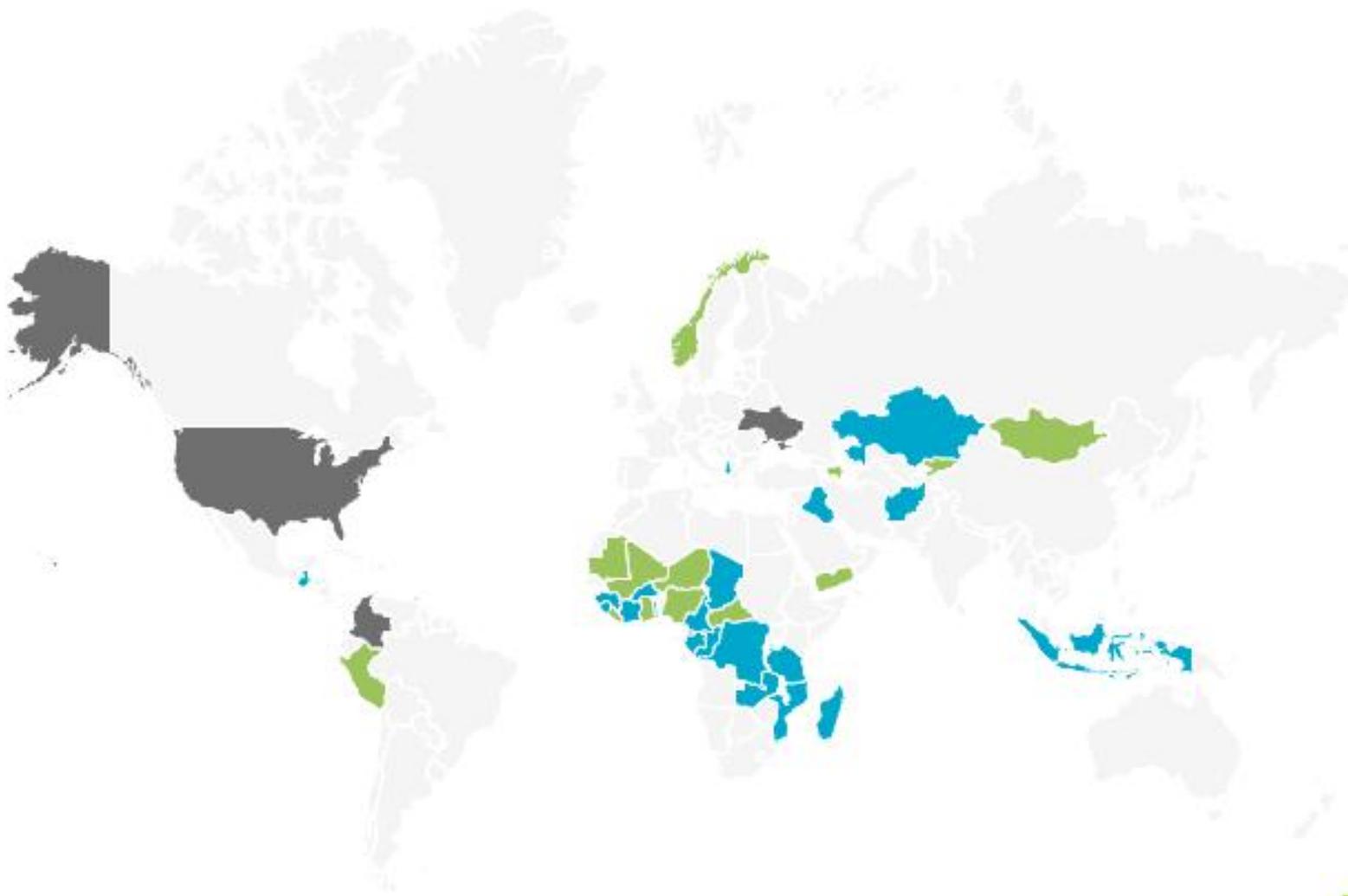


Extractive Industries Transparency Initiative

Recommendations for further development of the Initiative



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List of abbreviations

EITI	Extractive Industries Transparency Initiative
IFRS	International Financial Reporting Standards
IO	International Organisation
MDTF	Multi-Donor Trust Fund
MSG	Multi-Stakeholder Group
NGO	Non-Governmental Organisation
NOC	National Oil Companies
PWYP	Publish What You Pay
RWI	Revenue Watch Institute
Seco	State Secretariat for Economic Affairs
UN	United Nations

Foreword

From a Western European perspective, the occurrence of natural resources – especially the commodities oil, gas and minerals – is often regarded as great luck and a stimulus, not only for the national economy but also for the population’s wealth and living standard in general.

But are natural resources indeed nothing but a blessing? Is such a national treasury genuinely to the benefit of every single citizen?

As has been observed for decades, the extraction itself brings several negative consequences, along with side effects. But further aggravating the problem is this: The immense revenues of the commodity selling do nothing to improve poverty in a well-directed manner in those developing countries. Neither governments nor international organisations nor NGOs succeeded in truly diminishing poverty in many resource-rich developing countries, although one of the keys to a more prosperous life lies under their feet, in their own soil.

