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The extractive industries transparency initiative:

Impact, effectiveness, and where next for expanding natural resource governance?

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The last decade has witnessed a proliferation of initiatives to improve the governance of the extractives sector. Starting with the Kimberly Process Certification Scheme in 2003 and continuing with the Global Witness/Publish What You Pay Coalition and the Extractive Industries Transparency Initiative (EITI), several bilateral and multilateral donors have dedicated significant funding to improving transparency and accountability in the management of oil, minerals and gas. A driving motivation behind such efforts was to increase public awareness regarding the management of non-renewable natural resources, to reduce opportunities for corruption between the public and private sector, and to prompt greater external oversight of the industry.

Anti-Corruption Resource Centre
www.U4.no

Andrés Mejía Acosta
Senior Lecturer of Political Economy
Kings' International Development Institute
Kings College London

While the number of governments subscribing to these initiatives has proliferated over time, the motivations of different actors for greater transparency, the incurred costs of implementing such measures, and the expected benefits or impact of adopting them remain disputed. This U4 Brief does two things. First, it looks at current efforts to evaluate the impact and effectiveness of transparency and accountability initiatives (TAI) in the extractives sector. Secondly, it seeks to inform development practitioners of better practices to improve and promote the design of more effective TAIs for governance of the extractives sector. Three specific questions are addressed: (i) What are the conventional assumptions about TAIs in the extractives sector? (ii) What are the underlying models of change through which TAIs are believed to improve the governance of the extractives sector? And (iii) what are the key knowledge and empirical gaps remaining to better understand the workings of TAIs?

How do TAIs seek to enhance natural resource governance?

One of the immediate governance challenges facing resource rich countries is to mitigate the negative effects of the so-called resource curse commonly associated with government corruption, civil strife, fiscal mismanagement and relatively poor economic growth. The literature has focused in recent years on trying to understand the political and institutional mechanisms that could make governments more accountable for the extraction, allocation and use of non-tax revenues in a peaceful and legitimate manner.

It remains an empirical challenge to demonstrate that more revenue transparency and improved budgeting standards could lead to improved fiscal performance or better income redistribution

The need to improve transparency and accountability in the management of natural resources became an important part of the global governance agenda when the commodities boom brought about unexpected levels of wealth to resource rich countries after 2004 (Darby 2010). The boom also illustrated a growing gap between citizens' expectations of improved living conditions and the actual technical and political capacity of sovereign states to pursue development goals. Despite the proliferation of domestic and global initiatives to promote a more effective and efficient management of scarce natural resource revenues, many states are still unable or unwilling to monitor and regulate the activities of extractive companies and safeguard the wellbeing of their citizens.

One of the most relevant, active and well-known initiatives to promote greater transparency and accountability in the management of natural resource revenues is the Extractive Industries Transparency Initiative (EITI). The EITI was officially launched in 2002 as a coalition of government actors, extractive companies, civil society groups, energy investors and other international organizations to demand that companies publish what they pay and governments disclose what they receive from the extraction and export of natural resources. Member countries pledge to follow and enforce contract disclosure and revenue transparency criteria and seek "validation" status through compliance. As of December 2013, twenty-five countries had achieved compliant status and sixteen countries had gained candidate status.[1] Like other natural resource governance initiatives, EITI sought to improve the governance of natural resources by promoting the voice and participation of multiple stakeholder groups (government officials, media and civil society representatives and members of private companies), promoting frequent and timely disclosure of government information, and creating multi-stakeholder bodies to monitor compliance.

A survey of transparency and accountability initiatives (TAIs) in the extractives sector conducted in 2012 (Mejía Acosta 2013) indicates there is broad convergence around the meaning of "good" natural resource governance, but there is wide variation on the contributing factors that are perceived to contribute to such outcomes. The majority of TAIs declare their intent to make a significant contribution towards reducing corruption and promote a fairer distribution of wealth and achievement of development goals in resource-rich countries: "Increasing transparency opens up the decision-making process to public debate and moves the process towards more prudent and equitable management of extractive industry resources" (BIC and Global Witness 2008). Yet, the majority of programme and policy proposals tend to favour "demand-side interventions" such as initiatives that encourage greater citizen involvement and participation of civil society organizations (CSOs) to promote revenue transparency and accountability.[2]

