Step 4 Research Guide:
Revenue Management

Diagnosing Corruption in the Extractive Sector:
A Tool for Research and Action
Annex. Step 4 Research Guide

Natural Resource
Governance Institute

Contents

What does this area of focus cover?

Revenue management pertains to the governance of oil, gas or mineral revenues after their collection. For the purposes of this assessment, we are covering institutions or revenue management arrangements that are particularly common in or specific to resource-rich jurisdictions, namely **sovereign wealth funds (SWFs), subnational transfers of natural resource revenues, and resource-backed loans and other resource-related borrowing**.

(The management of state-owned enterprises [SOEs] is covered in a separate research guide.) In many countries, a portion of resource revenues is allocated to these three institutions by law, regulation or contract, bypassing annual legislative allocation through the budget process. In some cases, revenues pass through the national treasury; in other cases, a portion of resource revenues is allocated directly to these institutions. We do not look at general (i.e., not resource-revenue specific) appropriations and expenditures.

In Box 1, we provide examples of how corruption has arisen in this area 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.

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.

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1   This research guide on revenue management 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: NRGI and Columbia Center on Sustainable Investment, Managing the Public Trust: How to Make Natural Resource Funds Work for Citizens (2014), NRGI and United Nations Development Programme (UNDP), Natural Resource Revenue Sharing (2016), NRGI, Resource-Backed Loans: Pitfalls and Potential (2020), and 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) and the Natural Resource Charter, among others.

→ **Box 1.**

Examples of corruption risks in revenue management

SWF self-dealing

In 2012, the government of Angola allocated USD 5 billion in oil revenues to its sovereign wealth fund, the Fundo Soberano de Angola (FSDEA).[2]

Some FSDEA investments have drawn criticism over alleged conflicts of interest and mismanagement. For example, in 2013, Angola's then-president announced a $540 million port project, stating that it would be entirely privately funded. The concession for the port went to the company Caioporto S.A. without tender.

Four years later, the project's estimated costs rose to more than $830 million, with 85 percent of this now covered by the Angolan state. Caioporto would, in principle, provide 15 percent of the construction costs, though even this contribution was financed through an FSDEA loan.

A leading investigative media group reported that FSDEA then transferred $56 million more to Caioporto than it needed to finance its 15 percent share.[3] The reporting also revealed close links between Caioporto and Angola's political elite. The firm hired as FSDEA's main asset manager, Quantum Global, was headed by Jean-Claude Bastos de Morais, who also owned Caioporto.

Mr. Bastos is a close friend of José Filomeno dos Santos, the fund's then-chairperson and son of the president at the time.[4] Following the election of a new president in 2018, the government removed Caioporto from the port project.[5]

Beyond this case, the "Paradise Papers" (a set of leaked documents reported on by journalists) revealed that Quantum Global, and Bastos specifically, received a hefty $41 million in management fees and a further $34 million in advisory fees from the FSDEA over a 20 month period.[6] FSDEA also invested $157 million in a hotel complex to be built by a company that had Bastos as a beneficial owner.[7]

In 2018, Angola's new president replaced the FSDEA's board members and external asset managers.[8] Both Bastos and the president's son have faced multiple legal investigations, though Bastos has not been charged with any crime and denies wrongdoing.[9] Dos Santos was sentenced to five years in prison on unrelated fraud charges.[10]

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2   Infrastructure Consortium for Africa, "Angola launches $5bn sovereign wealth fund," 18 October 2012

3   Rafael Marques de Morais, "Stealing with Presidential Decrees," *Maka Angola*, 14 March 2017; Rafael Marques de Morais, "The Power Behind Cabinda's Power Stations," *Maka Angola*, 27 April 2017.

