usually responds to human rights violations.

Issues of local content are usually guided by the petroleum or mining ministry, but may also involve collaboration with the ministries of the economy or education. In countries with strong gender-balancing incentives, such as Uganda, the ministry of gender also has a role in ensuring balanced local content.

## Oversight institutions

In many countries, parliament reviews how extraction sites are monitored for environmental and social impacts, through parliamentary hearings. Through their legislative powers, parliaments often set the rules for what is acceptable in terms of environmental and social impacts. Parliamentarians from an extractive country may be able to say whether the standard process is moving forward.

Other agencies, such as supreme audit institutions, can also have a role in monitoring local impacts or the ministries responsible. For example, the Office of the Auditor-General in Uganda conducted an **audit** of the national environmental agency, reviewing the agency's ability to monitor waste management in the new oil-producing region. The same auditor went on to **review** the implementation of a local content plan. Auditors may also be able to uncover areas in the subcontracting process that could be open to corruption or other risks.

## The private sector

Contacting companies involved in the extraction project can be important to ensuring balanced reporting on an issue of concern. Reporters can contact a company's national office, which may give information on a specific project, or its international headquarters, which can provide context about a company's good practice in terms of social and environmental impacts. Companies often release information about their social and environmental impact mitigation plans on their websites to attract or reassure investors.

Industry groups, such as a chamber of mines or petroleum, can offer a national industry perspective on good practice related to local impacts. They can also suggest contacts who have been involved in coordinating local content and industry. Interviewing some subcontractors about the process of becoming engaged in the project can also provide another perspective for balanced reporting.

## Experts, civil society and watchdogs

### National groups

Experts from civil society and academia can be helpful commentators on local impacts. They can distance themselves from government or company interests, and offer a different view and analysis of what is in the people's interest. They can also connect reporters with individuals or groups who are impacted by a certain issue.

Where relevant, journalists are welcome to **contact** the NRGJ country offices, where staff can provide connections with the right expert internally.

Other options for connecting with competent civil society or academic figures include:

***Publish What You Pay*** (PWYP), the global coalition of civil society organizations campaigning for a fair use of natural resources. PWYP has over 700 member organizations in 50 countries, working on numerous issues, including local impacts. Its national coordinators are able to direct journalists to a range of expert contacts.

In ***EITI member countries***, there will be civil society representatives on the national multi-stakeholder group. The national secretariat can also offer recommendations for civil society groups that specialize in local impacts.

## International civil society

International policy groups and research institutes produce valuable research on good practices related to the social and environmental impacts of extraction. Some, such as the ***Environmental Law Alliance Worldwide***, specialize in particular impacts. Others, like the ***Intergovernmental Forum on Mining, Minerals, Metals, and Sustainable Development***, focus on impacts from the extractive industries.

## International institutions

### International financial institutions

The World Bank Group, including the International Finance Corporation, and regional development banks (such as the European Bank for Reconstruction and Development) have written standards for how to monitor the social and environmental impacts of projects they fund. They also have strict criteria for consultation processes at the beginning of a project. Reporters can contact the individuals responsible for lending on a specific project and ask about the process of monitoring the impacts of that project, and progress being made. Country or issue specialists from these institutions can also provide reporters with background on the institution's usual practice for ensuring compliance and how it responds when companies fail to meet goals.

Other international institutions, like the United Nations Environment Program, frequently produce relevant analysis and guidance to preventing, measuring and mitigating social and environmental impacts of the extractive industries.

### Multi-stakeholder initiatives

The ***Extractive Industries Transparency Initiative*** (EITI) is a multi-stakeholder initiative that supports transparency in resource-rich countries through an international standard implemented by members.

EITI-implementing countries are required to annually disclose significant information about local impacts, including spending related to environmental impacts, local labor figures broken down by gender, and the process for subcontracting procurement. Although EITI data is often published slowly, the descriptive reports and the types of information available can be used as a basis for questions to ministries for more current stories. The national multi-stakeholder group that oversees a country's EITI process can also be a source for discussions on what information about local impacts should be publicly available.

The ***Open Government Partnership*** (OGP) is an international multi-stakeholder initiative that supports countries in processes of transparency and accountability. Multi-stakeholder groups within countries that have signed up to the initiative set national goals for openness in sectors they prioritize. An OGP goal in recent years has been to promote inclusion of the voices of minorities, including women, indigenous people and people from rural areas. As a result, OGP national groups may be able to provide information on local impacts.