“You see abundance of misery – it is such a paradox.”

OBIAGELI EZEKWESILI

Vice President World Bank Africa Division, former Minister of Solid Minerals Development, Nigeria



Figure 1: Oil in Nigeria

One attempt to allow people to participate in their countries’ wealth and reduction poverty was the *Extractive Industries Transparency Initiative*, which is the subject of this paper.

1 Introduction

On 8 June 2008, the Swiss State Secretariat for Economic Affairs (Seco) announced that Switzerland will support the Extractive Industries Transparency Initiative (EITI) with a \$3 million contribution to the EITI Multi-Donor Trust Fund. The reasons for this support were named in the following statement: “Switzerland wishes to boost its involvement in internationally coordinated efforts to promote transparency in mining and oil and gas extraction, and support the worldwide fight against corruption.” (Seco, 2008).

In autumn 2002, at the World Summit for Sustainable Development in Johannesburg former UK Prime Minister Tony Blair communicated the following: The creation of the EITI aimed to strengthen the transparency of transactions between governments and companies in the oil, gas and mining industries in order to improve governance in resource-rich countries. (EITI, 2012c). As of 2012, the EITI now has 31 member countries, is supported by 17 developed countries, over 60 of the largest companies involved in the extractive industry (including Chevron, Shell, Rio Tinto or Glencore) and a large number of leading Non-Governmental Organizations.¹

Switzerland is a supporting member of the Initiative and hosts in its territory some of the largest companies involved in the extractive industry sector and in commodity trading such as Glencore, Xstrata, and Petroplus. Switzerland is represented by the Seco and shares a seat with the Netherlands at the EITI Board in Oslo. The next Board meeting, in Lima in June 2012, will be held to discuss the future strategy concerning the development and expansion of the EITI. The aim of this paper is to assist the Seco in identifying the main challenges that the EITI is currently facing, as well as to outline the responses and strategies to be considered for the upcoming years.

During preliminary discussions with the Seco, which took place in April 2012, two main points of this research were defined: The first concentrates on the issue of further developments and changes regarding the EITI principles, rules, criteria and validation processes. The second main point is to determine whether an expansion of the EITI in terms of participating countries, companies and civil society representatives is necessary.

This paper will base its conclusions on crossover opinions, analyses and suggestions resulting from key players related to the EITI from the civil society, leading companies in the extractive industry sector, and a government representative from the resource-rich EITI host country, Norway. The study will be structured as follows: Section 2 will provide an overview of the current condition of the EITI

¹ Information concerning the participants to the Initiative is based on the official EITI website, consulted on 14 May 2012.

and identify its major challenges. Section 3 will then present the specific point of view of various stakeholders directly involved in the Initiative regarding the problems faced by EITI and their proposal for improvement. The stakeholders include the Swiss-based NGO Swissaid, extractive industry companies' representatives from Shell and Glencore, and a government representative from the Norwegian development office. Section 4 will finally identify the most important lessons to be learnt from such proposals, and will address their accuracy as well as their feasibility.

2 The Initiative

2.1 The idea behind EITI

The Extractive Industries Transparency Initiative (EITI) was formally launched in June 2003, one year after the Tony Blair’s declaration in Johannesburg, which was where the first plenary conference took place.

Ever since, the EITI has been attempting to reduce corruption by improving transparency in financial flows between extracting companies and resource-rich countries (Kebusek, 2010, p. 2). This idea was inspired by the NGO coalition *Publish What You Pay* (PWYP), which has been trying for some time to foster transparency in miners’ rights and concessions (Erklärung von Bern, 2011, p. 373-374). The underlying idea is that governments and companies voluntarily and independently reveal their payments and revenues and thereby reduce the possibility for corruption on the state income level.



Figure 2: Disclosing of payment flows (EITI, 2012b)

Hence, the Initiative leads to the expectation that more of the country’s revenues would be spent on projects that benefit its population. Accordingly, EITI explains in their principles that the Initiative aims to achieve “that the revenue from extracting industries can transform economies, reduce poverty and raise the living standards of entire populations in resource-rich countries” (EITI, 2009, Art. 2.2). According to this article, EITI can be seen as an attempt to overcome the resource curse².

² The theory of the resource curse was presented for the first time by R. Auty in 1993 in his paper *Sustaining Development in Mineral Economies: The Resource Curse Thesis*.

In order to reduce corruption, EITI has introduced a catalogue consisting of 21 criteria. Resource-rich countries aiming to improve transparency are invited to implement the criteria catalogue and to undergo a validation process within a certain period of time. Once a state fulfils all the necessary criteria, it obtains an EITI compliance certification (cf. Extractive International Secretariat Oslo, 2011, p. 12-33).

