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Greater transparency in commodity markets

By

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Introduction

What is transparency?

- There is no generally agreed definition of transparency

- However, transparency may be understood as:

characterizing a situation where the public has comprehensive & timely access to information & data necessary to hold policymakers, institutions, and enterprises accountable for their actions

Why is transparency important?

- Transparency
  - is not an end in itself but...
  - a pre-condition for accountability and good governance
- The absence of transparency
  - keeps the public in the dark
  - enables corruption, illicit business practices and unethical behaviour

Transparency is particularly important for CDDCs

- Commodity markets involve many actors & often lack transparency

- CDDCs depend critically on commodity revenue to fight poverty and finance development

- Transparency is needed to ensure that:
  - decisionmakers are held accountable
  - the gains of resource exploitation are broadly shared & contribute to sustainable development
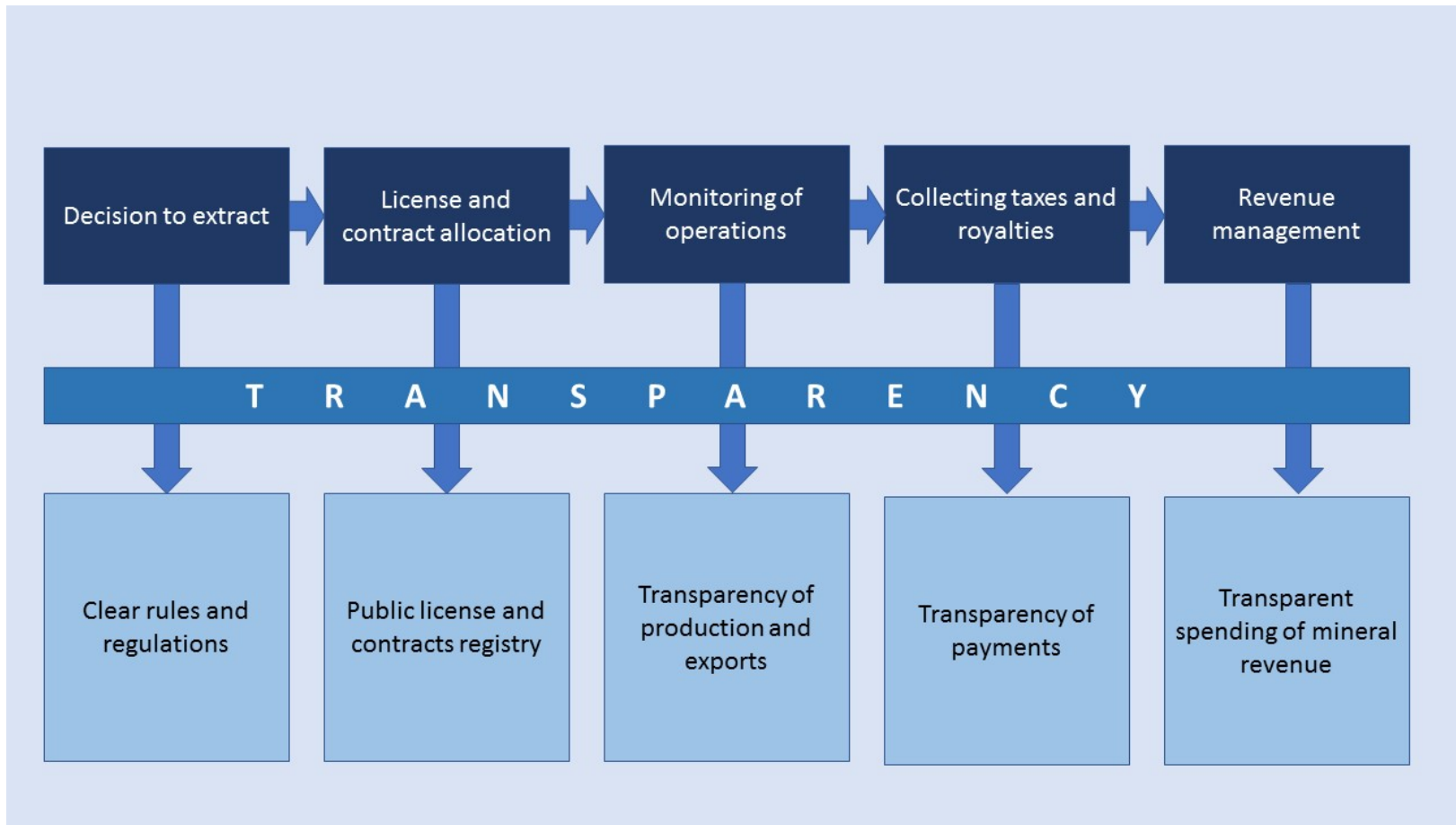
Who is concerned by transparency?

