Natural Resource Governance Institute

Step 4 Research Guide:
Revenue Collection

Contents

WHAT DOES THIS AREA OF FOCUS COVER?

Revenue collection covers how governments collect revenues in the extractive sector via payments from companies, commodity sales or other sources. This topic is distinct from revenue management, which looks at what happens to extractive sector revenues after governments have collected them. Revenue management has its own research guide.

As noted below, we include corporate tax evasion within this areas of focus and touch on tax avoidance as well, since they constitute major areas of wrongdoing in the extractive sector. But they are not the main focus of this research guide. These are enormous and complex challenges in their own right, and users and the independent expert will need to decide how deeply they want to explore them.

In Box 1, we provide examples of how corruption has arisen in the area of revenue collection in the past.

HOW TO USE THIS RESEARCH GUIDE

The following research questions and guidance will help the independent expert complete Step 4 of the diagnostic assessment. The research findings will provide the basis for drafting the Step 4 report and completing the diagnostic table. The research guide draws from analyses of past corruption cases and relevant reports and guidance.[1]

The independent expert should review this research guide before developing a research plan for Step 4, as the questions below may inform who they decide to interview and other choices around the research approach. The independent expert should then use the questions in this annex to guide their desk research, interviews, focus groups and surveys (if used).

The questions below are not exhaustive, but rather are meant to prompt ideas and provide insight on how corruption has arisen in countries around the world. The independent expert can skip questions that are not relevant to their context.

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1   This research guide on revenue collection draws on a range of sources. To understand corruption risks in this area of focus, we reviewed dozens of real world corruption cases, as well as publications including: A. Sayne and A. Gillies, Initial Evidence of Corruption Risks in Government Oil and Gas Sales (NRGI, 2016); B. Rijkers, H. Arouri and L. Baghdadi, "Are politically connected firms more likely to evade taxes? Evidence from Tunisia," World Bank Economic Review, vol. 30, issue supplement 1 (2016), pp. 166-175; Global Financial Integrity reports and resources; IGF reports and resources, including "Mineral Pricing," accessed 2021; Organisation for Economic Co-operation and Development (OECD), Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives (2016). To identify common anticorruption good practices, our main sources included: The Resource Governance Index (2021); the EITI Standard (2019); among others.

Box 1. Examples of corruption risks in revenue collection

Bribery to influence fiscal terms. In 2009, the head of VECO Corporation, a large American oilfield services firm, was sentenced to three years in prison for making $395,000 in corrupt payments to public officials from the state of Alaska. The bribes were intended to convince the officials to support changes to pending state legislation regarding oil company tax rates and tax credits.[2]

Favorable treatment of politically connected parties. According to multiple sources, the Democratic Republic of Congo lost over $1.3 billion when it sold large mining assets at below-market prices to companies owned by Dan Gertler, a mining magnate with close connections to the former Congolese president.[3] Since then, the same individual's companies have continued to receive unique opportunities across the sector, including their purchase of the rights to future royalties from one of the world's largest cobalt projects.[4] Gertler, who is subject to U.S. anticorruption sanctions,denies wrongdoing and has been not found guilty of any crime.[5]

Biased enforcement. Russian tax authorities went after the oil company Yukos, claiming that it owed more than $24 billion in back taxes. This action, fiercely disputed by the company and its shareholders, contributed to the company's 2006 bankruptcy.[6] The CEO of Yukos was a vocal critic of Russian president Vladimir Putin, and he was imprisoned on charges of fraud, embezzlement and corporate and personal tax evasion. The Russian government denies any wrongdoing.[7]

While not specific to the extractive sector, World Bank research shows that politically connected firms in Tunisia were more likely to evade taxes than other companies, possibly due to enforcement bias. The study found, for instance, that firms linked to former dictator Ben Ali were more likely to (i) not declare or (ii) underreport their earnings to the tax authorities.[8]

Tax evasion. An Australian court ruled that Chevron had underpaid its taxes by setting up a large intercompany credit facility with its subsidiary in the U.S. state of Delaware. The loan and its abnormally high interest rate effectively lowered Chevron's taxable income within Australia. The company defended the loan as "a legitimate business arrangement."[9]

