

For the People, but Not Always By the people

**The Extractive Industry
Transparency Initiative (EITI), NGOs
and Signaling**

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Overview of the Paper

- As part of Aaronson quest to understand relationship between economic growth and human rights,
- I examine and assess **behavior** of EITI implementing nations. Not assessing EITI...
- **Thesis**: These states are using EITI to signal improving the rule of law. Signaling through EITI and civil/political rights.
- Clear why democratic states would do so (e.g. Liberia, Mongolia, Ghana and Mauritania).
- **But why would relatively repressive states such as Azerbaijan or fragile states such as Guinea or Nigeria?** (Don't need to join EITI. Also joined at time of rising/record commodity prices.)

EITI provides process to **potentially** address the resource curse



- Many extractive exporters have difficulties managing sudden wealth.
- Officials favor extractives, ignore other sectors.
- Funnel revenues to allies.
- Corruption may become endemic.
- More likely to be fragile states, high illiteracy, inequality, child malnutrition and poverty. High potential for conflict

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EITI obligations once voluntary initiative is adopted

- **Governments:** require extractive firms to “publish what they pay” policymakers for the right to explore and extract energy/minerals.
- **Governments:** record revenues received and entrust an independent administrator to compare extractive sales and revenues.
- **Governments:** create (should not directly appoint) multistakeholder group including representatives of civil society.
- **Multistakeholder group:** evaluate, review and publicize.
- **Governments:** disseminate findings.
- **Firms:** publish extractive industry rents...
- **Could potentially create a feedback loop between the participants.**

EITI Structure and Incentives

- Secretariat in Norway, supported by G-8, strong support from Norway and U.K.
- World Bank Trust Fund—EITI countries get loans if willing to invest in pro-poor policies. World Bank (and NGOs also fund civil society capacity building).
- Status: 24 candidate countries; none compliant, 2 countries dropped
- Botswana, Iraq signaling it may sign on. Norway and Central African Republic agreed to adhere. **Numbers paint positive but incomplete picture.**

Potential Implications of EITI Process

- Policymakers could learn improved budgeting and good governance skills, citizens learn how to influence policymaker decisions.
- Empowers reformist interests
- Skills/practices could spill-over into the polity as a whole.
- Opportunity for public interest and business interest in avoiding corruption to coalesce.
- But EITI is not a cure-all for resource curse.

Aaronson Research Strategy

- **Thesis:** Implementing states are not only using EITI to improve governance of extractive industry rents. They are signaling a **rule of law culture**. In **rule of law culture**, laws are written and protected by courts; law restrains governments, creates order and predictability. Protects rights of citizens and foreign investors. Strives to be evenhanded. Must be top down and bottom up.
- **Signal improving civil/political rights, which along with right to access to information are instrumental for EITI.**
- **Policy makers find EITI relatively cheap to implement. Can use EITI to co-opt political groups and signal to international community they are responsible actor.**
- **Strategy: Use statistical evidence, survey, and primary source evidence to show why nations are adopting EITI and what they are doing to implement it.**

Why human rights matter to good governance (1)?

- **We don't have a good understanding of how human rights relate to sustainable development. We do know:**
- **Higher levels of income associated with civil liberties, political participation (Lipset).**
- **Civil and political rights allow public to demand governance (Sen).**
- **Good governance requires buy-in from citizenry, but disagree on explicit degree of accountability to citizenry (Kaufmann and Kraay).**



Why human rights matter to good governance (2)?

- **Strong empirical link between civil liberties and government performance on projects.**
- **Better human rights > greater investment (Li and Resnick).**
- **Democratic participation in governance > success in fighting corruption (Rose Ackerman, Kaufmann).**
- **Better human rights signal rule of law (Farber, Posner). Governments protect human rights protect investors. BUT**
- **Policymakers lack incentives to respond to citizens in many developing countries (Sen).**



Essential but vague role of Civil Society and Individuals in EITI

- Governments are “obligated” but no mandate to actively engage civil society and give them funds/adequate staffing to participate.
- Many EITI states no history of civil society participation.
- NGOs may have little understanding of accounting, disclosure, or extractive industry financing let alone government budgeting.
- This information can be extremely complex.
- Culture may discourage discussion of these issues. Even w/ best intention, struggle with “by the people.”
- Requires consistent commitment to political/civil due process rights, which even democratic governments struggle to maintain over time (e.g. US/Britain).

