

## Key points

- The EITI is an international transparency initiative aimed at the natural resources sector. It is primarily intended for developing countries as a way of reducing poverty.
- The EITI has achieved significant progress in being adopted, both within the Asia-Pacific region and globally.
- Evidence for the effectiveness of the EITI is inconclusive, largely due to its ambitious goals and the short duration for which it has been active.
- A key complementary initiative, which is gaining traction, is the requirement for extractive companies domiciled/listed in developed countries to provide full transparency of payments to governments.
- Australia has made little progress on the transparency agenda compared to the U.S.
- With Australia claiming it is a world leader in relation to good governance and natural resources, now is the time for Australia to step up and progress the transparency agenda.

## About the authors

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## About us

The Development Policy Centre is part of the Crawford School of Public Policy at the Australian National University.

We undertake analysis and promote discussion on: aid effectiveness; the Pacific and PNG; and global development policy.

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# Transparency in extractive industries: What has been achieved, and what more can Australia do?

Michael Wulfsohn and Stephen Howes

For many developing countries, natural resources represent an opportunity to make significant steps towards escaping poverty. Towards this goal, transparency can play a crucial role by helping to ensure that a developing country's natural resources are not plundered by powerful individuals, but are rather used to benefit current and future generations of all citizens. This is the primary motivation behind the Extractive Industries Transparency Initiative (EITI) and other disclosure initiatives. This brief reviews progress made worldwide, and argues that Australia needs to be more if, as it says, it wants to be a global leader.

## What is the EITI?



Figure 1: Basic mechanism of the EITI

Source: [EITI Factsheet](#)

The EITI comprises a set of rules that require public reporting of payments made by companies to developing country governments for the right to extract natural resources. The EITI is voluntary, meaning that each individual country's government chooses whether to be governed by the rules.

The culmination of EITI compliance in a particular country is the regular production of reconciliation reports, as well as the formation of a Multi-Stakeholder Group (MSG):

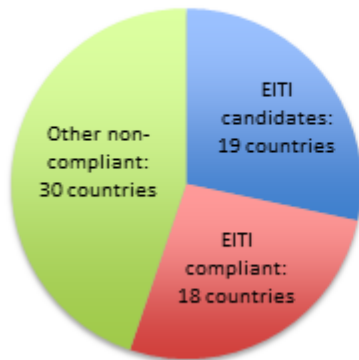
- Reconciliation reports compare the payments that extractive companies say they make to governments against the payments that governments say they receive from extractive companies. Reconciliation reports are made publicly available;
- The MSG consists of representatives of the government, extractive companies and civil society. The MSG oversees the process and discusses the figures produced.

A country normally adopts the EITI in two stages; initially, it declares its intention to comply by becoming an *EITI candidate*. Full compliance is recognised by the [EITI secretariat](#) when the country achieves a number of prescribed goals, including the production of its first reconciliation report.

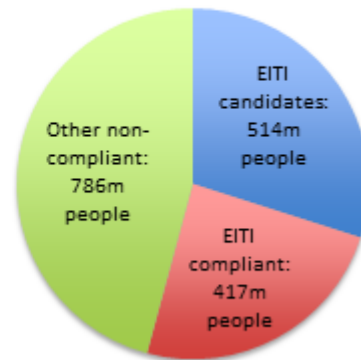
## What proportion of resource-rich countries have adopted the EITI to date?

The graphs below present the adopters of the EITI in terms of their significance within the broader universe of all resource-rich countries. The set of resource-rich countries used is the same as in the [August 2012 IMF report](#), *Macroeconomic policy frameworks for resource-rich developing countries*.

**EITI compliance by number of countries**



**EITI compliance by population**



**Figure 2: EITI compliant and candidate countries as a proportion of all resource-rich countries, May 2013. Temporarily suspended members are treated as candidates.**  
Sources: [World Bank](#), [IMF](#), [EITI](#), authors' calculations

From the above, it is evident that the EITI has made significant progress in penetrating many of the countries with the most potential to benefit economically from their natural resources. Although many non-compliant countries remain, over half of all resource-rich countries (and people living in resource-rich countries) either already comply with the EITI or are in the process of becoming compliant.

Notable observations from the underlying data include:

- Nigeria (162m people) is by far the largest compliant country, with the next largest being Tanzania (46m people);
- The three largest non-compliant countries are Russia (142m people), Mexico (115m people) and Vietnam (88m people);
- Approximately half of the population in EITI candidate countries live in Indonesia (242m people).