2   U.S. Department of Justice (DOJ), "Bill Allen and Richard Smith, Former Officers of VECO Corporation, Sentenced for Roles in Alaska Public Corruption Scheme," October 2009
3   Africa Progress Panel, *Africa Progress Panel* Report 2013 — *Equity in Extractives: Stewarding Africa's Natural Resources for All* (2013); U.S. Treasury Department, "Treasury Sanctions Fourteen Entities Affiliated with Corrupt Businessman Dan Gertler Under Global Magnitsky," 15 June 2018.
4   M. Kavanagh and W. Clowes, "Billionaire Gertler Buys Royalty Rights in Congo Cobalt Project," *Bloomberg*, 16 November 2020.
5   US Department of State, "Press Statement: Revocation of License Granted for Dan Gertler," 8 March 2021.
6   E. Arvedlund, "Kremlin Moves to Dismantle Yukos, Setting Auction for Unit," *The New York Times*, September 17, 2008.
7   J. Ioffe, "Remote Control," The New Yorker, 5 January, 2015.
8   B. Rijkers, H. Arouri and L. Baghdadi, "Are politically connected firms more likely to evade taxes? Evidence from Tunisia." World Bank Economic Review, vol. 30, issue supplement 1 (2016), pp. 166-175.
9   S. Long, "U.S. oil giant Chevron faces $300 million tax bill after ATO court victory," *ABC News*, 20 April 2017.

The guidance below has four parts:

- Preliminary questions

- A. Which forms of corruption are of significant concern?

- B. What causes the different forms of corruption?

- C. What measures could help prevent corruption?

The main guidance document contains further advice about Step 4, including definitions of key terms, potential information sources, and guidance on how to summarize and present findings. The independent expert should read the main guidance document in combination with this research guide.

PRELIMINARY QUESTIONS

Before researching the corruption-focused questions that form the core of Step 4, the independent expert should answer the preliminary questions below. Answering these questions will help the independent expert to:

- Update their understanding of the area of focus prior to conducting interviews.

- Clarify the research scope and possibly select a subtopic.

- Identify relevant sources of information and potential interviewees.

Researching the preliminary questions should be brief, though precisely how much work is needed will depend on the independent expert's existing familiarity with the subject. The independent expert should revisit the Step 2 research as a key source of information here. The preliminary questions should provide background information only and the independent expert does not need to capture the findings in detail in the Step 4 report or diagnostic table.

What are the key attributes of revenue collection?

Before speaking to stakeholders, the independent expert should gather up-to-date, basic information on revenue collection. This will help them to ask specific, well-informed questions, and can provide a basis for narrowing the assessment scope if desired. The identification of the most important stakeholders related to this area of focus will also help the independent expert to identify interviewees for the Step 4 research and participants for the Step 5 and 6 workshop. If the independent expert and user already know that they want to focus on one specific aspect of revenue collection (see next question), they could limit this scan to the selected subtopic.

To answer this question, the independent expert should revisit the information on revenue collection collected in the Step 2 worksheet and report. They may want to supplement this information with further data such as EITI reports.

Attributes to consider could include:

- The main revenues collected by the government. This could include:

  - Taxes applicable to all sectors of the economy such as corporate income tax, capital gains tax, or value-added tax

  - Royalties

  - Excess profit taxes or windfall taxes

- o   Signature or production bonuses

- o   Land or surface rents

- o   License fees or other administrative fees

- o   The state's share of production, possibly including:

    - •   The collection of the share of production in-kind or the financial equivalent from operating partners, as in production sharing agreements

    - •   Revenues generated through government equity stakes in extractive sector projects or production from assets operated by state-owned enterprises (SOEs)

    - •   The sale of those commodities by governments or SOEs

- o   Resource-for-infrastructure arrangements or other barter deals

- o   Revenues generated through the sale of state assets

- o   Revenues generated from the transport of resources, e.g., pipeline fees

- o   Customs duties, including both import tariffs and export taxes

- •   The relative importance of these different revenue streams and their contribution to overall government revenues

- •   Whether the sector's fiscal terms are defined in law, and therefore consistent across all companies, or negotiated in individual contracts between companies and the government

- •   The existence of major investment incentives such as tax holidays or stability clauses

- •   The main processes involved, including setting the fiscal terms; collecting the revenues; auditing different taxpayers and revenue streams; and oversight of revenue collection

- •   The government institutions involved in each of the main processes

- •   The main companies making payments (e.g., extractive companies, commodity traders)

- •   If readily available, independent estimates of the level of uncollected revenues that are due (the "tax gap")

Which aspects of revenue collection should the research consider?