4   Ibid.

5   PortStrategy, "Angola to End Caioporto Concession," 20 June 2018.

6   www.youtube.com/watch?v=0PjdJ3UH56Y; www.bbc.com/news/world-africa-4190612

7   D. Pegg, "Angola sovereign wealth fund's manager used its cash for his own projects," *The Guardian*, 7 November 2017. www.theguardian.com/world/2017/nov/07/angola-sovereign-wealth-fund- jean-claude-bastos-de-morais-paradise-papers

8   Fondo Soberano de Angola, *Sovereign Fund takes action to preserve assets allegedly diverted* (2018). fundosoberano.ao/en/news-and-events/news/327/sovereign-fund-takes-action-to-preserve- assets-allegedly-diverted

9   Bastos and dos Santos were arrested in 2018 in Angola. Bastos was released in 2019. He has been banned from operating in Mauritius, where his asset management business was based. An English court dismissed a government lawsuit against Bastos and his company Quantum later that year, citing insufficient evidence of wrongdoing. Bastos's company also claimed that Swiss prosecutors dropped an investigation into its activities thereafter, after initially freezing company money. In 2021, a Jersey court fined transaction advisers to the FSDEA for ignoring "obvious" corruption risks around FSDEA's operations. Bastos has denied wrongdoing. Anna Meisel, "Angola's Jose Filomeno dos Santos detained over 'fraud'," BBC, 25 September 2018; Africa Intelligence, "Mauritius ambiguous over sanctions against Swiss-Angolan financier Jean-Claude Bastos," 16 September 2020; Reuters, "Asset Manager Quantum says Swiss prosecutors close Angola-related case," 4 July 2019. W. Fitzgibbon, "Trust company fined $835,000 for opening 'gateway to possible money laundering' in Angola," ICIJ, 4 March 2021.

10   Will Fitzgibbon, "Trust company fined $835,000 for opening 'gateway to possible money laundering' in Angola," *International Consortium of Investigative Journalists*, 4 March 2021.

Examples of corruption risks in revenue management (continued)

Bribery in the selection of SWF financial service providers

The French bank Société Générale bribed officials in Libya in order to provide investment services to the Libyan Investment Authority (LIA), Libya's oil savings fund. Between 2004 and 2009, Société Générale paid more than $90 million to a Libyan intermediary who then transferred a portion of the funds to Libyan officials, U.S. prosecutors found.[11]

As a result of the corruption, Société Générale obtained 13 investments and other business from the LIA worth a total of approximately $3.66 billion, and earned profits of approximately $523 million.

Bribery in the allocation of resource-backed loans

Swiss courts found the commodity trading company Gunvor guilty of bribing officials in the Republic of Congo prior to entering into two large "prepayment" agreements worth $125 million and $500 million in 2011.[12]

In these deals, Gunvor lent money to the national oil company and was repaid in future allocations of oil. A Gunvor representative has also pled guilty to bribing officials in Ecuador when the firm sought to play a role in executing another oil-backed loan, this time between a Chinese company and Ecuador's national oil company.[13]

Misappropriation of borrowed funds

While not strictly a resource-backed loan, the government of Mozambique borrowed $2 billion from 2013 to 2016, a time of widespread optimism about the country's future natural gas revenues. Two international banks made the government-guaranteed loans to several SOEs, and they were intended to finance various maritime and fishing industry projects.

But, according to U.S. authorities, hundreds of millions of dollars went missing in an elaborate bribery and kickback scheme.[14] The loans helped trigger a debt crisis in the country. One of the banks that made the loans, three former bankers, two middlemen and three Mozambican government officials have faced court cases and investigations.[15]

11   U.S. Department of Justice (DOJ), "Société Générale S.A. Agrees to Pay $860 Million in Criminal Penalties for Bribing Gaddafi-Era Libyan Officials and Manipulating LIBOR Rate," 4 June 2018.