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In addition, it is noteworthy that the USA has [stated its intention](#) to become EITI-compliant. This should help to exert greater pressure to adopt the EITI on those resource-rich developing countries that have not yet done so.

Australia has so far [decided](#) only to pilot the EITI processes. This falls short of an intention to become EITI compliant. A MSG has been formed, and Deloitte Touche Tohmatsu Ltd has been appointed as the Administrator for the pilot. The results of the pilot will include a recommendation from the MSG on whether Australia should implement the EITI, incorporating the Administrator's report as well as the results of an independent evaluation.

**What proportion of resource-rich countries in the Asia-Pacific region have adopted the EITI to date?**

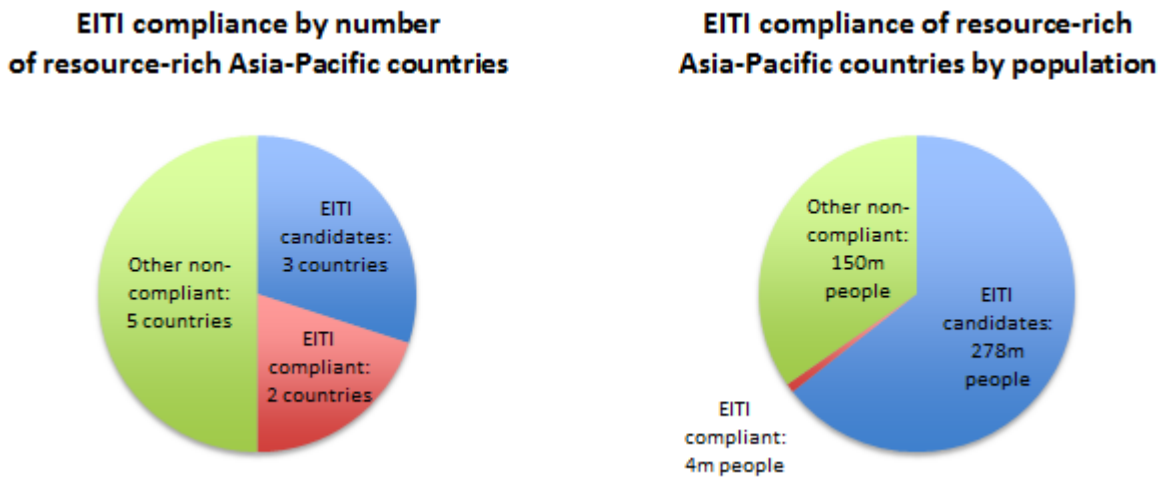


Figure 3: EITI compliant and candidate countries as a proportion of all resource-rich countries within the Asia-Pacific region (March 2013)  
Sources: [World Bank](#), [IMF](#), [EITI](#), authors' calculations

Adoption of the EITI within the Asia-Pacific region is roughly on par with the rest of the world in terms of the number of countries. In terms of the proportion of population covered, the number of people living in EITI-compliant countries is lower, but the number living in EITI candidates is higher.

Notable observations from the underlying data include:

- Indonesia is partly responsible for the different appearance of the above two charts. Indonesia is currently an EITI candidate, and with 242m people accounts for 56% of all people living in Asia-Pacific resource-rich countries;
- The two compliant countries – Mongolia (3m people) and Timor Leste (1m people) – are two of the smallest resource-rich countries in the region by population;
- Vietnam (88m people) and Myanmar (48m people) are the two largest non-compliant resource-rich countries in the region. This year Papua New Guinea (7m people) [stated its intention](#) to implement the EITI.

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## Does the EITI work?

The above analysis of EITI adoption is not directly useful for evaluating the actual outcomes produced by the EITI, in terms of either improved governance or economic outcomes. To this end, a number of evaluations have been carried out to date. The methods used involve either asking stakeholders for their views, or examining relevant quantitative data. However, the difficulty of the task should be noted:

- Most stakeholders are biased towards a positive assessment of the EITI. Therefore, while they can provide useful qualitative insights, they often lack objectivity;
- To arrive at an objective assessment, one would therefore ideally rely on quantitative data. However, it is arguably too early for such an assessment to be reliable, since the first country to become EITI-compliant (Azerbaijan) only did so in [February 2009](#).

Despite these limitations, it is worth considering the review of EITI undertaken in 2011 by independent consultant Scanteam. [Scanteam's report](#), which was commissioned by the EITI Secretariat, uses both of the above methods to attempt to assess the effectiveness of the EITI in achieving outcomes. Specifically, they conducted detailed reviews of three countries selected as jointly representing the breadth of EITI candidate and compliant countries. They then assessed EITI candidates and compliant countries versus non-EITI countries based on several "big picture" quantitative indicators, such as country-wide measures of corruption, civil and political rights, education, health, credit risk, GDP per capita, foreign direct investment, etc.