The most important criterion to become an EITI member state is the establishment of a Multi-Stakeholder Group (MSG). The primary role of the MSG is to oversee and compare the disclosed company payments and corresponding government revenues. The MSG must consist of representatives of the private sector, the civil society, and relevant government ministries (Extractive International Secretariat Oslo, p. 16). With the approval of all the stakeholders, the MSG is able to publish its findings, which will then be reviewed by independent validators. Once this procedure is successfully accomplished, it provides publicly available information about how much money a country has received from the extractive industries. Due to this process, the population as a whole is more aware about how much money should be at the government's disposal thanks to national commodity earnings.

On a global level, the Initiative is overseen by the EITI Board, which takes care of the administration and of its strategic planning. Similar to the MSG, the Board consists of representatives of extracting companies, resource-rich countries, NGO's, as well as supporting countries, and is guided by an independent chair person.

2.2 The EITI Framework

EITI is based on two important cornerstones: their principles and their catalogue of criteria (cf. Extractive International Secretariat Oslo, 2011). The aim is to establish both of them as an internationally accepted standard (EITI, 2009, Art. 2.2). On the one hand, the EITI criteria have a practical orientation since they describe the required achievements that every member state has to fulfil. The requirements include regularly reporting the commodity revenues, applying international auditing standards, the checking of the payments through an independent administrator, as well as the involvement of the civil society in the monitoring and evaluation process.

On the other hand, the EITI principles contain normative claims such as "the prudent use of natural resource wealth", the use of revenues for sustainable development and poverty reduction, the demand for good governance, accountability and transparency, as well as the enhancement of an informed public debate.

Both criteria and principles are linked together. The idea is that new practices, which were applied in the extractive sector, would lead to a spill-over effect and thereby increase the public demand for further transparency in other areas. This process would correlate with the strengthening of the civil

society, which in turn would act as a driving force behind the introduction of the principles as described by EITI. As a consequence, those countries would become more constitutional and reinforced in the implementation of democratic principles. Hence, EITI's set of criteria and principles are – at least theoretically – linked together in a logical chain of results or in the so called *theory of change* (cf. Scanteam, 2011, p. 27-36).

Nevertheless, as will be exposed later, the evaluation of the achieved results in the EITI member states demonstrate a weak connection between a successful EITI validation and the implementation of a broader constitutionality.

2.3 Development Status

Having introduced the underlying idea of EITI, it is crucial to have a closer look at the actual implementation in the participating countries. Furthermore, it is important to analyse problems as well as the further development of the Initiative.

2.3.1 Members

Since its implementation in 2006, EITI has proven to be quite successful. In a first pilot phase EITI has been able to introduce their reporting system in 22 countries instead of the expected five to ten countries (Independent Evaluation Group, 2012, p. 15). To date, 14 countries have reached compliant status. Furthermore, 21 countries are currently trying to achieve an EITI validation (cf. EITI, 2012). On top of that, EITI has been endorsed by various large extractive companies as well as by top level politicians (cf. EITI, 2011) and supporting countries, such as the United States. EITI maintains a partnership with the World Bank and enjoys support from various investors as well as civil society organisations. Of paramount importance is the role of the World Bank's Multi-Donor Trust Fund (MDTF). It is meant to be "the principal source of implementation support for countries seeking to follow EITI Principles and Criteria". Candidate countries can therefore get funding for their program, knowledge and global support as well as learning support activities (Independent Evaluation Group, 2011, p. 5). As a result, EITI has become an immensely strong brand name with a global outreach (Scanteam, 2011, p. 62; Independent Evaluation Group, 2011, p. 31). Therefore, the Initiative has a solid foundation (Scanteam, 2011, p. 68) and has the best preconditions to attract further countries (Independent Evaluation Group, p. 42).

2.3.2 The implementation of the EITI standard and resulting problems thereof

As mentioned before, a country must fulfil 21 preconditions in order to become EITI compliant (Extractive International Secretariat Oslo, 2011, p. 12). The fact that the requirements are extremely specific facilitates their implementation. However, those preconditions have to be seen as minimal

demands posed by the EITI, and applicants are requested to install steps which go beyond the minimal requirements (Scanteam, 2011, p. 31). As a consequence, the implemented measures differ from state to state, which makes it difficult to assess and compare the applicant countries (Scanteam, 2011, p. 22). It was therefore correctly asserted that every country needs to be looked at individually (Scanteam, 2011, p. 31) and the EITI auditing process cannot become systemised, and, as a consequence, harmonised.

Praxis verifies theory: Whilst the case of Mongolia is described as a success story, Gabon has become a negative example (see below). Even though both were willing to obtain EITI membership, the quality of their implemented arrangements differed enormously.

An additional problem is the validation of and the limited timeframe to implement the EITI standard. A candidate country can either fulfil the requirements or fail to do so. However, the degree to which they resolved the expected tasks is not taken into account for the rating process. This narrows any attempt to further improve an EITI measure within a compliant country, even though it might be poorly implemented. Hence, there might be no further development – in terms of improvement – of a once achieved status (Scanteam, 2011, p. 42-43). This problem is aggravated by the short time which is available to implement the measures. EITI candidates are forced to rush through the implementation process within two and a half years (Extractive International Secretariat Oslo, 2011, p. 14) in order to reach the required standard. Once they achieve the EITI member status they do not feel any further pressure and might tend to slow down the implementation of further measures (Scanteam, 2011, p. 42-43). This, as a result, could lead to a reduction of sterner measures against corruption.