- Transparency concerns the entire commodity value chain both in producing & importing countries

- Improving transparency requires a common effort by all value chain stakeholders

- Governments, multinationals, businesses in commodity sector, local communities, civil society all are actors

Transparency in the extractives value chain

Transparency plays a role along the entire extractive industries value chain

Transparency in extractive industries (1/2)

- **Decision to extract:** clear rules & regulations; expected costs & benefits

- **Contract transparency:** public information on rules, procedures, & criteria for award of licenses, permits, contracts

- **Payment & revenue transparency:** timely, accurate & comprehensive access to information on payments for license fees, taxes and royalties, dividends and in-kind payments
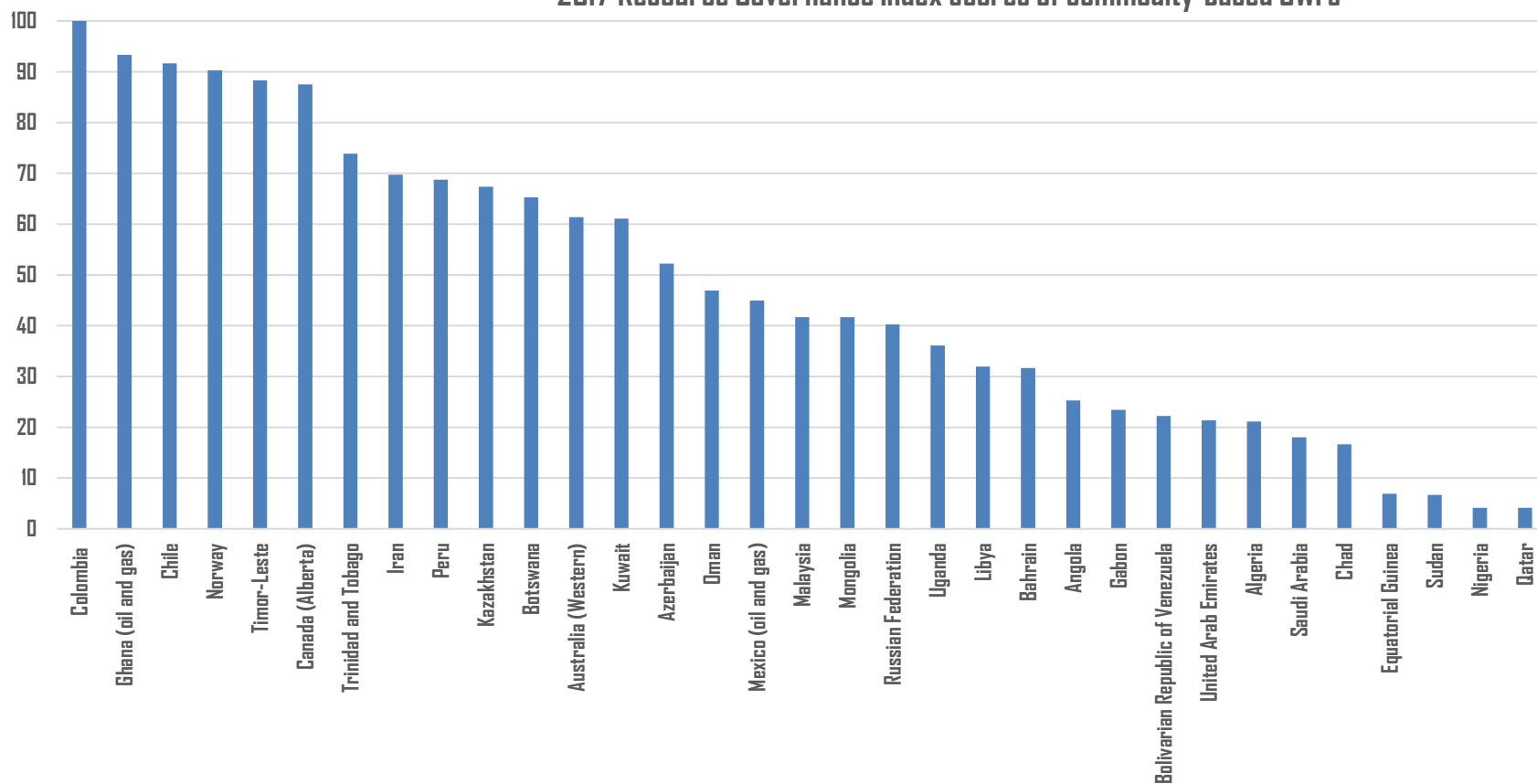
Transparency in extractive industries (2/2)

- **Beneficial ownership:** absence of transparency of beneficial ownership is conducive to corruption, conflicts of interest and tax evasion

- **Managing revenue:** commodity revenue is volatile; transparency can strengthen efficiency of public spending

Example: Commodity sovereign wealth funds

2017 Resource Governance Index scores of commodity-based SWFs

Illicit Financial Flows

- IFFs: money illegally earned, transferred or used, and that crosses borders (e.g. transfer mispricing, trade misinvoicing)

- Lack of transparency favors IFFs in commodity sectors

- IFFs from Africa are estimated at more than US$50 billion per year

How to improve transparency in commodity markets

Improving transparency in commodity markets (1/2)

- Adopt international and regional standards and initiatives (e.g. EITI, Africa Mining Vision)

- Certification schemes (e.g. Kimberley Process Certification Scheme)

- Due diligence procedures (e.g. OECD due diligence guidance)

Improving transparency in commodity markets (2/2)

- Curbing IFFs (e.g. strengthen capacity of tax authorities)
- Market information (e.g. AMIS)
- Commodity exchanges

Summary and policy considerations

Summary and policy considerations

- Transparency is the basis for accountability and good governance of commodity sectors

- Strengthening transparency in commodity markets requires a joint effort by CDDCs, multinationals, private sector, & developed countries

- CDDCs together with development partners need to address capacity requirements to strengthen transparency & combat IFFs

- Technology can help to improve transparency in commodity markets (e.g. blockchain-based systems to ensure traceability)

Thank you

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