The independent expert and user should consider which aspects of revenue collection to cover in the assessment. The independent expert could examine all aspects of revenue collection or focus in on a specific revenue stream, process or government institution. The selected subtopic could be particularly significant, perceived to have the greatest corruption challenges and/or show prospects for reform. The Step 4 report should include a clear justification for the selected scope.

In some countries, SOEs play a significant role in revenue collection, including when SOEs sell the government's share of production. Where there are significant corruption concerns associated with this role, independent experts should refer to the separate research guide on SOEs.

A. WHICH FORMS OF CORRUPTION ARE OF SIGNIFICANT CONCERN?

The independent expert should identify forms of corruption that are of significant concern in this area of focus. To do this, the independent expert should consider which forms of corruption have occurred in the past or could occur in the future.

In Step 5, the independent expert and user will use the tool's diagnostic table to prioritize among the forms of corruption. Therefore, during Step 4, the independent expert should gather information on which forms of corruption are of greatest concern. The aim should be to focus on forms of corruption which are likely to occur, and which could cause significant harm.

Evidence for answering this question will include:

- Past corruption cases. If a form of corruption has arisen in the past, it might arise again—unless reforms now make it less likely.

- Interviewee perceptions of areas where corruption is happening or could occur in future.

- Evidence on where corruption has occurred in the past from existing reports and investigations (e.g., from media, NGOs, parliament).

- The presence of red flags linked to those forms of corruption. These are the warning signs and observable symptoms of corruption. Box 2 contains examples.

Below we describe several forms of corruption related to revenue collection and a list of associated red flags. The independent expert should assess whether these forms of corruption are a problem in the sector they are looking at. **This is not an exhaustive list**, but rather presents forms of corruption that are prevalent and harmful in extractive sectors around the world. The research should also seek to identify other forms of corruption related to revenue collection that are serious concerns. In answering this question, the independent expert should be as specific as possible, including by identifying the specific processes or types of entities involved. We recommend identifying no more than 10 leading forms of corruption (in most assessments, the independent expert will likely identify fewer than that).

Common forms of corruption in revenue collection

Undue influence over revenue collection laws and regulations

Companies may use corrupt means to influence the laws and regulations that govern revenue collection, to ensure they are as favorable as possible to their interests. For example, they could pressure policymakers to lower tax rates or introduce investment incentives. Companies or their representatives might pay bribes or offer other inducements (e.g., gifts, hospitality) to policymakers, put personal or political pressure on policymakers, or engage in the excessive use of lobbying and political campaign contributions.

In some cases, this undue influence can appear both legal and normalized—often referred to as "state capture." This occurs when political and business elites are very close and exchange personnel regularly (the "revolving door"), or when companies finance political campaigns and engage in excessive informal lobbying. Drawing the line between acceptable behavior and corrupt behavior is subjective and context dependent.

Bribery or favoritism to influence contract terms

Companies may seek to bribe officials to receive favorable fiscal terms in contract negotiations. In some cases, the official may solicit the bribe. The bribes could be a financial payment or some other form of favor or inducement.

In other cases, when companies have personal or political links to decision-makers, government officials may offer unduly favorable fiscal terms to certain favored companies.

This form of corruption can occur during the negotiation of fiscal terms in exploration and production licenses as well as during the sale of state assets or in commodity trading. For asset sales and commodity trading, bribery and favoritism might influence who receives the deal in the first place, as well as the deal's terms (i.e., the prices of the asset or the commodities). For example, bribery could cause a government to sell commodities at an unduly discounted price to politically connected companies or to companies who have bribed decision-makers.

This type of corruption relates closely to corruption in awards processes, which is also addressed in the separate research guide on the decision to extract, licensing and contracting.

Biased enforcement of fiscal obligations

Government officials may collect revenues in a manner that favors certain parties. For example, tax officials may unduly reduce a company's tax assessment or sign off on payments that were never actually made. Government officials may agree to do this in exchange for a bribe or they may offer favorable treatment to companies which have close personal or political links to decision-makers. The flipside of this is government officials enforcing fiscal obligations in an overzealous or predatory manner. This can include officials refusing to pay debts or rebates owed to companies, or inventing tax liabilities. The motives for this behavior could include extorting money from a company, or harming a company associated with a political rival.