While Scanteam's report recognises the EITI's successes in increasing transparency and improving processes within implementing countries, and in the significant level of support it has received, the report did not find conclusive evidence of the overall effectiveness of the EITI. The key conclusions in this regard were:

### *Analysis of three indicative EITI countries – Gabon, Mongolia and Nigeria*

- "While transparency has improved, accountability does not appear to have changed much."
- "Most EITI outreach is simple dissemination activities and not support for social actors to empower them to apply EITI data for increased accountability purposes."
- "There are thus few indications that EITI programs are so far having an impact on dimensions such as governance, corruption, poverty reduction, or other objectives stated in [EITI's Articles of Association](#)."

### *"Big picture" country indicator analysis*

Scanteam did not find any strong evidence that the EITI is having an impact that can be measured by country-wide indicators of societal change. Their comments on their analysis include:

- "EITI is a very recent global phenomenon. The kinds of societal changes hoped for are the result of many interventions over long time periods. Expecting any quantifiable impact from interventions that are only a few years old is in any case not realistic";
- "A fundamental challenge is that EITI does not have a detailed theory of change (causality chain) that can explain how it is to contribute to societal transformations."

Scanteam's insight in the second point above is that, although the EITI aims to contribute to broad societal changes, such as transforming economies, reducing poverty and corruption and raising living standards, its focus is very narrow and specific when viewed in the context of these ambitious goals. This is discussed in more detail in the next section.

Other reports also examine the effectiveness of the EITI, most of which are based on interviews and surveys of key stakeholders. For a review of evaluations conducted of the EITI prior to 2011, refer to the [literature review](#) prepared by the UK's Department for International Development entitled *The Impact and Effectiveness of Accountability and Transparency Initiatives: The Governance of Natural Resources*.

*From the Scanteam evaluation report: "Expecting any quantifiable impact from interventions that are only a few years old is in any case not realistic."*

*"There are thus few indications that EITI programmes are so far having an impact on dimensions such as governance, corruption, poverty reduction, or other objectives stated in EITI's Articles of Association."*

## What does this mean for the future direction of the EITI?

Arguably, one of the main strengths of the EITI is that it focuses on a very specific, “bite-size” reform. It is therefore realistic for countries to agree to comply with its rules. However, as reflected by the results of the Scanteam evaluation, there is a constant tension between this need to reach agreement between key stakeholders on the one hand, and the desire to engender reforms that are comprehensive enough on the other hand to achieve more ambitious goals.

For example, the EITI in its current form concerns only the payments made by companies to governments, and therefore does not address corruption and transparency in other parts of the natural resource value chain (see diagram below), in particular:

- It does not cover the negotiation of contracts between companies and government, and in particular the amount that companies have to pay governments. In theory, companies should receive enough revenues to yield a “fair” level of profit commensurate with the risk they bear, after extraction costs. The rest should be designated as resource “rents”, which belong to the people of the country and which the government should therefore capture in the form of taxes, royalties, etc.;
- It does not guarantee that the government will use the resource rents that it captures to enhance welfare. In developing countries, the best use would often be to invest in infrastructure and focus on the poorest and most disadvantaged people in the country.

## What needs to happen for natural resources to be transformed into reduced poverty?



Figure 4: The natural resource value chain. Source: [EITI Factsheet](#)

Unfortunately, in the stages before and after *Publishing payments* there is still ample scope for a corrupt government to take actions that do not further development goals, and that are only beneficial to the government official(s) responsible for the decision and to the other private interests involved. Even if payment details are made public, there is no guarantee that civil society will use this information to hold governments to account.

An example of a more comprehensive framework is the [Natural Resource Charter](#). This charter is simply a set of principles and guidance that covers all stages of the above-depicted natural resource value chain; it does not feature any rules to which countries can submit themselves. The Natural Resource Charter and the EITI together illustrate the tension between comprehensiveness on the one hand (as per the Natural Resource Charter) versus the potential to achieve a resolution for change (as per the successes of the EITI to date). In an earlier [Devpolicy blog post](#), Matt Morris notes the fact that the EITI is not “the whole solution”, in the context of Nigeria.

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In fact, some changes are proposed to the rules of the EITI that would increase its comprehensiveness. In June 2011, in response to the recommendations made by Scanteam within its evaluation report, the EITI Board set up a Strategy Working Group (SWG), whose role is to consider the strategic direction of the initiative over the subsequent three to five years. Various groups have [submitted recommendations](#) in this regard, but they are controversial, and have not yet been implemented.