12   J. Payne, "Gunvor must pay $95 million for Congo oil corruption: Swiss prosecutors," Reuters, 17 October 2019.

13   U.S. District Court Eastern District of New York, USA against Raymond Kohut. Complaint and Affidavit. August 2020.

14   U.S. Attorney's Office Eastern District of New York, "Three Former Mozambican Government Officials and Five Business Executives Indicted in Alleged $2 Billion Fraud and Money Laundering Scheme that Victimized U.S. Investors," 7 March 2019.

15   "Swiss prosecutors open Mozambique loan scandal investigation," Reuters, 5 June 2020.

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 management?

Before speaking to stakeholders, the independent expert should gather up-to-date, basic information about how the revenue management system works in the extractive sector. This will help them to ask specific, well-informed questions and can provide a basis for narrowing the assessment scope under the next preliminary question.

The identification of the most important stakeholders related to this area of focus will also help the independent expert to identify potential interviewees for the Step 4 research and potential participants for the Step 5 and 6 prioritization and action planning workshops. If the independent expert and user already know that they want to focus on one aspect of revenue management (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 management collected in the Step 2 worksheet and report. They may want to supplement this information with further data such as EITI reports, relevant sections of the Resource Governance Index, the website of the finance ministry and other relevant government agencies, key government policies, laws and regulations, and reports released by international financial institutions and development partners.

Attributes to consider could include:

- The main stakeholders involved in revenue management, which may include finance ministries, SWFs, SOEs, subnational authorities, lenders and oversight actors, such as relevant parliamentary committees, international financial institutions and civil society organizations.

- The main rules in place for the allocation of revenues (e.g., to guide revenues to the budget or particular earmarked uses, fiscal rules that determine SWF deposits and withdrawals, subnational allocation formulas).

- A simple overview of how resource revenues are channeled, including which portion goes into the national budget, subnational transfers, savings funds, SOE spending, repaying loans and other purposes.

- The size of subnational transfers, and the portion of subnational budgets derived from resource revenues (often only relevant for certain resource-rich jurisdictions).

- The size of the SWF, the size of its inflows and outflows, trends on its finances, and information on who manages its investments and where those investments are made.

- The number and value of resource-backed loans and identity of the relevant lenders.

- High-level trends in national debt levels.

Which aspects of revenue management should the research consider?

The independent expert and user should consider which aspects of extractive sector revenue management to cover in the assessment.

Depending on the country, the specific aspects to consider may include:

- The allocation of sector revenues into special savings and investment vehicles, such as stabilization funds or SWFs, and the management and investments of those funds.

- The allocation of sector revenues to subnational authorities through direct allocations or formula-based revenue sharing arrangements.
- Other policies that pertain only to revenues from the sector, such as other measures to safeguard against volatility or earmarks that direct revenues toward specific purposes.
- The leveraging of resources or resource revenues for financing, such as loans where resources are used to repay or as collateral, often called resource-backed loans.
- The management and expenditure of large sector revenues by the SOE. (This topic is covered in the SOE research guide. If revenue management by SOEs is a primary concern, we suggest using that research guide instead.)

The independent expert could examine all aspects of revenue management or focus in on a specific subtopic (e.g., SWF management or subnational allocations). The decision to select a specific subtopic could be informed by consideration of aspects which are particularly significant, perceived to have the greatest corruption challenges, or show prospects for reform. The Step 4 report should include a clear justification for the selected scope.

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, non-governmental organizations, 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 management 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 management 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 management

SWFs and other savings and investment vehicles

SWFs and other savings and investment vehicles established to support long- term fiscal planning and safeguard natural resource revenues for the future can be manipulated for corrupt ends.