Two examples

The validation of the EITI candidate becomes challenging due to every country being different and having its own unique approach. Hence, it is not possible to measure everything with the same yardstick. Two examples, which are at opposite ends of the spectrum with regards both their efforts and the results achieved, are the cases of Gabon and Mongolia. The following description is intended to highlight the difficulties of the implementation process.

As already mentioned, Gabon proved to be unable to fulfil the requirements. However, there were several factors that led to this failure. Most importantly, Gabon was not able to establish a well working MSG. First of all, the members of the first MSG were replaced by the newly introduced president. Furthermore, the members of the Group were appointed by the political authority and were not representatives of the civil society. In fact, not a single member was a person of one of the communities affected by the extracting industries. The MSG meetings themselves appeared to be rather

vaguely organized and undermined by a lack of knowledge and a misunderstanding of the role of the MSG. In addition, not all extractive companies were willing to participate, which made it even more difficult to introduce the EITI standards. Due to internal difficulties, Gabon did not receive financial and technical support from the World Bank and thus the country's EITI approach was also poorly funded by its government. Not having access to further means aggravated Gabon's situation.

As a result of these difficulties, the country was not able to complete the validation process within the required time and therefore did not receive an EITI validation.

Mongolia, on the other hand, successfully introduced EITI. Having "a single party system in the Soviet model" (Scanteam, 2011, p. 17) the country tried to introduce a multiparty democracy through the implementation of several reform steps. EITI was one of several measures in this transitional process. The government itself was strongly engaged in implementing EITI and showed strong commitment in fulfilling this task (Scanteam, 2011, p. 20-21). One of two MSG is even chaired by the Prime Minister (p. 18). A very decisive reason for the strong implementation was the fact that the collection for extracting revenues was not yet regulated. The government would have lost a considerable amount of extractive revenues, which would have been paid on a regional level (Scanteam, 2011, p. 18). However, it has to be stressed that Mongolia, as opposed to Gabon, received support from the Multi-Donor Trust Fund, which proved to be very important for the successful implementation of the measures.

Although EITI was successfully introduced in Mongolia, it did not appear to have the desired effect on society. Firstly, information channels were extremely limited in scope and therefore could not reach a large part of the population. Secondly, the vast majority of society turned out to have a very low political education and showed only a slight interest in participating in politics. Hence, civil society could not yet be strengthened by the implementation of EITI measures (Scanteam, 2011, p. 20) as foreseen in the EITI principles.

2.3.3 Evaluation of EITI

The introduction of EITI as a new accounting standard in the extracting industry has to be seen as a step in the right direction. It is essential to initiate a proper standard and to create awareness of how national revenues should be handled. But EITI also sees itself as a first step in a larger process: By having introduced accountability and strengthened civil society in aspects concerning natural resources, EITI expects to have a spill-over effect which should lead to the adaption of similar measures in other domains within the compliant countries. It therefore comes as no surprise that the EITI principles are part of a much broader concept whilst providing the Initiative with its normative foundation (cf. Extractive International Secretariat Oslo, 2011).

Nevertheless, so far EITI does not seem to have succeeded in significantly increasing general awareness of accountability and transparency in government issues within the EITI member states. The strengthening of civil society must also be questioned. On the one hand, it has to be acknowledged that EITI has only recently started to introduce its principles and that such an essential change cannot be expected within a few years. On the other hand, it is crucial to understand how EITI is depicted and perceived in the member countries. Due to the lack of financial resources, the EITI, its implementation, and its reports are usually only communicated by internet. The fact that most people within the corresponding countries do not have access to the internet is ignored. Due to not being able to provide the broad majority of a population with relevant information, it is highly unlikely that a society will be able to strengthen its stake by organising itself around the topic of resource revenues. One must also consider that the EITI might be misused by governments to deceive their society, as well as by the international community with regards to their reform efforts or as a tool to reject any form of accusations.

Taking everything into consideration it has to be noted that successful obtaining the EITI compliance status does not necessarily lead to more accountability or transparency within that country. Additionally, it is rather questionable to what extent it will strengthen the civil society.

2.4 Development of the EITI standard

After the first experiences with EITI candidates and member states, it became apparent that the Initiative has a few flaws which have to be revised. As noted above, there are several areas where a wider discussion about the further development of the requirements and the development of the standard is necessary. A few ideas which came up were the introduction of a scalar rating system, a repetitive evaluation procedure, or to consequently focus on the developments on the national level instead of having a global perspective. Furthermore, there are no sanction mechanisms other than the suspension and eventual exclusion, which could be applied to put pressure on a country or an extractive company in case of a misstep (Erklärung von Bern, 2011, p. 383).

What remains probably the biggest problem, however, is the missing causal chain (cf. Scanteam, 2011, p. 27-36; Independent Evaluation Group, 2011, p. 14-15). By not providing sufficient evidence that an EITI validation leads to transparency and a strengthened society, it has to be questioned whether or not EITI has to adapt its expectations with regards to its long-time effects. Having raised this question it makes sense to newly evaluate the reasonable capacity of the initiative.

