

Extractive Industries Transparency Initiative

What it is

The Extractive Industries Transparency Initiative was announced by UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. Its aim is to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host country governments.

Why it is needed

Revenues from oil, gas and mining companies, in the form of taxes, royalties, signature bonuses and other payments should be an important engine for economic growth and social development in developing and transition countries. However, the lack of accountability and transparency in these revenues can exacerbate poor governance and lead to corruption, conflict and poverty.

Why it will focus only on extractive industries

Extractive industries are important in over 50 developing countries, home to some 3.5 billion people. Although a greater degree of transparency of payments is desirable in many sectors, there is a close correlation between the countries rich in natural resources and the countries with high levels of poverty. There is nothing intrinsically wrong with these sectors, but the high-risk, high cost and uncertain nature of exploration, coupled with a long gestation before profits are realised and the finite nature of resources, makes financial management of this sector difficult. Some countries rich in oil, gas and minerals have under-performed relative to other countries without natural wealth. Other industries have been able to relocate to countries with a more conducive enabling environment.

Who will benefit

Increasing transparency and knowledge of revenues will empower citizens and institutions to hold governments to account. Mismanagement or diversion of funds away from sustainable development purposes will become more difficult. It should also benefit developing and transition economies by improving the business environment, helping them to attract foreign direct investment. Responsible companies stand to benefit from a more level playing field, a more predictable business environment and better prospects for energy security.

A multi-stakeholder initiative

For the initiative to be successful, it needs to be devised by a range of stakeholders. Countries either host to extractive industries or with extractive industry companies registered in their country will need to be involved.

State-owned companies and small, private companies, as well as the multinationals, will need to be involved to ensure a level playing field with those companies backing the initiative. Business and industry associations play an important role in communicating standards and expectations to their members.

International groups can give important political momentum to the initiative, for example, African partners in the NEPAD (New Partnership for African Development). The World

Bank and IMF are playing an important role in working up the initiative, using their experience of government reporting processes, and developing expertise, alongside bilateral donors. The UN and OECD are also important partners.

NGOs have a critical role to play in continuing to research the issues and to raise awareness of the importance of this initiative for sustainable development and poverty reduction. The role of civil society will be critically important in terms of using the data disclosed to hold governments accountable for its expenditure.

Finding a workable solution

In February 2003, DFID hosted an International Multi-stakeholder Workshop in London. It was supported by some 70 representatives from all of the groups outlined above. Copies of the workshop report and discussion paper are available on www.dfid.gov.uk

All options for achieving transparency were considered, including both voluntary and mandatory approaches. One option, that the multi-stakeholder workshop agreed could provide a pragmatic first step, is a country level agreement setting out provisions for annual disclosure of company payments and government revenues by all parties in each country to a trusted third party, using standardised templates. The data disclosed could then be collated, aggregated where necessary and summarised into a country output report. This report would be published for others to use in their in-country dialogues. Further technical work took place to develop this option and draw up a Statement of Principles. Other options have not been ruled out in the longer term.

In June 2003, DFID hosted the London Conference on EITI. Its aim was to agree a Statement of Principles and Agreed Actions to increase transparency over payments and revenues in the extractive sector. The UK Prime Minister, Tony Blair gave an opening address to the 140 delegates who represented 70 governments, companies, industry groups, international organisation, investors and NGO's. Valerie Amos, Secretary of State for International Development, welcomed the strong support for the Initiative from participants expressed in their oral and written statements. She concluded that we have the necessary basis for collective action to take the Initiative forward to the next stage. Copies of the report from the conference and participants oral and written statements are available on www.dfid.gov.uk.

Next Steps

Discussions are planned to follow-up commitments in several countries, including Timor-Leste, Azerbaijan, Ghana, Trinidad and Tobago, DRC, Indonesia and Nigeria. Some may become pilot countries. Further technical work is required to refine the reporting guidelines and design the arrangements for provision of technical assistance. The EITI team will pursue further engagement with international organisations, such as the World Bank, IMF, UN and NEPAD on the roles they could play and will consider proposals for a UN General Assembly Resolution along the lines of the Kimberley Process resolution on conflict diamonds.

DFID EITI Team

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