Some of the possible forms of corruption are:

- Excessive remunerations for board members and managers
- Excessive fees for external asset managers, especially if kickbacks are provided
- Conflict of interest such as:
  - Making asset management decisions based on social, familial or political connections (and which usually have little commercial rationale or are overvalued)
  - Insider trading, such as making personal trades based on information gathered while working for the SWF
  - Using the SWF to manipulate asset prices for personal or kin benefit
  - Hiring and firing based on social, familial or political connections
- Issuing supplier contracts (e.g., IT services; vehicles) at above market rates or based on social, familial or political connections rather than objective criteria
- Bribery by financial service providers seeking business from the SWF, or the solicitation of such bribes by SWF officials
- Accepting large gifts or favors from external asset managers, suppliers or owners of companies where the SWF has or may have a financial interest
- Using the SWF to launder money, for instance by passing illicit finances through the SWF
- Outright embezzlement of SWF funds
- Misappropriation via withdrawals of SWF funds to other accounts
- Officials or political leaders manipulating the SWF's rules, including around its oversight, to suit their own interests.

Subnational allocations

Rulemaking around the allocation of revenues to subnational authorities, and the management of these revenues, are often highly contentious politically issues.

These revenue streams can be vulnerable to diversion through corruption in the transfer process from the point of departure at a central government ministry or agency to the point of receipt by a subnational authority.

Please note that for this topic, the scope of issues does not cover expenditure by subnational authorities, an area at high risk of corruption, but one which goes beyond our focus on natural resource revenue flows.

Possible forms of corruption related to subnational allocations include:

- Revenue sharing rules which are purposively designed to unduly benefit or deprive certain regions for political reasons.
- Revenues that are allocated to subnational authorities in a manner that benefits certain political or personal interests, such as by arbitrarily withholding funds.
- Officials or political leaders (national or subnational) embezzling or stealing funds meant for subnational budgets.
- Funds which are diverted prior to reaching subnational authorities

Resource-backed loans and other borrowing practices

Many governments and SOEs obtain loans in which repayments are made from in- kind resources or future resource revenues, or that use resources or future resource revenues as collateral. There are public finance risks associated with resource-backed loans. When they are negotiated in opaque circumstances and are weakly monitored there are also risks around corruption.

Forms of corruption related to resource-backed loans include:

- The selection of a lender by public officials and/ or political leaders is influenced by bribery, favoritism or nepotism.

→ **Box 2.**

Red flags of corruption in revenue management

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.

SWFs

- Allegations or rumors of "missing," diverted or unaccounted-for funds.

- Fund managers or external asset managers receive excessive management fees.

- The SWF signs unexplained consulting contracts with outside firms.

- The SWF invests in projects that do not appear commercially viable, seem disproportionately large for the purpose, or that go to inexperienced or politically connected companies.

- Ad hoc and/or unexplained withdrawals from the fund.

- Laws and regulations allow discretion over inflows and outflows.

- Absence of clear governance structures and regular audits

- International financial institutions, such as the International Monetary Fund (IMF), express concerns about the fund's management in their reports.

Subnational allocations

- Allegations or rumors of "missing," diverted or unaccounted-for revenues.

- Officials make discretionary and ad hoc transfers.

- Officials fail to adhere to subnational allocation rules. For example, there are large discrepancies between transfers calculated through the applicable formula and the actual amounts transferred.

- Mismatches in revenue figures reported by central government and subnational authorities.

- National authorities withhold revenues or provide revenues unpredictably to subnational authorities without convincing explanation.

Resource-backed loans

- Allegations or rumors of "missing," diverted or unaccounted-for revenues.

- Loan agreements or its operations feature unnecessary or atypical third parties, such as intermediaries or agents.

- Commercial terms appear to unduly benefit the lender.

- Commercial terms appear to prioritize short-term inflows over the country's longer-term economic interests.

- Borrowing increases without sufficient justification, particularly around election periods.

- The proceeds of the loan are invested in projects with weak economic rationales, over- valued projects or projects tied to political interests.

- Laws and regulations block external scrutiny of resource-backed loans, such as limiting the rights of audit bodies or parliamentary oversight committees to analyze the agreements.

- International financial institutions, such as the IMF, express concerns about resource revenue management in their reports.