Bias can also influence audit processes. Particularly in resource-constrained contexts, the authorities can only audit certain companies and certain revenue streams. The decision of whom to audit, and the level of effort put into auditing, could reflect discriminatory treatments.

Companies manipulate the factors that determine their revenue obligations

Many companies actively seek ways to reduce their revenue obligations. Where this results in the non-payment or underpayment of taxes in a manner that breaches the law, for example because of the deliberate misrepresentation of company or project information, such actions are considered tax evasion. This could include:

- Underreporting production volumes

- Underreporting the value of production, i.e., underreporting the quality of the mineral, its market value (especially for commodities with less established international prices such as gemstones), its level of beneficiation, or manipulating reporting dates to capitalize on changes in price over time

- Underreporting turnover

- Overreporting costs and allowable expenses (e.g., capital allowances and operating expenditures) or overreporting credits (e.g., value-added tax credits)

- Trade mis-invoicing, which typically involves companies deliberately engaging in fraud by misrepresenting a commodity's place of origin or using false import and export declarations

In some contexts, government officials may lack the capacity to verify the truthfulness of company information and the misrepresentation of data may occur without their knowledge. In other contexts, officials may knowingly turn a blind eye due to bribery or favoritism. Tax evasion is often enabled by service providers such as accounting firms, lawyers, banks and even the offshore jurisdictions whose laws encourage profit-shifting, transfer pricing and other tactics.

The above problems do not include the wider challenge of tax avoidance, where companies engage in elaborate but legal efforts to lower their tax liabilities. Many such actions go against the spirit of producer country laws, if not the letter. Again, drawing the line between acceptable behavior and legalized corruption is subjective and context specific.

Commodity sale corruption

Governments and SOEs often sell commodities, and in some countries these commodity sales represent the state's largest revenue streams. Corruption can infiltrate commodity sales in several ways. Companies may bribe or otherwise influence officials to receive the opportunity to purchase commodities, or to influence the terms of the sale. In some cases, officials solicit or require the payment of such bribes. Or officials may steer these awards to certain favored parties, or give favored parties preferable sale terms. Officials could also misappropriate commodity sale proceeds. Finally, officials might facilitate or turn a blind eye to commodity sale fraud or smuggling, such as by allowing companies to receive larger volumes than they paid for or turning a blind eye when companies smuggle commodities across borders.

Illegal taxation and money laundering

In some contexts, criminal groups or armed actors have established informal taxation systems to derive benefits from the extraction or transportation of natural resources. This is often done through extortion or the threat of force. In contexts of contested authority or limited state control, such parallel taxation systems may be viewed as normal or legitimate. Tax collection can in some instances also be part of the process of laundering proceeds from criminal activity. For example, in the artisanal and small-scale mining sector, criminal groups may misrepresent the origins of an illegally mined mineral to claim it was extracted from a legal mine. In the process, they may pay certain taxes. More information on corruption risks related to smuggling, extortion and other illicit activity is in the research guide on operations.

Misappropriation and embezzlement of revenues

Officials may cause payments to be diverted away from their intended recipient. Officials may request that companies make payments into private bank accounts (potentially located in offshore jurisdictions with low tax liabilities and little transparency), demand cash payments or require the company to pay a third party instead of the state. Risks may run higher around revenues that do not enter the treasury, such as fees collected, managed and spent by the oil or mining ministry or regulator.

In this area of focus, the emphasis is on misappropriation at the point at which revenues are collected. Where misappropriation occurs after revenues have been collected, the independent expert should refer to the separate revenue management research guide instead.

