



Extracting More From EITI

by Dilan Ölcer and Helmut Reisen

- ◆ The Extractive Industries Transparency Initiative (EITI) aims to reduce secrecy in the sector.
- ◆ The fourth EITI Global Conference, in Doha on 16-18 February 2009, needs to discuss why many resource-rich countries have failed to lower perceived corruption.
- ◆ EITI needs more specific minimum disclosure standards together with a stronger engagement of civil society.

The Extractive Industries Transparency Initiative (EITI, www.eitransparency.org) aims to improve transparency and accountability by the full publication and verification of company payments and government revenues. The revenues flowing from natural resources extraction are huge. EITI is one of the international soft-law tools most supported by the international community to curb corruption and help the 3.5 billion people – half the population of the planet – living in resource-rich countries to benefit from the sale of their natural resources.

Almost six years after the initiative was launched, the results are elusive for several countries. Figure 1 below shows that governments' public endorsement of the EITI principles does not, on average, improve the perception of corruption levels in their countries. Moreover, according to the World Bank Worldwide Governance Indicators, corruption control in EITI countries is worse than in non-EITI resource-rich countries. EITI countries' scores deteriorated between 2002 and 2007. While these corruption indices are not limited to extractive industries, given their importance in the countries concerned, one would expect more visible improvements in these indicators.

Did we expect too much from EITI? Probably. But there are ways of doing better.

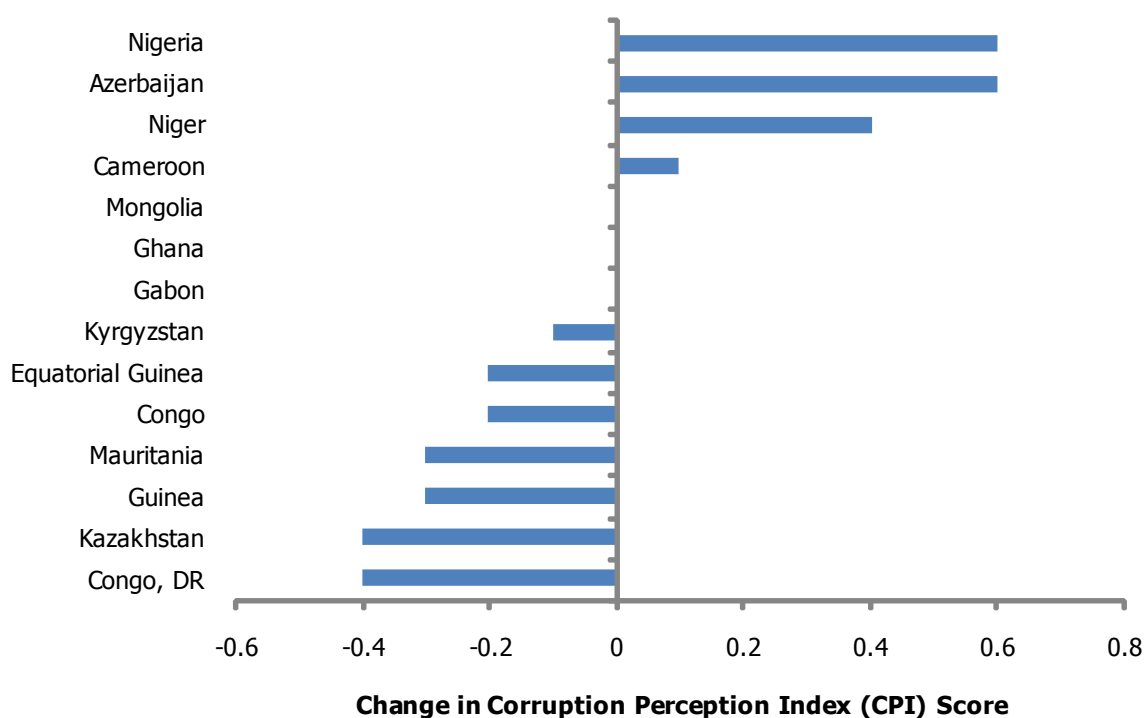
Managing Expectations

The design of EITI takes for granted an "EITI friendly" environment characterised by a strong commitment to go beyond the minimum standards of EITI, a strong and free civil society and a balance of power between government, extractive corporations and civil society. Provision of information on material payments between governments and extractive corporations has little value in the absence of strong institutions to corroborate this information. The minimum standards of EITI imply a responsibility for civil society which might not be plausible. Strengthening civil society – especially through enforceable legal rights – is a precondition for EITI to be effective. A free and open public dialogue on issues related to transparency, corruption and governance of resource revenues is indispensable. Without these preconditions, EITI will only provide the illusion of transparency.

The way forward

EITI needs to be stricter on the accounting quality and consistency of EITI reports. Those published so far (10 out of 24 candidate countries have published reports) are not informative enough to allow scrutiny by the general public. Disaggregation of revenue streams should be

Figure 1. **Change in Corruption Perception Index Score Three Years After the Government Officially Announced the Endorsement of the EITI Principles**



Note: The figure only includes countries whose government officially announced the endorsement of the EITI principles three years ago or earlier.

Source: Authors' calculations based on data from Transparency International (2008) and EITI homepage (2008).

mandatory, and stricter rules should apply to the definition of materiality. Extractive industries should publish the market value of their extraction payments, not just actual payments, because under-invoiced extraction royalties may hide bribes.

Material payments between governments and extractive corporations would be a first step in increasing transparency in what has traditionally been the elusive and exclusive domain of political elites and large corporations. It is, however, not enough. EITI implementing countries need to go further and shed light on the whole value chain – from awarding concessions to use of the resulting state revenues. Information on sub-national payments is equally important.

OECD countries can help in many ways. Norway submitted its application to become an EITI candidate country in late 2008 and is on the way to becoming the first OECD EITI implementing country. By moving from only supporting the EITI to implementing it as well, OECD countries (including those hosting important financial centres) should follow Norway's example.

Further reading:

This *Policy Insights* is based on Ölcner, D., "Extracting the Maximum of the EITI", OECD Development Centre *Working Paper* No. 276, forthcoming February 2009.

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