- The terms of the loan, such as the fee structure or the repayment terms, allow the lender to make undue profits off the deal. In some cases, the lender may pay bribes or offer other inducements to receive these favorable terms. The excess earnings are used to enrich the lender and/or provide kickbacks to public officials or political elites.
- Public officials or political leaders embezzle or misappropriate the proceeds of the loan.
- The proceeds of the loan are invested in projects owned by political elites, or projects which allow political elites and their allies to unduly benefit.
- Political leaders take out costly resource-backed loans because they want cash in the near term to meet personal or political needs.

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, it is much easier to steal money from an off-budget account that receives no parliamentary oversight. In this example, the off-budget nature of the account and the absence of parliamentary oversight are risk factors. While their presence does not indicate that corruption has occurred, it indicates a process that could be vulnerable 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 management, risk factors might include:[16]

A lack of transparency, such as failures to consistently disclose:

- Subnational transfers, including revenue sharing formulas and the actual amounts transferred, disaggregated by receiving entity and revenue stream
- SWF finances, including annual financial reports specifying the size of the fund, deposit and withdrawal amounts, investment rules, significant transactions, the rate of return on investments, names of external asset managers, external management fees on a manager-by-manager basis, a list of assets
- Other extractive sector revenues earmarked for specific programs
- Details on resource-backed loans
- Anticorruption policies and procedures by entities involved in managing extractive sector revenues
- Identities of senior officials managing extractive sector revenues and their income and assets

Weak oversight and participation, such as the absence of:

- Requirements to record SWFs or resource-backed loans in the national budget or to incorporate them into the government's fiscal framework
- Effective parliamentary oversight of extractive sector revenue flows
- Consultation between national and subnational stakeholders around revenue sharing
- Attention and oversight of revenue flows from civil society, the media, host communities, the business community or the public on governance and corruption issues, or these groups face repression when they raise related concerns

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16 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 2.2 (subnational resource revenue sharing) and 2.3 (sovereign wealth funds) of the Resource Governance Index, requirements EITI 5.2 (subnational transfers) and 5.3 (revenue management and expenditures) of the EITI Standard; and chapter 6 (corruption risks in revenue management) in OECD, Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives (2016).

Weak integrity measures

- Absence of independent external audits across government entities, including of subnational transfers, SWF financial reports, and resource-backed loans

- Weak SWF corporate governance standards, such as absence of independent board members

- Weak anticorruption safeguards in SWFs, including restrictions on investments that could present conflicts of interest (e.g., prohibitions of investments in domestic assets without budgetary approval, prohibitions of investments in certain asset classes or investment types)

- Absence of anticorruption and conflicts of interest clauses in loan agreements

- The SWF does not undertake robust risk-based due diligence for its investments, including requiring involvement from multiple departments and board sign- off on high-risk deals, or requiring its third parties (e.g., partners, suppliers) to submit beneficial ownership information and verifying that information for high- risk entities

- Processes for senior appointments and hiring of employees are not merit-based

- When credible corruption accusations arose in the past, the government did not respond with an investigation or sanctions against the individuals involved

- Failure by government to enforce anti-bribery laws, or to pursue investigations of officials implicated in foreign bribery cases

Weak sector institutions and processes

- Unclear or overlapping roles and responsibilities of institutions and individuals involved in revenue management, including national and subnational governments, the central bank, fund managers and oversight bodies

- Unclear or undetailed asset management rules for SWFs, including a list of eligible and prohibited asset classes

- Weak code of conduct, including conflict of interest standards, for SWFs

- Weak or non-existent independent internal compliance department at the SWF

- Overly complex, unclear or incomplete revenue management framework. This could include, for example, the absence of a clear formula determining subnational transfers or numeric rules governing the size of SWF deposits and withdrawals.