In addition, the possibility remains that other developments will influence the EITI initiative. The United States as well as the European Union are engaged in introducing legal standards such as the Dodd-Frank Act which compel extractive companies to declare their payments to the countries in

which they operate (Erklärung von Bern, 2011, p. 378 – 380). Once the requirements are put in place, they will be helpful to recognise and prevent bribery payments. Having introduced these laws, the demands of EITI can be further realised. It remains to be seen to what extent EITI has to adapt to new circumstances and whether or not it might become redundant.

Summing up the current development of EITI, it can be assumed that it might have a positive impact on a society and its government. This, however, is rather difficult to measure with quantitative means as done until now. Hence it could make sense to continue EITI as a matter of its own without peering hard at the transformation of societies or the abolishment of corruption within the entire public sector. Consequently, focusing on the further development and implementation of the EITI initiative on a pragmatic level might be a sufficient approach. The development of a proper standard over the next few years might well establish an example of accountability and democratic participation. In addition, EITI provides us with a positive example where different stakeholders (on a national as well as on an international level) engage in order to resolve a complex problem.

3 Stakeholders

3.1 Stakeholder I: Non-Governmental Organisations

The leading NGO worldwide concerning EITI is doubtlessly the Revenue Watch Institute RWI, a non-profit policy institute which began 2002 as a program of the Open Society Foundations. This NGO, funded by the Bill and Melinda Gates Foundation, specialises exclusively in addressing the problems of resource-rich countries. It promotes capacity building, technical assistance, as well as research and advocacy in order to reach an effective and transparent management of natural resources.

Revenue Watch offers very comprehensive data about EITI on its webpage (RWI, 2012): Firstly, on <http://data.revenuewatch.org/eiti/indicators/> there is a general view of the report quality indicators with many overview tables. For example, under “disaggregation” it becomes obvious which countries report company-by-company and which countries only state aggregate data. Secondly, on <http://data.revenuewatch.org/eiti/all.php> there is an interactive tool which facilitates cross-country comparisons about all the relevant indicators over several years. For example, one can see how much governments have earned and how much companies have paid.

Switzerland’s leading NGO for EITI, in a much smaller coverage than RWI, is Swissaid. This organisation supports development projects in various countries and strives for a development policy in favour of the poorest, notably in topics like agro-fuels, natural resources and food sovereignty. Lorenz Kummer is the responsible person for EITI. The following information originates from an interview conducted with him on 9 May 2012. Mr Kummer offered an overview about the most important problems of the current EITI, followed by possible solutions, from an NGO-perspective:

- One drawback of the current situation is that the **quality of reports** varies widely amongst the countries. Not all of them follow best practice standards. Furthermore, the numbers stated are often too superficial, which means that there is not enough disaggregation: The data is not broken down to a level where payments of individual companies become obvious, only aggregated sector-numbers are showed in many countries.
- ➔ To solve this matter, **best-practice standards** should be introduced on the one hand and on the other hand it is important to **lower the level of data aggregation**. This implies that reports state payments of individual firms and, in the best case, even of individual projects. So, even in remote areas of a country an exact control of revenue streams can be guaranteed. A project-by-project approach would make sure that local governments too can be controlled. Fortunately, the Dodd-Frank Act includes measures aimed in this direction.

- Another actual deficiency is the lack of **credibility** of data for some countries. For example in Niger in a specific year, the amount of payments made by companies is exactly identical with what the government received - this is unrealistic according to Mr Kummer, keeping in mind the limited level of development of the administration in this country. Thus, it seems obvious that numbers are falsified. A variance of some percentage points (not even by much) would have been more credible. Along a similar line, **political will and resources** are sometimes missing. Kummer cited an example in which Swissaid received a mandate and funds from the World Bank to create the EITI-report for Chad. However, government officials reacted adversely when being asked for the necessary information; accounting sources were dubious and the administrative infrastructure suffered from a lack of means.
- ➔ The solution to this problem depends highly on the current development status of each individual country. Every country should at least introduce **best-practice standards**, and poor countries with a deficient infrastructure need external as well as internal political support to deepen the famous “**capacity-building**”. Mr Kummer is well aware that this represents a huge challenge, not only for the implementation of EITI, but for development in general.
- A decisive point impeding the EITI’s idea of corruption and poverty reduction is the fact that **only revenues are reported** through EITI, but no further publication obligations for governments exist. Firstly, budget allocation, that is to say where money flows to, is not affected by EITI and subsequently monitoring is not possible. Secondly, the processes which happen before revenues are generated, namely the allocation of licenses and the conclusion of contracts, are not monitored by EITI either. Thus, nobody knows if governments are not cheated by firms or paid bribes or if there was a public call for proposals when handling out licenses.
- ➔ Theoretically, the solution to this is simple: **Downstream and upstream transparency**. Concerning the former, citizens should be able to see what government spending is used for. Some capacity-building, involving the creation of institutions for good governance would have to be focused on first in order to reach this step. Concerning the latter, Mr Kummer favours the publication of contracts and licenses. People should know who gets what for which price. He thinks that there is little interest in such transparency because some government officials hide behind secretiveness. For example, there are sometimes “company-constructs” that they themselves are involved in and exactly these constructs are granted the licenses...
- ➔ Another possibility mentioned by Lorenz Kummer aiming at broadening the reporting scope is to **include national oil companies (NOC)**. Many countries have a state-controlled NOC which often either produces oil itself or sells oil from foreign companies. For example in Nigeria, BP pays the government royalties in oil (in kind). This is registered by EITI, but not the