The survey acknowledges the role played by CSOs to strengthen efforts to secure natural resource governance. TAIs have tremendous potential to enhance citizens' participation in the decision making process and promote greater commitment from political elites. However, it calls for a more explicit understanding of the causal mechanisms and obstacles through which civil society can affect specific transparency outcomes (Mejía Acosta 2013, Gaventa and McGee 2013). Part of the challenge is to distinguish between the direct and indirect contributions that TAIs make to improve natural resource governance. For example, EITI is likely to make indirect contributions to good governance outcomes by a) establishing an emerging standard that is agreed to by domestic governments and corporations, b) providing a policy platform to encourage multi-stakeholder dialogues, and c) creating international networks of civil servants, corporate executives, CSO activists and development practitioners with shared standards and commitment to good natural resource governance (Rainbow Insight 2009). These are indirect contributions in the sense that they facilitate the conditions for enhanced participation or accountability but do not necessarily produce effective or improved governance outcomes on their own.

Secondly, it is necessary to have an explicit understanding of the motivations and capabilities of different stakeholders to effectively influence and implement the

[1] There are several other global initiatives seeking to promote greater transparency and accountability in the management of natural resources, such as the Kimberley Process Certification Scheme (KPCS), the "Publish What You Pay" (PWYP) coalition and the privately owned International Council of Metals and Mining. This Brief focuses on the features, contributions and challenges of EITI. For a broader discussion refer to Mejía Acosta (2013).

[2] Other initiatives have focused on the presence of ideal attributes such as inclusiveness, transparency, independence, and accountability of CSOs when promoting natural resource governance (Mainhardt-Gibbs 2010).

accountability and transparency agenda. For example, a recent study revealed that CSO engagement with the EITI process tended to occur during early stages of the process, including in the design and selection of governing bodies, but survey respondents felt that CSOs had weaker, unclear or inadequate involvement in subsequent stages of the EITI validation process (Mainhardt-Gibbs 2010). Some of these concerns are addressed in the next section.

How do TAIs seek to produce meaningful change?

Key to understanding the relevance and effectiveness of TAIs is to clearly define how change takes place (attribution) and what change should look like (a definition of governance outcomes). While there is a growing number of policy efforts and initiatives looking at how improved resource governance takes place, there is very thin knowledge analysing the interactions between those contributing factors. In other words, greater precision is needed to identify the direct, intervening and enabling factors that can contribute to improved resource governance such as education levels, the strength of the rule of law, the roles of the judiciary and other control institutions to mention a few.

The first step is to identify impact, generally understood as the "positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, deliberate or unintended" (White 2010). A proper assessment of effectiveness should establish whether there is a causal link between the observed changes in outcomes and the *critical* presence of an intervention (compared to the counterfactual case of a non-intervention). In the case of the extractives sector, existing TAIs (such as EITI) lack a solid narrative or verifiable theory of change that consistently shows how the timely disclosure of revenues accrued from the extractives sector can reduce discretionary government spending or minimise the spaces for rent seeking. It remains an empirical challenge to demonstrate that more revenue transparency and improved budgeting standards could lead to improved fiscal performance or better income redistribution.

There are valuable analytical efforts at the macro level of how impact takes place by looking at cross national large-n studies to explore how the presence of some attributes in each country (greater CSO participation, explicit rules for disclosing budgetary information) appear to be associated with improved governance outcomes (lower perceptions of corruption, improved human development indicators). A smaller number of studies have looked at the impact of key intervening variables. For example, Kolstad and Wiig (2009) argue CSO actors can have a positive impact on reducing corruption if they also have the necessary education to process information, have the motivation and resources to mobilise politically, and act in the context of stable institutions. Along the same lines, Tsalik (2003) has argued that natural resource revenues are likely to contribute to good development outcomes when these are managed in the context of strong democratic institutions with separation of powers. Yet, even these efforts have not fully identified the underlying causal chain that connects specific project interventions (inputs) to outcomes and impacts. A valuable effort is Revenue Watch Institute's value chain approach to understanding the different stages of the extractive process, including the decision to extract, licensing, disclosure of contracts, extraction of fiscal revenues, savings, and quality in the allocation and spending of revenues (RWI 2008).