> ## Box 2. Red flags of corruption in revenue collection
>
> Certain red flags or warning signs often accompany the forms of corruption described above. The independent expert should look out for these warning signs during the research process:
>
> - Excessively generous fiscal terms, investment incentives or stability clauses that deviate from established rules, industry norms or are granted to selected companies only
>
> - Sales of state assets that deviate from established rules or industry norms such as sales that significantly undervalue the asset
>
> - Commodity trading contracts that deviate from established rules or industry norms, such as sales at prices that fall well below international benchmarks
>
> - Payments that deviate from standard patterns or from legal requirements, such as a company making tax or royalty payments to a third party rather than government accounts
>
> - Officials requiring companies to pay into accounts held by banks that are small, unreputable, not subject to robust anti-money laundering oversight or controlled by politically exposed persons
>
> - Companies reporting unusually high costs, low profits or large losses, or unusually low production volumes and values
>
> - Governments reporting unusually low revenues from specific projects or the sector as a whole despite high production and/or high commodity prices
>
> - Discrepancies in data disclosures, such as a mismatch between revenue payments and production or export data, or inconsistencies between company and government disclosures
>
> - Unusual trade data, particularly exports by companies that lack capacity, exports of commodities that do not reflect domestic production (e.g., large quantities of gold exports from a country that does not produce gold), heavy use of economic free zones, etc.
>
> - Unusual payment patterns such as cash payments or payments into private bank accounts
>
> - Complex company ownership structures, including incorporation in tax havens
>
> - Unexpected or unusual changes in company or project ownership
>
> - Audit strategies that rely on discretionary decisions rather than transparent risk indicators
>
> - Shortcomings in the audit system, particularly those unexplained by capacity and resource constraints. Key data could include: the percentage of companies audited per year; the maximum number of years a company can go unaudited; unusually quick audits; discrepancies in audit rates across companies that are not well explained by standard risk factors.

B. WHAT CAUSES THE DIFFERENT FORMS OF CORRUPTION?

For each of the forms of corruption identified as a leading concern in Question A, the independent expert should try to uncover why the corruption has occurred in the past or why it might occur in the future. The following questions could help guide this research. They address risk factors and underlying causes—and it is essential that the research covers both of these subjects.

Which risk factors make corruption more likely to occur?

Certain policies, practices and other risk factors can make systems more vulnerable to corruption. For instance, if the institution tasked with revenue collection lacks

the skills to set adequate fiscal terms and assess companies' revenue obligations, companies may find it easier to unduly lower their payments to government. In this example, the low levels of capacity are risk factors. While capacity gaps do not show that corruption has occurred, they indicate that processes could be susceptible to corruption. Identifying specific risk factors is important because they can provide a starting point for targeted action-planning in Step 6 of the diagnostic assessment.

For revenue collection, risk factors might include:[10]

A lack of transparency, such as failures to disclose:

- Fiscal terms, including the contracts agreed between governments and companies, and the rules and criteria governing investment incentives

- Terms of asset sales or commodity sales

- Terms related to transportation payments or barter arrangements

- Data on company payments and government receipt of revenues disaggregated by project and payment type

- Production and export volumes

- Names of commodity buyers and details on related payments

- Beneficial ownership information for companies holding exploration or production rights and for commodity traders

- Information on the income and assets of senior officials

- Lobbying activity and political donations by companies operating in the sector

- Anticorruption policies and procedures by government entities and companies

Weak oversight and public participation, such as the absence of:

- Parliamentary scrutiny of investment incentives, including a cost/benefit analysis

- Requirements for government to channel revenue payments to the national treasury or deposit them into a national resource account

- Requirements for the tax authority to audit extractive companies

- Requirements for the tax authority to be subjected to periodic audit by an external body.

- Lack of multi-stakeholder oversight of revenue payments

- Lack of third-party (including civil society) participation in commodity value assessment committees/boards

- Lack of third-party (including civil society) monitoring activities of production

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10   To prepare this list of risk factors, we reviewed several sources of governance, transparency and anticorruption guidance, and selected the policies and practices that relate most directly to the forms of corruption noted above. The sources include: indicators covered by Subcomponent 1.2 (taxation) of the Resource Governance Index, Requirement 4 (revenue collection) of the EITI Standard; and Chapter 5 (revenue collection) in OECD, Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives (2016)

Weak integrity measures, such as an absence of:

- Restrictions on officials holding interests in the sectors they oversee and a lack of requirements for officials to declare assets and incomes

- Restrictions on political campaign donations or lobbying

- Actively enforced home country anti-bribery laws for companies that make payments to the government

- Robust anticorruption policies and procedures, including codes of conduct and whistle-blower protections, for companies that make payments to the government

- Robust due diligence in the selection of partners for commodity trading contracts or assets sales

- Actively enforced anti-bribery laws, or investigations of officials implicated in foreign bribery cases

- investigations into deviations from the rules and penalties for those involved in wrongdoing

- Measures to limit the exchange of personnel between companies and government ("revolving door")

Weak institutions and processes

- The absence of geologists, accountants, lawyers, economists and other skilled experts needed to set appropriate fiscal terms, assess companies' revenue obligations, and detect tax crimes, mispricing and mis-invoicing, particularly when the country could allocate resources to cover these functions

