

# EITI: Overcoming the ‘Resource Curse’ in Developing Countries

Manuel de la Rocha

**T**he spectacular increases in the price of oil and the growing insecurity of supplies stemming from the Middle East have in recent years reinforced the need for the industrialised economies of the United States, the European Union and others to guarantee stable alternative sources of energy supplies, and to diversify them. In this context, the exploration and extraction of crude in the African continent and various countries within Central Asia has accelerated, revealing the paradoxical relationship between wealth in energy resources and poverty in human development and governance, which is especially prevalent in African countries rich in hydrocarbons.

Thus, for example, the oil, gas and mining industries are one of the main economic activities in more than 50 countries, where approximately 3,500 million people live, 1,500 million of whom subsist on less than 2 dollars a day. Despite enjoying enormous revenues from oil, six of the countries that essentially depend on this industry are classified by the World Bank as “heavily indebted poor countries” and by the United Nations Development Programme (UNDP) as countries with one of the lowest Human Development rankings in the world.

A paradigmatic case is Nigeria, the most populous country in Africa. According to estimates, this country received around 96,000 million dollars in oil revenues between 1999 and 2004, but more than 70 per cent of the population lives on less than one dollar a day while poverty is especially acute in the Niger Delta, the region where the crude is located. Other African countries, like Equatorial Guinea, Gabon, Sudan, Cameroon, Congo and Angola, which have discovered important oil deposits during the last few years, are facing the same challenges of transforming the substantial revenues stemming from oil into improvements in the quality of life of their inhabitants.

In general, in poor oil-exporting countries the growing weight of this sector within their overall economies has generated macroeconomic

---

**Manuel de la Rocha**, Adviser, Ministry of Foreign Affairs and Cooperation, Spain.

management problems and corruption. On the other hand, if managed adequately, oil wealth could help producer countries undergo more rapid growth and have at their disposal more resources to improve the living conditions of their inhabitants. However, poor management of foreign currency revenues resulting from oil often gives rise to what is known as the “Dutch Disease”, identified for the first time during the oil boom experienced by the Netherlands during the 1970s. This occurs when, following the discovery of oil deposits, the country in question suffers an appreciation in its exchange rate, excessive expansion within the non-commercial goods sector, and significant losses in competitiveness in the non-oil export sector.

However, besides macroeconomic distortions, the predominant cause that has contributed to reducing the economic and social impact of oil revenues in many countries has been their uneven distribution across society, with a large part of the revenues being concentrated amongst the political and economic elite that controls the strings of power.

---

*Developed countries' interest in the development of the South has changed in the last years*

Normally, and in particular in the poorest countries that do not have local export companies, income from oil is paid to the governments of these countries through taxes, rights, royalties and other types of payments. However, the lack of measures to promote transparency in these practices means that it is common for both governments and their state agencies to abstain

from providing information to democratic institutions, parliaments or their citizens on the management of the resources obtained, frequently diverting such funds to areas that are not a priority for social development, and even away from these populations.

With a few exceptions, neither governments nor the companies in extractive industries publish information on the income earned or payments made, respectively, from oil explorations or the exploitation of natural resources in general. This lack of transparency favours corruption, via the transfer of funds and fraud in developing countries that are rich in natural resources, with multinational companies acting as accomplices of the entire process.

Until very recently, developed countries' interest in the development of the South was focused on improving aid for development or implementing rigorous macroeconomic policies, with barely any consideration given to the evident destructive effects that the extractive industries were producing in many countries. In this context, during the last few years a number of international initiatives have emerged that are focused on improving the management and accountability of revenues stemming from oil and other natural

resources. Faced with the so-called “resource curse” of southern countries, most of the time accompanied by corruption and violence, these initiatives promote the creation of systems for the transparency of the payments made by multinational oil companies.

### **The Extractive Industries Transparency Initiative (EITI)**

The most noteworthy initiative is the EITI promoted by the British Government and announced by Prime Minister Tony Blair in 2002, which encourages companies and governments to publish their costs and revenues. EITI seeks to improve transparency and accountability in order to respond to the concern regarding the corruption that has emerged in countries rich in natural resources.

This is a voluntary initiative backed by a coalition of companies, governments, investors and civil society organisations. Together with other efforts to improve transparency in the budgetary practices of the public sector, it implements a process through which citizens can demand public accountability from their governments regarding the use of these revenues. In short, EITI promotes the use of international standards for the publication of payments and revenues stemming from oil, both for the multinational companies as well as for governments, improving in this way the local transparency of the revenues obtained.

The initiative was defined during the Lancaster House Conference held in London in 2003, with the support of the Government of the United Kingdom, and with the presence of a diverse group of representatives of different countries, companies and civil society organisations. A Declaration of Principles was established during the conference to increase the transparency of payments and revenues corresponding to the extractive industries sector. They are known as the EITI Principles, and form the cornerstone of the initiative.

One of the most interesting aspects of the EITI is that it focuses on multiple stakeholders, which allows it to act as a flexible platform with enormous legitimacy. At the beginning of 2008 the initiative was supported by 11 industrialised countries (amongst them Spain), six international organisations, 70 international NGOs, and 27 multinational extractive industry companies.

