

## It Takes a Village: Routes to Local-Level Extractives Transparency

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In many countries, there is a stark contrast between the wealth emerging from an extractive project and the resources held by the people living closest to the site. When the new industry fails to alleviate poverty and disrupts pre-existing livelihoods, the potential for discontent and conflict is high. Extractive companies are also affected as such tensions can delay projects and there is significant risk for profit loss due to conflict.<sup>1</sup> This happens in the midst of power asymmetries where local actors may be excluded from national-level decisions that impact their daily lives. Local stakeholders' responses to potential benefits and impacts are often hampered by low capacities and different incentives for reporting parties to share information. Different local policies and systems can make it difficult for affected communities to replicate interventions in other areas. Easy access to relevant information can be a key first step for communities striving towards creating better opportunities for local social and economic development.

### Mechanisms for subnational transparency

Though the subnational transparency movement is still in its early stages, a variety of mechanisms have been deployed to increase access to information at the local level. Many countries have used the Extractive Industries Transparency Initiative (EITI) as a tool to improve subnational transparency. The most common manner in which countries use EITI, in compliance with the 2013 EITI Standard, is by including information about payments to subnational governments in the national EITI report. Innovative EITI reports have also included information about how many of the people employed by extractive companies come from local communities, as well as the beneficial ownership of those companies participating in extraction. In order to increase the use and usefulness of this information, some EITI secretariats and civil society groups have reformatted national EITI reports into smaller reports tailored to the needs of subnational communities.

Beyond the reports themselves, countries can also use the multi-stakeholder structure of the EITI to inform subnational transparency. Some countries seek the participation of subnational actors in their national multi-stakeholder group and provide them with travel costs so they can participate in a meaningful way. Other countries have created subnational multi-stakeholder groups that meet in resource-rich regions and set their own agenda. In the Philippines and Peru these subnational groups have been a source of innovation for the national EITI.



Mayor of Sechura, Peru providing citizens with semi-annual reading of the local budget

1 Daniel M. Franks et al., "Conflict translates social and environmental risk into business costs," *Proceedings of the National Academy of Sciences* 111 (2014): doi:10.1073/pnas.1405135111.