- Low technical and absorptive capacity of national and subnational authorities, including weak internal accounting systems and controls

- Weak financial controls within government entities, such as payment verifications, processes for signing-off fund transfers and internal audit processes

- Use of many state bank accounts to channel revenue flows and a lack of restrictions on the use of offshore accounts

- Connections between banks involved in revenue management functions (e.g., SWF affairs, resource-backed loans, holders of resource revenue accounts) and political figures

- Absence of information sharing between national and subnational authorities

Practices that undermine fair competition

- Non-competitive and non-transparent procedures for selecting SWF managers or financial service providers

- Non-competitive and non-transparent procedures for how SWF investments are made

- Non-competitive and non-transparent procedures for selecting lenders

Weak enforcement of rules, such as the frequent failure by government to:

- Follow the rules around revenue management

- Investigate gaps in public finances and penalize those involved

- Enforce anti-bribery laws, or pursue investigations of officials implicated in foreign bribery cases

Foreign actors enabling corruption, such as:

- The accountants, banks, auditors and managers used by the SWF ignore integrity weaknesses and suspicious behavior, or actively help cover it up.

- The providers of resource-backed loans ignore red flags of corruption, and proceed with a loan even though misappropriation risks are high.

- Bribes, embezzled funds or other illicit financial flows move through offshore accounts held by shell companies. The enablers here could include the banks, the service provider that 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.

- Foreign companies help rehabilitate the reputations of individuals or companies 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:

How critical are resource revenues to the country's political leaders?

This helps to establish who is dependent on the current system, and how high the stakes would be for making changes. Aspects to consider include:

- What proportion of funds available for national expenditure derive from the sector?

- If subnational transfers are present, are subnational governments dependent on these flows?

- Do national and subnational leaders have other means of raising revenues?

What is the relationship between the country's political elites and the institutions managing revenues?

- When do political leaders interfere in revenue management, and what are their motives?

- Are there actors who have de facto control over revenue management, even if on paper they have no authority? What is their source of influence and how do they use it?

- Whose private or political interests benefit from the current revenue management system, especially how revenues are allocated to subnational governments, the investments of SWFs, and the use of funds borrowed via resource-backed loans?

Who wins and who loses from the corruption or other governance and performance 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 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?

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

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

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

• 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)?

• How might increases or declines in revenues available for distribution affect the leading forms of corruption?

• Are there events on the horizon, such as elections or changes in leadership, which could change the governance dynamics of the sector?

• 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 IMF, 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?

• Could pursuing anticorruption offer political benefits to any party (without it becoming overly politicized or partisan)?

• 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:

  - Enhance transparency

  - Strengthen oversight and participation

  - Promote integrity

  - Enact institutional and process reforms

  - Increase fair competition

  - Strengthen the enforcement of rules

  - Address foreign enablers

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

  - **Clarifying SWF rules and procedures**, including deposit and withdrawal rules, investment guidelines, codes of conduct, internal governance procedures, auditing standards and public reporting standards

  - **Strong and independent internal SWF compliance department** that reports directly to the SWF board of directors or legislature

  - **Ensuring that the legislature, media and non-governmental organizations have access to independent external audits and detailed annual reports of SWFs**, including fund balances, deposits, withdrawals, specific assets, external asset management fees, rates of return by asset or asset class and names of board members, managers and external asset managers

- **Ensuring formulas for subnational transfers are as simple as possible**, followed transparently, and that any discrepancies between the amounts due and the amounts transferred in practice are investigated

- **Reducing the number of state bank accounts**, ideally aiming for the establishment of a treasury single account structure, and reducing the number of revenue collecting agencies

- **Requiring all resource-backed loans to be reflected in the national budget**, fully transparent, and designated for a particular purpose

- **Fully investigating and, if appropriate, launching criminal proceedings against those alleged to have committed corrupt acts**, including officials implicated in foreign bribery cases

About NRGI

The Natural Resource Governance Institute is an independent, non-profit organization that supports informed, inclusive decision-making about natural resources and the energy transition. We partner with reformers in government and civil society to design and implement just policies based on evidence and the priorities of citizens in resource-rich developing countries. Learn more at **www.resourcegovernance.org**

Natural Resource
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