## Data sources

There are several useful data sources for covering the impacts of natural resource projects on local communities.

### Repositories of environmental impact assessment laws

The Environmental Law Alliance Worldwide is a global alliance of attorneys, scientists and other advocates which helps communities protect their environment, with an online ***repository*** of Environmental Impact Assessment (EIA) laws and regulations. The Netherlands Commission for Environmental Assessment has a similar online ***repository*** of EIA and Strategic Environmental Assessment legal frameworks.

### Social impacts

The ***Responsible Mining Index*** measures whether and how the biggest 30 mining companies contribute to the economy and local communities near mining extraction sites. Its ***Document Library*** hosts a wealth of corporate documents that can be scanned by company.

The University of Queensland's Centre for Social Responsibility in Mining has launched a ***database*** of displacement and resettlement due to mining. Records are structured around "events" rather than "mining projects," on the basis that a mining project will often undertake, or cause, several displacements during its lifecycle. In this dataset, each instance of displacement is treated as an "event."



In collaboration with the Canadian International Resources and Development Institute, the Columbia Center on Sustainable Investment keeps track of publicly available community development agreements through its online [repository](#), which can be scanned by country, company, resource or agreement type.

## Repository of local content legal frameworks

The Columbia Center on Sustainable Environment hosts a [repository](#) of local content laws and contractual provisions, which can be scanned through its country profiles.

## Voices

To help reporters gain perspective on the local impacts of extractive projects, civil society representatives from Senegal and Guyana, members of the Ghanaian and Filipino Chambers of Mines, and an expert from the Norwegian supreme audit institution share their views in the videos below

- ▶ [Local content provisions in Guyana's oil sector](#)
- ▶ [Mining on indigenous peoples' land](#)
- ▶ [Mitigating the environmental impact of mining](#)
- ▶ [Auditing the impacts of extraction](#)
- ▶ [Considering the impact of mining on women](#)

## Learning resources

### Video overviews

This [two-minute](#) video from UNU-WIDER gives an overview of the challenge of balancing social and environmental impacts against potential long-term benefits from extraction. In this slightly longer video, Daniel Franks of the United Nations Development Program (UNDP) discusses the potential environmental implications of [oil and gas extraction](#) and social dangers from [mining](#).

This [12-minute video](#) is a strong overview of local content by Anthony Paul from the Association of Caribbean Energy Specialists. He begins by explaining how his native Trinidad and Tobago was able to take advantage of extraction companies to train local communities and improve education, and then discusses the broader local content principles.

## Key reports

To understand social and environmental impacts, the following three reports are leading resources:

A [guidance](#) book by Environmental Law Alliance Worldwide (ELAW) gives very detailed steps about how to read and follow up on an environmental impact assessment.

UNDP created an extensive review of good practice across steps of extraction in its report, [Extracting Good Practice](#). Reporters can look at chapters relevant to the phase of extraction for a particular mining project.

Oxfam Australia created a guidance note on how to conduct [Gendered Impact Assessments](#) which include views from across genders.

For understanding local content issues, NRGi has created a short [primer](#) that gives a plain-language overview of the topic. In addition, key resources include:

The World Bank's [five-chapter report](#) about key local content issues in the oil and gas sector. The last chapter profiles examples from Angola, Brazil, Kazakhstan, Indonesia, Malaysia, and Trinidad and Tobago.

The [Local Procurement Reporting Mechanism](#) (LPRM), a disclosure tool developed by the "Mining Shared Value" initiative of Engineers Without Borders Canada in 2017. It aims to standardize how the global mining industry and host countries measure and talk about local procurement.

In its [report](#) about extractive industries suppliers, NRGi looks at the economic significance of suppliers and the governance risks that arise from their currently weak oversight.

Community Development Agreements are an increasingly researched area. The following resources can be helpful in reporting:

Namati worked with Columbia University to create a [two-part guide](#) for communities on how to prepare for and negotiate community development agreements.

The International Council on Mining and Minerals created a [toolkit](#) for mining companies on how to engage with communities and incorporate stakeholder perspectives into their agreements.

Many researchers have reviewed recent CDAs to learn about good practice. Usually, these reports are country specific, like this [one](#) by the Canadian International Resources Development Institute in Ghana and [this](#) review by NRGi in Mongolia.

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