More systematic comparisons are needed to understand the impact of central government funds, revenue sharing formulas, sector specific investment, or cash transfers to improve the management of natural resource funds

A second challenge is to develop an explicit theory of change that identifies the different roles, political motivations and mechanisms that allow different stakeholders to oversee the government's commitment to greater transparency and accountability in the management of natural resources (outcomes). A key question is to understand why and when CSOs, the media and members of parliament are more likely to hold decision makers accountable for their management of extractive revenues. A well-defined theory of change should help policy makers and domestic stakeholders identify entry points to enhance the impact of TAIs. For example in a dominant or single party system, elected members of parliament will have very few incentives to respond to accountability demands from citizens or NGOs if their activism may put them at odds with party leaders and their own career prospects. In this case, a more effective project intervention could focus its capacity building and policy advocacy (lobbying) efforts on groups from media and organized society to mount additional pressure on party leaders, control authorities and the public at large, to directly respond to legitimate demands for greater transparency particularly around elections.

Knowledge gaps and policy challenges

Since their appearance over a decade ago, TAIs have tempered their optimistic ambitions and have gradually adopted a more nuanced understanding of governance incentives driving relevant stakeholders. Substantial progress has been made to collect empirical evidence monitoring the nature of project interventions, their costs, and the availability of public information regarding the extractives sector. This Brief suggests there are three outstanding challenges to improve the governance of extractive industries:

Improvement of collection, reporting and analysis of data:

- Key Performance Indicators (KPIs): As recommended by the 2012 meeting of the EITI Board, accurate country level reporting is needed on specific project interventions including organisational and implementation aspects such as country participation, number and depth of EITI reports produced, EITI validation delays, and percentage of companies participating.

CMI – U4
PO Box 6033
5892 Bergen, Norway
Tel +47 55 57 40 00
u4@u4.no

CMI CHR. MICHELSEN INSTITUTE

U4 Anti-Corruption Resource Centre
www.U4.no

- Resource Governance Indicators: The Revenue Watch Institute has produced an index with information from 58 countries along four dimensions: institutional and legal setting; reporting practices; safeguards and quality controls; and enabling environment. This is a considerable improvement on existing indicators. But more efforts are needed at country level to: a) systematically measure and report on actual governance practices in addition to formal governance commitments to transparency; and b) maintain regular data collection and updates to allow citizens, policymakers and advocacy coalitions to monitor and demand continued progress from governments and the extractives sector.

To better understand the stakeholder motivations and existing sanctions to secure improved resource governance:

- This is particularly relevant for countries that lack democratic governments in the first place as well as for cases that are EITI and non-EITI members. Nominally, EITI countries have improved the mechanisms to evaluate membership requests of candidate countries or suspend their validation process. Greater efforts are needed to design more effective global governance sanctions for non-compliance, including a tightening of the conditions for EITI membership.

- Private efforts to secure compliance with transparency standards are also important, such as evaluating performance through peer review mechanisms or linking non-compliance with future contracting or investment decisions. The International Council on Mining and Metals (ICMM), a coordination platform for 20 mining and metals companies as well as 30 national and regional mining associations and global commodity associations, offers a useful example. ICMM members work to address development and environmental challenges through upholding transparency and accountability commitments. A rigorous review process which takes into account business information and past compliance records with established ICMM standards could recommend institutional and reputational sanctions for non-compliance such as negative investment decisions.[3]

To expand the focus of attention to understand the transparency and impact of different revenue transfer modalities:

- As suggested for EITI, “the aim (should be) to ensure that citizens can reconcile what comes into their economy (the revenue side) with government accounts (the expenditure side), so that both industry and the state become more accountable to those who should ultimately benefit from the nation’s resource endowment.” (Rainbow Insight 2009).

- A specific direction is to better understand the fiscal context in which improved resource governance takes place. Greater emphasis is needed to understand the implications of managing natural resource revenues within broader debates about budget transparency and fiscal decentralization efforts and capabilities. More systematic comparisons are needed to understand the impact of central government funds, revenue sharing formulas, sector specific investment, or cash transfers to improve the management of natural resource funds.

[3] See: www.icmm.com

Further reading

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