profits the NOC makes selling this oil again. Another potential for improvement are the production sharing agreements, meaning that an NOC and a foreign company form a joint venture. Such constructs have mainly been non-transparent so far, because it is not stated who gets which part of the commonly produced oil. Overall, including NOC's activity in EITI offers the chance for enhanced transparency and thus corruption reduction. There would be far-reaching implications for Swiss companies like Gunvor or Vitol, which would have to show their profits from such joint ventures.

- Contemplating the relatively small number of countries in the current EITI, Mr Kummer would like to see **more countries** joining the initiative. Especially BRIC- or OECD-countries like the US or Australia could clearly raise the initiative's importance. However, there is some danger that countries and especially companies abuse EITI as a shelter from binding rules, just joining for PR reasons and opposing compulsory reforms on the other side.

Mr Kummer does *not* think that EITI should commit to strengthening the **civil society** NGOs in poor countries implementing the Initiative. This is a capacity-building task that has to be done by Western NGOs or governments. Otherwise, EITI as a multi-stakeholder approach would lose its independence. It is not possible for the initiative to actively support only one of its stakeholders.

Concerning the expected enlargement of **binding regulations** like the Dodd-Frank Act in the US or the Transparency Directive in the EU, Mr Kummer does not think that EITI will lose its importance. There is not a complete congruence of aims and regulated areas. Therefore, the different rules may well **co-exist** and even complete each other. Furthermore, EITI only applies to a limited number of countries while binding regulations are generally confined to the lawmaker's territory, although the Dodd-Frank Act is binding to all companies registered at a US stock-exchange.

The most attractive solutions for Kummer would definitely be **globally binding regulations**. However, he does not see who could make this happen and furthermore who should impose its rules juristically. A UN type convention is not currently being planned. A further push on OECD- or G20-level after the implementation of US and EU regulations seems more realistic. The most realistic and urgent step on a global level at the moment is a **reform within the International Financial Reporting Standards IFRS**. There are rules concerning the extractive industry, but they do not yet work well. Thus a revision is necessary. One issue is that companies should effectively be forced to apply internally the same transfer prices as externally on the market.

3.2 Stakeholder II: Companies

In the branch of commodity trade, beside the resource-rich countries, the extracting and trading companies play a crucial role and also hold a key position in the context of EITI. Unlike the final consumer and the states of residence of those companies, they themselves have direct contact with governments particularly in the resource-rich partner countries. Therefore, they have the ability to actively contribute and accelerate the enhancement of transparency, in terms of the disclosure of payment flows.

In the framework of this paper, the focus lies on two big corporations, namely Shell and Glencore. The peculiarities of their engagement in terms of EITI, viz. increasing transparency, encouraging the participation of new member states and contributing to the effectiveness and long term benefits of the Initiative, will be highlighted in the following section.

The commodity trading companies are represented in the third constituency of the EITI Board; three delegates of the oil and gas sector as well as two of mining companies.

The following section will first focus on the oil and gas companies, represented in this case by Royal Dutch Shell, and will then switch to mining and commodity trading companies, represented here by Glencore plc.

3.2.1 Royal Dutch Shell

Beside Chevron and StatOil ASA, Shell holds the third chair of the gas and oil firms engaged in EITI and is therefore in a leading position to further the Initiative. Currently, Mr Alan McLean is fulfilling this task, assisted by the legal counsel Mr Lodewijk van Weezel, who provided an interview³ regarding this matter.

The driving force and main reason for Shell to participate in the EITI in the first place was its true belief “that transparency can make a difference in terms of improved accountability.” It is a fact that straight after Shell’s payment to the government it was cooperating with, there was no way to exercise control over these financial means and their appropriation (for which reason *misappropriation* might be a better description considering the political and economic circumstances in several partner countries). Therefore, it became a core issue for Shell to enhance the accountability and transparency of its payment flows to the recipients.

³ Interview conducted on 3 May 2012

All information provided as part of this paper is intended to be general in nature and should not be relied on as the only base for decision-making. This paper presents the opinions of the author. It does not reflect the views of Shell. Shell is not liable for any action that may be taken as a result of relying on this information or for any loss or damage suffered by a person as a result of that person taking this action.

Furthermore, it was and still is Shell's persuasion that payments disclosure is to the benefit of the whole country in general and its population in particular.