- A revenue administration that lacks autonomy, professionalism and accountability. Tools for assessing these attributes include the World Bank's Public Expenditure and Financial Accountability (PEFA) assessments or specific tax administration tools such as the Tax Administration Diagnostic Assessment Tool (TADAT).[11]

- The absence of a specialized unit within the tax authority dedicated to large taxpayers or the extractive sector, or the absence of a transfer pricing unit

- Lack of audit capacity in areas such as database management, risk-based assessments, pure audit methods and transfer pricing

- Conflicts of interest in the roles and responsibilities of government institutions, for instance if institutions are responsible for revenue collection and for attracting investment to the country

- Lack of government access to information on extractive sector projects, companies, or global commodity and capital markets needed to set appropriate fiscal terms and calculate revenue obligations

- Lack of automatic exchange agreements for taxpayer information with key foreign jurisdictions

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11   For more, see: www.pefa.org; www.tadat.org.

- Low pay of tax officials

- Overly complex fiscal regime design. This could include the existence of multiple tax types with different bases, multiple taxes that achieve similar economic outcomes, difficult to administer taxes such as a resource rent tax and large numbers of collecting agencies.

- Frequent informal and undocumented face-to-face contact between government agencies and companies during the assessment of revenue obligations

Practices that undermine fair competition

- Fiscal terms, and the terms for asset sales or commodity sales, as well as investment incentives and tax holidays, which are determined on a contract-by-contract basis rather than fixed in law or in model contracts. This can result in the existence of different fiscal terms across companies and projects, increasing the complexity of the system and making enforcement more difficult (this risk factor also relates to the possibility of corruption in the negotiation process, which is dealt with in more detail in the research guide on the decision to extract, licensing and contracting).

- Opaque and uncompetitive tendering processes for commodity sales

- Opaque price systems for commodity sales

Weak enforcement of rules

- Lack of physical audits of production volumes and valuations

- Lack of proper systems to monitor exports, including the direct measurement and sampling of exports and the monitoring of companies' own export valuation processes

- Weak coordination between relevant government agencies, including sector ministries, SOEs, tax authorities, auditors and law enforcement

- Weak coordination with tax authorities and law enforcement in other countries

Foreign actors enabling corruption

- Banks failing to refuse and report suspicious transactions, such as possible bribes, payments from possible criminal organizations, illegal mining, smuggling or payments made to a destination other than the typical or legally mandated government account

- Foreign customs officials, wittingly or not, failing to detect smuggling, trade mis-invoicing and other violations

- Accountants and auditors facilitating or ignoring when companies manipulate the factors that determine their payment obligations, such as inflating costs or misrepresenting production values

- Tax advisors assisting their client companies to evade taxes

- Companies active in the country taking advantage of lenient tax rules in certain offshore jurisdictions in ways that raise the tax evasion risks faced by the country

- Bribes, embezzled funds or other illicit financial flows involving the SOE move through offshore accounts held by shell companies. Enablers here could include banks, the service provider that helped set up the shell company or the secrecy jurisdiction in which the company is incorporated.

- Foreign jurisdictions fail to prevent illicit funds, stolen through SOE corruption, to enter their economies, such as via real estate investments, or they fail to use visa bans and other tools against individuals credibly implicated in corruption

What are the underlying causes and motives of the leading forms of corruption?

It is important for the Step 4 research to include ideas about the underlying causes of corruption, which often relate to the country's political system. This type of research can be difficult, as there is often no hard evidence for the motives behind corruption or on who benefits from it. It can also be quite sensitive. However, stakeholders usually do have ideas about the drivers of corruption and its place in their country's politics and economy.

The independent expert can collect ideas on underlying causes through thoughtful interviewing, assurances of anonymity, triangulating answers across stakeholders and reaching out to experts who study the country's political economy. Any insights gained on the causes of corruption will be useful in Step 6; action planning should reflect the country's political realities and the selected actions could address underlying causes as well as the specific forms of corruption or risk factors.

Key questions include:

- **What is the relationship between the country's political elites and companies operating in the sector?**

  - Do the owners of the companies maintain close relations with powerful political figures or groups?

  - Do political figures and their associates hold interests in extractive companies?

  - Do companies provide financial backing or other advantages to politicians?

