



## EITI: be bold, stay rigorous and help citizens use the data!

The Extractive Industries Transparency Initiative (EITI) was a remarkable global multi-stakeholder initiative when it was launched in 2002 focusing on a critical global development issue: how to make sure that the billions of dollars of oil and mining wealth flowing into national budgets is better tracked and managed.

Since its launch, EITI has extended reporting to 37 countries, shortly to be joined by the United States, and reported on nearly a trillion dollars worth of natural resource revenues.<sup>1</sup> Its multi-stakeholder approach, which involves governments, the private sector and civil society groups working in partnership, has created a protected space for civil society activists to raise natural resource issues with officials, including in countries where this space never existed before.

An evaluation in 2011 found that EITI has had little wider effect on corruption and other problems of natural resource governance which brought it into being.<sup>2</sup> A recent example from Global Witness' own experience is DRC. At the same time that DRC was participating in the Initiative, the state was able to sell in secret five major mining assets to anonymous shell companies in the British Virgin Islands for apparently knock-down prices. As a result the DRC may lose out on around US\$1.36bn; twice the country's health and education budgets.

The new rules try to respond to this 'reform disconnect' by broadening the scope of EITI reports to include contextual data on the extractive sector and information on the flow of revenues between state institutions (for example, from state oil companies to governments). The rules also require EITI reporting in each country to be tied to wider national objectives.

These are sensible reforms but EITI cannot stand still or stop here. It needs to meet four challenges:

### 1. The EITI now needs to rejoin the vanguard of the extractive transparency movement

The EITI has taken nearly three years to mirror the US legal requirement for project-level reporting by extractive companies, which was passed in July 2010, and has yet to catch up with a growing trend in numerous countries for both transparency over awards of concession and for transparency of contracts.<sup>3</sup> The EITI's influence rests on its being seen as a totemic reformers club which governments and companies want to be part of. This attraction will fade if the initiative is seen to be merely playing catch-up with more dynamic reforms taking place elsewhere.

The EITI should regain its pioneering role by energetically promoting transparency along the "value chain" of natural resource extraction, from the award of licenses to the allocation of government revenues through national budgets. If citizens are to understand the commitments that their governments have entered into with extractive companies, and to reassure themselves that companies are meeting their contractual obligations, there needs to be an open process for the allocation of contracts which includes disclosure of the contracts themselves and the ultimate ownership of companies taking part in bidding. Disclosure of the true identity of company owners is necessary to stop lucrative shares in extractive projects being misdirected to companies which are secretly fronting for corrupt officials or their proxies.

The new EITI rules are a step in the right direction but they do not go far enough. It is disappointing that the disclosure of extractive contracts is only encouraged, not required. The new rules only require the disclosure of the ultimate beneficial ownership of extractive companies in each EITI country by 2016.

The new rules do not create new reputational incentives for countries to go beyond the minimum requirements for EITI Compliance. The new EITI Board, which will take office at the Conference, must start designing a new system of incentives for innovations that deepen EITI reporting and ensure that the reports feed into wider reforms of natural resource governance in EITI countries.

## **2. EITI reporting must be more rigorous and timely**

The EITI derives its authority from being a global standard, comparable between countries, and its credibility rests on a robust system of validation. Its rules and decisions have allowed the publication of data which is two years old, or sometimes even older, and the quality of EITI reports varies greatly between countries. In an era of abundant real-time information, some EITI reports risk looking dated and irrelevant and is produced in an outdated, paper-based format.

To stay credible, the EITI needs to strongly and consistently enforce its new rules, notably through the validation system. If a country is not producing timely and reliable reports, or if its government is failing to heed recommendations for reform, then that country should ultimately be delisted or suspended from the initiative. The current approach is to grant endless extensions which ultimately do little good if the political will to implement EITI is lacking and serve to undermine EITI's overall credibility.

## **3. The EITI has to show that transparency turns into accountability and citizen oversight**

The EITI needs to show that it can help to curb problems of corruption and poor governance.<sup>4</sup> The data needs to be used by citizens to promote accountability. Currently, the EITI does far too little to promote data use and fails to provide information – either electronically or in accessible formats. The information does not

synch with budget data either making tracking harder. These problems need to be addressed.

The EITI system also requires built-in oversight through a stakeholder review to evaluate whether the information is having an impact on the ground. Currently, the Board can recommend measures which would increase the impact of EITI reporting and it needs to use this power in support of reforms up and down the extractive value chain. Countries which enact successful reforms should be praised for doing so, and those failing to adopt reforms which evidence shows are necessary should be identified and in due course suspended or eventually delisted where new standards are not met.

## **4. The EITI should become a club for reformers**

The EITI should continue to aspire to be a club for reformers which governments, the private sector and civil society groups will line up to join. Applicants for seats on the Board should be required to show that their organisations are making a serious contribution to advancing the EITI's goals, not just using their veto power to slow down reforms which they object to.

If the evidence shows that a serious problem in the extractive sector of an EITI country is not being addressed, then the EITI should raise its concerns with the government and companies concerned. If the initiative keeps quiet in the face of corruption scandals or other governance failures affecting natural resource extraction in EITI countries, then it will lose any credibility as a genuine force for reform.

“The EITI needs to keep its bite. It needs to apply and build on its new rules, and be prepared to be a driver rather than a follower of governance reform to avoid diminishing relevance. We now need to turn the transparency that EITI creates about the money from minerals into better accountability and management of that money.” Corinna Gilfillan, EITI Board Member, and Director of Global Witness' US office.

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<sup>1</sup> See [eiti.org/countries](http://eiti.org/countries).

<sup>2</sup> Scanteam. Achievements and Strategic Options. Evaluation of the Extractive Industries Transparency Initiative. Final Report. Oslo. May 2011. Page 3.

<sup>3</sup> Extractive contracts are now publicly available, or required to be disclosed, in the United States and various other countries including the Democratic Republic of Congo, Guinea, Liberia, Mauritania, Niger, Peru, Congo-Brazzaville, Sao Tome and Principe and Timor-Leste, as well as the Kurdish region of Iraq. A consultation by the EITI of its implementing governments in late 2012 and early 2013 found that out of 18 surveyed, 15 thought the EITI should require the disclosure of contracts (including five which favoured some exceptions).

<sup>4</sup> See, for example, Diarmid O'Sullivan: *What's the Point of Transparency?*, Open Society Foundations, April 2013 available here <http://www.opensocietyfoundations.org/people/diarmid-o-sullivan>