Apart from these seemingly altruistic points, it has to be admitted that Shell itself can profit from increased transparency; doing business in a stable and constitutional state is not only easier and less laborious but also cheaper due to lower security costs and fewer legal barriers. "Big corporations such as Shell prefer to operate in countries that have a good and transparent record" van Weezel can be quoted in a nutshell.

Problems

An aspect regularly discussed when analysing the EITI is the fact that membership is on a voluntary basis. One can ask oneself how effective such a well-meant initiative can ever be as long as the participation is based upon each country's free will. It has to be questioned whether the states, and therefore the responsible decision makers at the top, who currently benefit the most of the non-transparency, will ever be willing to voluntarily adopt the EITI's principles and criteria.

When discussing the reasons for critical countries' non-membership, Shell representative van Weezel approaches the matter from a different angle. In his opinion, the causes for not taking part can be various, but are not the states' reluctance in the first place; the reasons range from not seeing the sense of participation, to lacking financial resources for implementation and insufficient instruments for control. What one tends to forget is that with EITI and the member states' commitment to fulfil the requirements, immense costs are generated, which especially developing countries are not capable of recovering to the full extent. This issue brings with it two areas of concern: Firstly, the decision to commit to such an initiative should not depend on monetary variables, especially when the states that are being focused on are such in extreme poverty. It is highly equivocal that due to their commitment to EITI, they might have to waive other public projects. And secondly, it cannot be the intention of EITI and its initiators that basically candid states are being monetarily "penalised" for their engagement.

Regarding this negative point, it seems evident why van Weezel states that "the countries really need to be convinced by the benefits of the model [...] and we need to collectively motivate everyone to take part". According to the Shell representative, one of the big questions is also "how to make the Initiative more attractive for everyone and for countries to implement it". Exactly this increased attractiveness could in the first place be achieved by lowering the costs, and therefore the monetary burden, imposed on states in favour of implementing EITI. An already applied instrument is the mentioned trust fund of the World Bank, which is referred to by van Weezel as a "very good fund and great idea". But despite its utility and profitableness, there is still a lot of unused potential for improvement and not only the World Bank but also companies "could still do a lot to build capacity".

Speaking of companies, Shell itself contributes not only through its engagement and dedication to EITI in the context of the Board, but also by actively participating in the discussion about transparency and accountability in the various countries the company is operating in.

Looking at the Initiative and its effectiveness, van Weezel also points out not only to focus on the directly affected stakeholders such as companies and countries, but also to have the wider context in mind. It is not solely the governments of certain states that can be held responsible for the widespread practice of misappropriating public funds, but indirectly also, for example, the banking system and tax laws of industrial states, namely Switzerland. In van Weezel's opinion, the aspiration of increasing transparency, accountability, fair national distribution of commodity trade revenues, etc. has to be adopted) globally and comprehensively. If the aim is to prevent the misappropriating of public funds, then every possible incentive and possibility to do so must be diminished and eventually eradicated.

Suggestions for improvements

After having listed the main flaws of the Initiative, van Weezel also identified some potential starting points for improvements and overall aspirations that the EITI is (or should be) heading towards.

First and foremost,

- **EITI has to become global.**

As long as the Initiative is both concentrated on certain regions and branches, various players and supporters are excluded from the beginning. It is crucial that more countries join EITI "that it really becomes a global initiative". The more support the Initiative can rely on, the more effectively, assertively and sustainably it can operate and implement its standards.

Secondly,

- the **inspections** have to be conducted **more regularly**

and

- the **implementation** has to be **observed more in detail and in-depth.**

Instead of a more loose commitment, the participating countries have to be checked and reassessed on a regular basis. This way, the enduring compliance of the accepted EITI criteria is guaranteed and in case of irregularity or contravention, the deficient state can immediately be held responsible. Thanks to the "very clear EITI rules", the predetermined path is simple to follow and the required standards easy to adhere to.

Furthermore,

- **all involved commodity trading companies** have to be **included**

Full transparency cannot be guaranteed as long as there are still trading companies which insist on not declaring the payment flows to governments. The participation of the *Big Players* is crucial, not only for the widening of the EITI membership but also for the credibility and image of the Initiative. Up to now, only the companies operating in an EITI member state are obliged to fulfil the Initiative's requirements and to disclose all payments. But the aim should be the participation of all commodity trading companies worldwide. Moreover, the participation is beneficial for the companies, too. Operating in a stable, secure and reliable environment is cost-saving and reduces both length of time required as well as the effort overall. Moreover, the business relationship is more promising and of longer duration when built on solid foundations rather than when subject to constant uncertainty and vagueness.

And finally,

- the **process of control** should be **more systematic**.

Instead of irregular controls (and insufficient in number), it is preferable to establish a thorough and mechanical process with pre-set standards and clear guidance. Not only is the work of the EITI inspectors made easier, but also the abidance by the states is simplified. Eventually, the entire process and with it EITI as a whole would attain an increased robustness, consistency and durability.

Apart from all these toe-holds and in contrary to the writers' presumption, Shell representative van Weezel is convinced that today's instruments for penalising are sufficient and that there is no need for further intensification. The fact that the mechanism of suspending and eventually delisting works out well can presently be seen by the examples Yemen and Madagascar.

