

QUESTIONS FOR A MULTI-STAKEHOLDER DIALOGUE ON RESPONSIBLE INVESTMENT IN WEAK GOVERNANCE ZONES

*Response from the International Association of Oil and Gas Producers
to question 9, bullet points 1 and 2*

Doing business with weak governance state-owned enterprises (SOEs)

9. The case study shows that many OECD-based companies had joint ventures and other business relations with SOEs in the DRC and suggests that these SOEs' governance rules were weak.
- Are companies' responsibilities the same when they enter into joint ventures with weak governance SOEs as their responsibilities with stronger governance SOEs?

Companies' responsibilities are the same, but they should conduct more rigorous due diligence when dealing with weak governance SOEs -- companies that conduct appropriate due diligence will be better positioned to identify areas of risk and reduce the likelihood of reputational damage. The International Association of Oil and Gas Producers' report – Guidelines on Reputational Due Diligence – is a resource for companies; it helps them to design and conduct due diligence procedures and to establish a framework for in-house programmes. The report is available at the following address: www.ogp.org.uk/pubs/356.pdf. Training material relevant to these Guidelines can be found at www.ogp.org.uk/pubs/352.pdf.

- What SOE characteristics should an investor look at when considering whether or not to enter into partnerships with weak governance SOEs and when deciding how such partnerships should be managed?

See Appendix 2 of this report ("Examples of 'red flags'). Red flags identified in the report include: Public officials holding shares or other interests in the company in his own right; an officer, senior executive or key employee of the company has an interest in another company that might be considered to be a competitor; there are uncertainties in the business or financial references; payment instructions quoted by the company include split payments, payments to an apparently unrelated third party or to a bank account in an offshore tax regime; and the company asks that the identify of the directors, owners or employees not be disclosed.