The [proposed improvements](#) include extending the EITI to provide for transparency of contracts that establish the terms attached to the grant and operation of a license. This would extend the EITI into the *Getting a good deal* stage of the natural resource value chain. An example of the other items on the agenda for the improvement of the EITI is the proposed requirement for more detailed reporting requirements, such as disaggregation of payments by company, revenue stream and project.

## What about the resource-rich countries that choose not to become EITI compliant?

In addition to the issues of comprehensiveness outlined in the previous section, another challenge relating to the EITI may be getting all resource-rich countries to adopt the program, despite the current “bite-size” nature of the reform it represents. Taking the earlier graphs of EITI adoption on face value, it would seem that the initiative is gradually approaching ubiquity among resource-rich countries. However, it is more likely that the current adopters of the EITI represent the “low hanging fruit”; that is, the countries that have already adopted the EITI may simply be those that are the most amenable to the initiative. In this case, some of the countries that haven’t adopted the EITI may be unlikely to ever do so, whether for political or other reasons. Or, countries might sign up to, but not fully implement the EITI. It is in these countries that the plundering of natural resources is likely to be most severe, and where transparency would therefore arguably have the greatest potential impact.

*Of particular concern are those countries that choose not to sign up to the EITI because the private interests that benefit from corruption are powerful enough to also exert control over policy decisions.*

For such a country, any type of initiative that depends on a government voluntarily agreeing to empower its citizens to hold it to account is much less likely to be adopted, even with international pressure. An alternative means to achieving this type of transparency exists. It involves requiring extractive companies to disclose all payments made to individual developing country governments, regardless of the will of those governments. This is enforceable because the dominant international extractive companies are mostly governed by rules established by developed countries, e.g. stock exchange listing rules.

The USA is the only country that has already implemented such mandatory disclosure rules. As a result, from 2014 all listed oil, gas and mining companies in the USA will be [required](#) to fully and publicly make an annual disclosure of their payments to individual foreign governments, and reveal details of their financial liabilities in relation to foreign projects.

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Another notable case is that of Europe. [Support has been building](#) in the European Parliament for rules requiring similar reporting by companies domiciled in Europe. Implementation is still subject to further negotiation and approval by member states. Nevertheless, the governments of the UK and France are [keen to support the idea](#).

In Australia, submissions have been [received](#) by the Australian Stock Exchange (ASX) in relation to similar rules. However, the ASX simply [referred](#) the matter to the Commonwealth Treasury in April 2012, and there has been no progress since.

## Time for Australia to step up

Overall, while the EITI has made significant progress, it also displays shortcomings. However, regardless of its imperfections, the EITI represents an important stepping-stone to improving transparency and thus governance in resource-rich countries in the future, by “breaking the ice” for this type of international initiative. Disclosure initiatives can also play a useful complementary role in promoting transparency even when domestic governments are unwilling.

Australia has been left behind by other developed countries, particularly by the USA and Europe in relation to company disclosure requirements. With the EITI global conference to be held in Sydney in May of this year, now is the time for Australia to step up.

Australia wants to be seen as a “global leader in governance on natural resource industries,” as the head of AusAID, Peter Baxter, recently [put it](#). AusAID is investing heavily in this area. It is only one of the largest funders of EITI. In May 2013, it is hosting two large international conferences in Sydney, one on mining and development, and one on EITI.

But if Australia wants to be a leader, it needs to practice what it preaches. We need to implement at home what we are funding overseas.

Australia’s actual practice of good mining governance currently lags significantly behind that of the USA. Unlike the latter, we have no commitment either to adopt the EITI or to require payment transparency from listed companies. Of the two strategies, the latter is probably the more important. Implementing EITI will set a good example, but will only ensure transparency in Australia, where corruption is in general low. Disclosure requirements will promote transparency where it is needed, in developing countries with weak governance.

The most common criticism of these transparency measures is the need to protect commercial confidentiality. But if the US can find a way forward, so can we. If Australia wants to be a leader rather than a follower in promoting good governance in natural resource industries, it needs to step up by committing to the EITI and requiring payment transparency from listed companies.

## Policy Brief

Readers are encouraged to contribute comments by email ([michael.wulfsohn@gmail.com](mailto:michael.wulfsohn@gmail.com), [stephen.howes@anu.edu.au](mailto:stephen.howes@anu.edu.au)) or by posting a comment on our blog at [devpolicy.org](http://devpolicy.org)

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