## Recommended subnational disclosures

	Land rights and licensing	Revenue collection	Social expenditures	Local content	Social and environmental impact	Local government spending
<b>What should be disclosed</b>	<ul style="list-style-type: none"> <li>• Map of spectrum of land rights for entire community around the extractive area</li> <li>• Land associated with all extraction licenses</li> <li>• Compensation given to those needing resettlement and explanations about resettlement requirements and decisions</li> <li>• Licensing or contracting process</li> <li>• Contracts</li> </ul>	<p><i>Direct payments</i></p> <ul style="list-style-type: none"> <li>• Taxes and levies – rates, reconciled amounts, basis for calculation, land areas</li> <li>• Equity shares – percentage of equity, total equity, reconciled amount received, loan provider and payments</li> <li>• Social payments – basis for payments, reconciled amounts, earmark requirements</li> </ul> <p><i>Indirect payments (Transfers)</i></p> <ul style="list-style-type: none"> <li>• Non-resource specific – total government revenues, revenue shared with each subnational government, sharing formula, time table</li> <li>• Resource specific – reconciled revenues by project, cost recovery,</li> </ul>	<p><i>Before social projects</i></p> <ul style="list-style-type: none"> <li>• Company social priority areas</li> <li>• Baseline social impact and needs assessments</li> <li>• Plans for social investments, including timeline and budget</li> </ul> <p><i>During social projects</i></p> <ul style="list-style-type: none"> <li>• For each project – nature of project, amount spent by company, reconciled receipt when necessary, number of locals employed</li> </ul> <p><i>After social projects</i></p> <ul style="list-style-type: none"> <li>• Impact assessment or evaluation</li> <li>• Recommendations to meet social need</li> </ul>	<p><i>Overall</i></p> <ul style="list-style-type: none"> <li>• National or local requirements for local content</li> <li>• Contract or other agreement of project specific local content obligations</li> </ul> <p><i>Direct employment</i></p> <ul style="list-style-type: none"> <li>• Number of employees at each project site disaggregated by share of national versus foreign and regional versus national affiliation</li> <li>• Health and safety record for employees</li> <li>• Types of jobs that will become available over the life cycle of the project and the training necessary for those tasks</li> <li>• Pay scale</li> <li>• Hiring practices</li> <li>• Company spending on training programs</li> </ul> <p><i>Indirect economic development</i></p> <ul style="list-style-type: none"> <li>• Needs of goods and services</li> <li>• Recipients of contracts broken down by locally versus foreign sourced</li> <li>• Procurement process and qualifications</li> <li>• Participation/equity share</li> </ul>	<p><i>Before extraction</i></p> <ul style="list-style-type: none"> <li>• National and local obligations for social and environmental management</li> <li>• Social and environmental impact assessments</li> <li>• Funds available for restoration</li> <li>• Plans for infrastructure development and use</li> <li>• Process for reviewing impacts and qualifications of persons involved</li> </ul> <p><i>During extraction</i></p> <ul style="list-style-type: none"> <li>• Actual environmental and social impacts monitored by companies and government</li> <li>• Actions taken by companies</li> <li>• Costs of actions taken</li> <li>• Fines or citations</li> <li>• Plan for closure</li> <li>• Actual infrastructure use</li> </ul> <p><i>After project completion</i></p> <ul style="list-style-type: none"> <li>• Closure process</li> <li>• Funds spent on closure and restoration</li> <li>• Remaining environmental risks in the area</li> <li>• Status of infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Basic budget documents, including the pre-budget statement, executive's budget proposal, enacted budget, citizen's budget, in-year report, mid-year report, year-end report and audit report</li> <li>• Basic planning documents</li> <li>• Expenditures for revenues not recorded in the budget, such as savings/stabilization and state owned enterprises</li> </ul>
<b>How this information could be used</b>	<ul style="list-style-type: none"> <li>• Creating a common understanding of who will be impacted by the extraction project and to what extent</li> <li>• Creating a common understanding of who deserves compensation and what compensation will be or has been given</li> <li>• Facilitating local land use planning</li> <li>• Reducing conflict between LS and SSM about extraction rights</li> </ul>	<ul style="list-style-type: none"> <li>• Better short and long term local planning</li> <li>• Local forecasting of revenues</li> <li>• Monitoring of payments and receipts</li> <li>• Monitoring corporate obligations</li> <li>• Improved social license to operate through understanding of payments</li> </ul>	<ul style="list-style-type: none"> <li>• Coordinating better service delivery (government and company projects)</li> <li>• Long and short term government planning</li> <li>• Monitoring corporate obligations and impacts</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring company obligations</li> <li>• Training relevant workforce</li> <li>• Fostering relevant local businesses</li> <li>• Local economic planning</li> <li>• Local government receipt of/ entitlement to corporate profits</li> <li>• Monitoring actual economic beneficiaries of extraction projects</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding potential environmental impact</li> <li>• Monitoring actual impacts and ensuring agreed compensation</li> <li>• Preparing restoration/mitigation</li> <li>• Preparing for shared use or alternative resource needs (ie local water use plan)</li> <li>• Preparing for potential shared infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring actual spending</li> <li>• Connecting development impacts to resource revenues</li> <li>• Short and long term planning</li> <li>• Coordination between company and government projects</li> <li>• Backstop against corruption</li> </ul>

In addition, many countries create national laws or policies that require the disclosure of, or access to, information about extractive industries. The impact of these laws seems to vary depending on the format and location of the information. The most transparent countries publish information in an open data format online and in the town squares of resource-rich communities. Often, local communities have taken the initiative to create local transparency mechanisms when national frameworks are not sufficient.

A number of countries with internationally operating extractive companies registered in their territory or listed on their stock exchanges have also introduced laws requiring the disclosure of payments, broken down to the project level, made to subnational governments around the world.

Finally, a number of companies have improved their voluntary disclosure of information at the subnational level. This includes, for example, payments made to towns and municipalities where the companies operate.

### Information to improve governance

The type of information that different actors should disclose and use differs from the local to the national levels. The table summarizes the information to be disclosed and its potential use across the extractive decision making chain. This chain represents a series of decisions, defined in the Natural Resource Charter,<sup>2</sup> that government officials in resource-rich countries make in their efforts to transform natural resource wealth into development outcomes. For each area of extractive governance, it is necessary for companies and governments to ensure that information is available to the communities closest to the extractive site. Many communities have found that multi-stakeholder dialogue platforms help companies, as well as national and local governments, better understand and conform to the transparency needs of subnational communities. Communities and local governments in many countries have taken initial steps to use available data to facilitate better planning and monitoring of local extractive activities.

For more on this topic, read the full-length policy paper *It Takes a Village: Routes to Local-Level Extractives Transparency*, available on NRGi's website.

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Multi-stakeholder development planning workshop in East Java, Indonesia

2 NRGi, *Natural Resource Charter: Second Edition* (London: Natural Resource Governance Institute, 2014), <http://www.resourcegovernance.org/publications/natural-resource-charter-second-edition>.