Statistics: The Back-story

- Statistics are not metrics about EI implementation—too early, but do reveal context/back-story. Metrics were chosen because they are relevant to implementation. These statistics don't tell us why states are adopting EITI or reveal causality: e.g. whether governments are adopting EITI to improve governance or states are adopting EITI as they become more adept at governance.
- EITI among world's worst governed countries; these states struggle to achieve sustainable development and they struggle to improve the business climate. 11=fragile states in 2008.
- Therefore if they want to diversify economy they need to improve governance and investors/donors need to see such improvements.
- Many EITI countries were able to improve governance in one or more criteria.

Statistics

- 8 of 23 states made progress on human development 2002-2005 (2004-2007 reports)
- 7 of 17 countries improved on fiscal policy 2005-2007.
- 3 of 17 on IDA assessment of budgetary policies
- 4 of 21 on ease of doing business reports 2005-2007
- 4 of 23 had strong commitments to human rights; 9 improved political rights; 14 made progress on civil liberties. Takes considerable governance expertise to consistently advance these rights.
- Only 4 of 23 had strong press freedoms.
- Of 10 reporting, Azerbaijan, Ghana, Kyrgyzstan, and Mongolia performed well on economic/financial and human rights indicators.

EITI on the Ground...Uneven (1)

- 10 countries issued reports with civil society response.
- No country has validated.
- Supply side activism: Growing number of these countries implemented EITI as they began a discussion with their citizens about extractive industry revenues. Some used EITI to facilitate the debate; others used discussion to decide whether or not to adopt EITI.
- 9 countries created official EITI web sites with full information about findings. Several encourage NGO sites.

Rumblings on the Ground: Demand Side Results and Potential (2)

- **Demand side activism:** Citizens in many of these countries are demanding change. Example of lawsuits in Niger, Congo related to corruption; demanding EITI (e.g. Sierra Leone).
- Polling data reveals **growing public demand for good governance** in several countries. Nigeria and Azerbaijan good examples.
- **Governance learning.** Tax and regulatory regimes do not collaborate (Ghana); inadequate recordkeeping leading to loss of \$1 billion in revenues (Nigeria); incomplete reporting in several countries; unclear rules and regulations.
- **Civil society learning:** how to influence governance, point out reform agenda.
- **But.....public** still relatively uninvolved and in some countries government officials aren't even aware of EITI

EITI on the ground: Investors/Funders respond to the signaling

- Assertions that governments are signaling investors according to World Bank, SFR, and 71% on Aaronson survey of 38 firms . But signaling is not the same as performance.
- Investors are also signaling support of EITI (80 investment firms and 39 extractives).
- OECD Credit ratings improved in 2000-2008 period for 7 of the EITI 23, including 4 of the 10 reporting. We can't attribute this to EITI or human rights improvement without further research.

EITI on the Ground 4

- **Some governments (Gabon, Congo, Kyrgyzstan) are not working effectively with civil society. 71% of firms surveyed by Aaronson said they worked in countries where members of civil society were arrested or hampered from participating in EITI (not sure how many countries this is)**
- **Inadequate funding/staffing or information.**
- **Some arrest advocates; prevent them from traveling abroad for training.**
- **May reflect inadequate governance or weak commitment to human rights.**
- **EITI response: diplomacy. Remind governments civil society comment at heart of EITI. EITI leverage limited as EITI is voluntary.**

Identity Crisis: What Is EITI?

- Most governments, NGOs and IBRD see EITI as a governance tool: participation of civil society central to success.
- However, business sees EITI as a tool to reduce corruption = CSR initiative.
- And Jonas Moberg, Head of EITI Secretariat proclaimed, "The EITI is a global minimum standard, which gains value and relevance when it is nationally implemented, adapted and developed."
- **HUH????????? Standard or governance tool?**

Conclusions (1)



EITI part of larger signaling and attempt to improve governance.

Governments may gain seal of approval, feedback loop, and World Bank funding.

Civil society starting to learn how to make government "by and for the people."
Point out areas for reforms.

Conclusions (2)

- EITI Secretariat must provide additional incentives for consistent approach to empowering civil society.
- Must ensure EITI not a fig leaf; civil society empowerment built on human rights protections:
- Need more research on the implications of feedback loop/citizen involvement for foreign investment/trade.

Final Thoughts:



Empowering civil society is not empowering the public. For EITI to succeed over time, need more focus on incentives to provide public information; empowering media; and access to education. Also recommit to EITI as governance tool rather than global standard.