- **Who wins and who loses from the corruption or governance weaknesses? Or who would win or lose if the corruption took place in the future?**

  - Who is involved, both formally and informally, in the different forms of corruption? Who influences events in these areas?

  - Who would benefit if the corruption took place? Who would lose out? Benefits could be financial, professional or political.

  - Who would have the interest, incentive and influence to prevent or redress corruption?

  - Which international actors, such as exploration and production companies, suppliers or service providers (e.g., lawyers, accountants, consultants), are involved? Do these actors have a history of corruption allegations or other wrongdoing? Would they benefit, directly or indirectly, from the corruption?

- **Are anticorruption actors strong enough to detect, punish and deter corruption?**

  o Does the country have an anticorruption agency that operates independently and effectively?

  o Does the government or SOE conduct serious investigations when credible corruption allegations arise? Have officials and companies been charged with corruption in such instances?

  o Has the anticorruption agenda become politicized, i.e., is it used to go after political opponents?

  o Can other anticorruption actors, such as non-governmental organizations, community activists and journalists, operate without the threat of censorship, intimidation or violence?

- **How are the causes of corruption changing (or not changing)?**

  o How prominent is the extractive sector in the country? Does it play a disproportionate role in the country's economy and politics?

  o Do wider political or economic events make this form of corruption more or less likely? The events could include a recent or upcoming election, domestic or international conflicts, economic booms or downturns and/or corruption scandals.

  o Has corruption become "normalized"? Is corruption in this area allowed to persist because stakeholders feel that "this is just how the system works"? Is that a common excuse?

C. WHAT MEASURES COULD HELP PREVENT CORRUPTION?

The independent expert should gather ideas for what anticorruption measures might help address the identified forms of corruption. These ideas will help to inform the action planning in Step 6.

Who might support anticorruption reforms and why?

- What current incentives work in favor of anticorruption reform? These could include anticorruption commitments by top politicians, a damaging corruption scandal, pressure from international creditors such as the International Monetary Fund, and/or a desire to attract international investors, among other incentives.

- What measures would alter the incentives, making corruption more risky and less appealing?

- Which actors would support anticorruption reform in this area? Does corruption lead to undesirable costs for any actor? Would any actor benefit politically by supporting reform? Relevant actors could include politicians and political parties, government and SOE officials, various categories of companies, civil society groups, unions, host communities, foreign governments and international financial institutions, among others.

- Of the forms of corruption identified, where is reform most feasible?

- Are there ongoing reforms which could help address the form of corruption, directly or indirectly?

- When corruption cases arose in the past, how did anticorruption actors or processes perform? What can we learn from this record about strengths and weaknesses in anticorruption responses?

What are specific ideas for anticorruption actions? To solicit ideas from interviewees, the independent expert could ask:

- If you could change one thing in this area, what would make the most difference in preventing corruption?

- What policies and practices currently work well in helping prevent corruption and could be further strengthened? If familiar to the researcher or interviewees, other comparable countries may also offer ideas of successful tactics.

- Would fixing any of the **risk factors identified under Question B** effectively help prevent corruption? This could include actions to:

    o Enhance transparency

    o Strengthen oversight and participation

    o Promote integrity

    o Enact institutional and process reforms

    o Increase fair competition

    o Strengthen the enforcement of rules

    o Address foreign enablers

- Would stakeholders recommend any of these specific anticorruption actions, which are considered good practices or have proven successful in the past?

    o **Ensuring fiscal terms, including those governing investment incentives, are clearly defined and publicly accessible.** Where fiscal terms are negotiated on a case-by-case basis, governments should systematically disclose the full text of any contract, including annexes and amendments, and the rationale for any deviations from the generally applicable tax rules. Governments should disclose all exploration, production and commodity trading contracts, regardless of when they were signed.

    o **Timely and comprehensive payment data disclosure**

    o **Robust and well-enforced integrity measures** including restrictions and transparency related to industry lobbying on tax matters, and limitations on the "revolving door" between companies and tax and customs administrations.

    o **Standardizing and automating processes** to reduce discretionary behavior, such as by using online systems for filing declarations, assessing revenue obligations and monitoring production and exports (including through the use of geomapping, drones and other technological solutions).

    o **Defining fiscal terms, as well as the terms for asset sales or commodity sales, in law or model contracts** rather than negotiating them on a case-by-case basis, and standardizing the use of investment incentives and tax holidays.

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