Amongst them we can find Repsol, which has joined the EITI, together with all the large multinational companies operating within the extractive industries sector, such as Total, Chevron, ExxonMobil, BP, Shell, Pemex, AngloAmerican, Petrobras or Newmont Mining. Investment firms that control around 8 trillion dollars in funds, such as Merrill Lynch Investment Managers, F&C Asset Management, and Fidelity Investments, have recently

emphasised the considerable commercial risks of a lack of transparency, and have stated that: “Although they are legitimate, hidden payments to governments could be considered a decisive factor in leading to conditions in which corruption could flourish”. The lack of compliance in the publication of net payments not only opens companies up to “accusations of complicity with corrupt behaviour”, but also undermines their “licence to operate” within society, making them “vulnerable to local conflicts and insecurity, and possibly compromises their long-term commercial perspectives in those markets”.

### **Results of the implementation of the Initiative**

Despite the fact that it has only recently been launched, the results of the initiative are already very encouraging. The EITI Council has agreed that 22 countries will be considered candidate countries, and these can proceed with its implementation, although to date none of them have received the final validation as EITI compliant. These countries have two years to comply with the four criteria established. The countries in question are the following: Azerbaijan, Democratic Republic of the Congo, Congo-Brazzaville, Cameroon, Gabon, Ghana, Equatorial Guinea, Guinea-Conakry, Kazakhstan, Kyrgyz Republic, Liberia, Madagascar, Mali, Mauritania, Mongolia, Niger, Nigeria, Peru, Sao Tome and Principe, Sierra Leone, Timor Leste and Yemen. In addition, seven of these countries have already published audited reports.

Although it focuses on the national level, from the beginning the EITI has enjoyed widespread international support. The identification of countries with the EITI and the participation of companies in the initiative indicates, both on a national and international level, the adherence to elevated levels of transparency and public accountability regarding government activities and economic activity.

However, the first years since the launch of the EITI have also highlighted the important challenges facing countries and the limitations of an initiative of this nature, such as the problems of overcoming internal corruption in countries, which block efforts towards reform; the problems derived from the lack of independent supervision of the reforms on the part of a civil society that is often subjected to repression from governments, and has very limited capabilities and expertise; and the lack of commitment and support for the initiative on the part of new actors in many countries, mainly in Africa, China, Russia or India.

Even so, the benefits expected by the countries implementing the Initiative are essentially part, or the beginning, of broader efforts to improve governance in their territories. Better management of revenues stemming from the exploitation of resources will allow for better administration of

these resources, and should promote greater economic and political stability. This, in turn, could help in preventing conflicts related to the oil, mineral and gas sectors. Its implementation should also contribute to achieving better investment conditions, sending a clear signal to investors and international financial institutions of the will of the government in question to attain greater transparency.

The benefits for companies and investors are focused on mitigating political risk, increasing stability and maintaining their good name. Transparency could also contribute to standardising the rules of the game for companies. Additionally, by making public their payments to governments, companies can help show their contribution, in terms of investment, to a particular country.

For civil society the benefits derive from an increase in the amount of public information related to the revenues that governments administer in the name of their citizens, thus encouraging governments to become more responsible.

### **Other initiatives**

Besides the EITI, other initiatives have been launched during the last few years in an effort to improve transparency in payments and revenues generated from oil activities. The most notable is the initiative from the international NGO Global Witness, one of the founding members of the Publish What You Pay campaign, which was launched in June of 2002 and which currently has more than 280 members. In contrast to the voluntary nature of the EITI, the coalition's goal is to change accounting legislation and the stock markets to force oil, gas and mining companies to publish their net payments to governments in relation to their access to resources, broken down country by country.

In general, the efficient and sustainable management of oil revenues highlights the need to search for institutional mechanisms capable of guaranteeing transparency, sound economic management, economic and social development, and intergenerational solidarity in the use of these resources. Examples of good practices are those that have created stabilisation and future savings funds, in which revenues are deposited and then used in accordance with criteria established in a transparent manner, guaranteeing macroeconomic equilibrium and benefits for the population, both present and future. This is the case of Norway, Alaska or Alberta (Canada). Establishment of these funds in developing countries always raises the problem of guaranteeing transparency and management rigour on the part of local authorities, who are not always democratically elected, nor have adequate capabilities. To this end, it is worth highlighting the Integrated Oil Revenues

Management Programme established in 2003 between the Chad Government and the World Bank, which implemented joint management mechanisms between the two institutions, with important limitations on the use of resources and safeguard mechanisms aimed at guaranteeing their adequate use and benefits for the population.

Another interesting proposal is that launched in the United Nations Conference on Trade and Development (UNCTAD) in 2006, granting private international investment funds the management of revenues from African oil explorations. The aim would be for African professionals to invest these resources in regional infrastructure projects, like transport or communications, thus guaranteeing an efficient management of these funds by the private sector.

## **Conclusions**

Overall, during the last few years we have seen growing international interest in efficient and transparent management of the revenues obtained from oil exploration and from other extractive industries operating in developing countries. The tremendous growth and wealth possibilities that these often huge oil revenues imply contrast with the reality that in a majority of cases these revenues barely redound to the benefit of impoverished local populations, or can instead serve to aggravate problems of corruption or generate violent conflicts. Initiatives like EITI and Publish-what-you-pay are especially relevant to the current international situation, in particular in Africa following the discovery of new oil deposits outside the traditional Gulf of Guinea. For now this trend is only incipient and there is still much to do. However, the significant number of countries that have adhered to the EITI, including Spain, and the possibility of receiving support from the General Assembly of the United Nations, lends to optimism regarding its consolidation in many countries. To a large extent its success depends on numerous oil rich countries being capable of overcoming the so-called "Resource Curse".