



Five challenges for the EITI to deliver (3/3/09)

The Extractive Industries Transparency Initiative, a ground-breaking initiative against corruption and secrecy in the oil and mining industries, has passed an important benchmark with Azerbaijan becoming the first EITI Compliant country.

Azerbaijan became EITI Compliant at the biannual conference of the EITI in Qatar on 16-18 February 2009, after passing Validation, a third-party test of its implementation of the initiative. The government has agreed to make some changes to the form and substance of its EITI process within six months.

EITI Compliance means that a country's government has worked with the private sector and civil society groups to produce regular, audited reports of payments to the government by oil, gas and mining companies. This data enables citizens to monitor such payments, which have been corrupted or wasted in many countries in the past.

Although EITI Compliance does not mean that a country is free from the risk of corruption, or that all areas of its oil or mining sectors are open to public scrutiny, it is a powerful signal to the world that the country is committed to openness.

The next year will be crucial for the success of the EITI because most of the other 24 EITI Candidate countries must also undergo Validation. One country making rapid progress is Liberia, a poor West African country still recovering from a devastating civil war. Liberia's progress shows what can be done when the political will is there.

As one of its earliest supporters, Global Witness believes the EITI must meet challenges between now and the next Conference in 2011 if it is to be a success in the struggle against corruption and poverty in the resource-rich countries of the world.

1. Civil society groups must be able to play a full and free part in EITI

Civil society groups are not just observers: they help to design, run and oversee the EITI and provide it with legitimacy. This formal, active role for civil society is what makes the EITI more than just a forum for worthy speeches about governance.

Because civil society is so central to the EITI, any government that harasses, intimidates or censors its civil society activists is ensuring the failure of EITI in that country and undermining the work of other countries that implement it in good faith.

So all EITI stakeholders must take a strong and public stand against any government that harasses its own civil society activists, as has happened in Gabon recently. To

retain the support of civil society groups, the Initiative must be able to defend its own principles.

2. The Validation process needs to be credible

In order to be awarded the status of EITI Compliant, as Azerbaijan has just done, a country must implement a series of steps towards greater transparency and have these actions checked by an independent third party called a Validator.

Validation is the gold standard because it shows that a Candidate country has met the standards of the EITI. Without it, the EITI would be little different from the many well-meaning but ineffectual initiatives on governance that exist around the world.

For this reason, Validation needs to be as objective and credible as possible. Any suggestion that a country has been given special treatment, for political or commercial reasons, would be fatal to the EITI's credibility. It would also be deeply unfair to other Candidate countries which are making good-faith efforts to reach Compliance.

So all EITI stakeholders must be ready to defend the objectivity of the Validation process, even if it produces results which are uncomfortable for some. This is the only way to protect the achievement of the EITI and give it value in the eyes of the world.

3. Countries that reach EITI Compliance must feel rewarded.

Reaching EITI Compliance will help countries to build trust with citizens, improve the efficiency of their extractive sectors and signal to the world their credibility as a destination for foreign investment and credit, at a time when both are scarce.

However, these long-term benefits may not be visible at the point when a country achieves Compliance. So the international community must ensure in the short term that EITI Compliant countries receive the recognition that is due to them.

This recognition needs to be nuanced by the fact that EITI Compliance is only one of many steps towards beating the Resource Curse. It does not mean, for example, that a country no longer faces any risk of corruption. And Compliance is not a once-only event but a process which ensures continuing transparency and public debate.

4. The United States, Canada, Australia and Britain should implement the EITI

The global financial crisis is creating a backlash against anything that looks like an attempt by rich countries to preach standards of governance to others which they do not apply themselves. The EITI has already been seen in this light in some quarters, with some justice, because almost all of the countries that implement it are in the developing world, while wealthy consumer countries can claim credit for supporting the EITI in various ways but do not have to implement it themselves.

In fact, the EITI owes as much to the efforts of Nigeria and Azerbaijan as it does to many European countries that support the Initiative. Even so, this apparent disparity between developed and developing countries is damaging to the EITI and gives some countries a reason not to join the initiative.

So the United States, Britain, Canada, Australia and other EITI Supporting countries with significant oil, gas or mining industries should follow Norway's example and implement the EITI themselves. Future EITI Supporters should pledge to do the same.

These countries need to implement EITI to prove that it is not a global double standard. Whether or not they need the Initiative on economic grounds is beside the point, though recent revenue management scandals in the domestic oil industry of the United States show that they may in fact need it. Implementation would cost little for such countries and the reward for the global cause of transparency would be great.

Rich countries need to show that their other actions support the EITI Principles, rather than contradict them. Britain, for example, played midwife to the EITI but has dealt a damaging blow to its own standing by failing to enforce its own laws against corruption. In the United States, President Obama has committed to creating a more open and transparent government and we hope that implementation of EITI will be a part of that effort.

5. The EITI will need to evolve

At the moment, the core of the EITI is the publication, auditing and oversight of payments to countries from extractive companies. All EITI stakeholders believe that revenue transparency is vital to combat the Resource Curse but few believe it is sufficient because there are many other areas to address, from the award of oil, gas or mining rights, to the management and spending of revenues, to the flow of resource wealth through the global banking system.

Global Witness believes that for now, the core of the EITI at the international level should remain transparency of revenue flows. It is more important at the moment to show that the EITI can achieve its current purpose, than to broaden that purpose.

That said, the EITI should rapidly adopt as standard the practice of 'disaggregated reporting', meaning that reports published in each country should include a breakdown of payments to the government on a company-by-company basis.

This is the approach adopted by such EITI Candidate countries as Nigeria, Ghana and Mongolia. It is far more transparent than 'aggregated reporting', an approach favoured by some oil companies which lumps together all the payments from different companies, as if they were a single entity, before the data is published.

Under 'aggregated reporting', citizens have no idea which companies are paying what to the government. This approach is an archaic survival from the early days of EITI which no longer serves any useful purpose and which the most progressive companies no longer defend. It should be abandoned and disaggregation should be the norm.

Over time, EITI will need to evolve beyond its current remit. Some countries have already chosen to broaden their implementation of the EITI to other aspects of the oil, gas or mining sectors, or other resources such as timber, or to trace revenue flows to sub-national levels of government. This versatility and national ownership of EITI is one of its great strengths. As the practice of EITI evolves in different countries, the international rules of the EITI should evolve too.

There is growing international debate about the laws and policies that are needed to fight the Resource Curse around the world. This debate includes the EITI but goes far beyond it. For example, the United States Congress has been considering legislation which would help to achieve the global objectives of the EITI by ensuring that oil, gas or mining companies disclose their revenue payments to countries around the world.

Global Witness, as its part in this debate, has drawn up some ideas on making the award of oil, gas or mining rights to companies more transparent, which will be published in a report during 2009.

The many stakeholders of the EITI will meet again at its next Conference in two years' time. The test of our work will be whether by that time we all have ensured that the EITI meets these five challenges.

Global Witness
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(Note: a version of this briefing was first presented as a statement to the EITI Conference in Doha, 16-18 February 2009)