In truly believing that "EITI improves the stability of those countries participating", it is highly important for Shell that the suggested improvements are being achieved and that its work in currently unstable countries is slowly but surely made easier.

3.2.2 Glencore plc.

Unlike Royal Dutch Shell, whose activities are only limited to the oil and gas industry, Glencore, with its headquarters in Baar, Switzerland, is one of the world's leading integrated producers and marketers of commodities. Glencore has worldwide activities in the production, transporting, financing and supply of metals and minerals, energy products and agricultural products. (Glencore, 2012a)

Regarding its involvement with the EITI, Glencore is not member of the EITI Board like Shell but a supporting company. This difference in status means that Glencore "takes part in the global governance of the Initiative, through their country operations in implementing countries, and through in-

dustry associations” (Glencore, 2012b, p. 1). More concretely, it means that the company does not actively participate in negotiations at the EITI Board in Norway, but has engaged to comply with EITI rules and requirements in countries participating in the Initiative (Columbia, Kazakhstan, RDC, Peru and Zambia)⁴. It is important to stress that it does not require the company to fulfil such requirements in EITI non-member countries.

The reasons for the non-participation of Glencore in the EITI Board are not based on a lack of willingness of the company to get involved in the organisation. Indeed, it is considered as a “very good approach with a very high potential”, according to Dr Michael Fahrbach⁵, head of sustainability at Glencore, but more related to the very recent involvement of the company in the EITI⁶. “Glencore, as a newcomer, seeks a gradual involvement in the EITI and wants to first to see how EITI is prepared to represent companies” comments Fahrbach.

In fact, Glencore has a limited extent of involvement in such initiatives as traditional policy. The Reason for this approach is, according to Fahrbach, the recurrent mismanagement of resources in countries where the company has been involved in development programs. Resources allocated by Glencore to such programs had a lack of positive effects on the populations and discouraged the company from continuing to provide such support. In this context, an initiative like the EITI, which promotes the disclosure of revenues and thus aims to improve governance quality and the management of resources, is “dealing with the right problems”, according to Fahrbach, and is the reason why Glencore stepped in.

Problems

Regarding the limitations and problems that the EITI is facing, the question of the limited number of participating countries in the Initiative has often been raised (Scanteam, 2011). One can ask if the non-participation of *Big Players* in the extractive industry such as South Africa, Brazil or China harms the effectiveness of such an initiative. When discussing the reasons for such critical non-memberships, Fahrbach considers another issue to be more critical: the low number of EITI compliant countries relative to the number of candidates.⁷ Considering the slowness of the process from being candidate to being compliant, and the fact that recently little progress regarding new compli-

⁴ While Peru is a compliant country, Kazakhstan, Zambia and more recently Columbia are only candidates and did not fulfill the EITI requirements yet. (EITI, 2012a)

⁵ Interview conducted on 14 May 2012

⁶ Glencore announced its support for the EITI in September 2011 (EITI, 2011b).

⁷ As of May 2012, 13 countries (Yemen is temporarily suspended due to political instability) are compliant and 21 are still candidates (Madagascar is suspended for the same reasons) (EITI, 2012a).

ant countries has been achieved, he suggests that “first the EITI should close the application process of countries before seeking more members. It would indeed be a better message for non-joining countries if more EITI candidates were becoming compliant.”

Fahrbach also raised the question of the limited visibility of the EITI. He naturally attributes it partially to a lack of available resources, but more importantly to insufficient branding efforts from the Initiative. To illustrate this point, he mentioned that he attended a hearing of the British Parliament related to the tax policy of companies in developing countries where the DFID⁸ is active. During the session, the topic of which was directly related to the issue of transparency and the disclosure of revenues in countries where mining and oil are prominent, the EITI was only barely mentioned, despite its high relevance regarding this issue.

Critics have also recently emerged, who are concerned about the inconsistency of the validation process between countries. (Scanteam, 2011, p. 43). With regards the discussion as to whether the EITI requires further harmonisation in terms of the criteria for EITI compliance between countries – for example through the creation of a scaling system or different level of EITI standards – Fahrbach provides a mixed answer. Whilst opposing the principle of an international scaling system which would make all countries comparable, he sees the availability of such a comparison at the regional level as positive (e.g. among Sub-Saharan African countries). The argument is justified by the fact that “it is difficult to compare countries since cultural, social and economic specificities shall be taken in account [...] in this context, Kazakhstan shall not be compared to African countries”. In the same way, comparing Norway to any other developing country member of the EITI would not make sense since the country joined the Initiative more for exemplary reasons because the EITI is based in Oslo. Fahrbach also stresses the potential increase of administrative costs which would generate such harmonisation of the EITI standard. For an organisation which already faces issues related to the limited availability of resources, this might become problematic.

Finally, the question of the EITI’s efficiency, which is difficult to assess, has briefly been discussed. On this topic, Mr Fahrbach passed a few general remarks. Firstly, he does not think that malfunctions of the EITI are caused by the lack of collaboration from companies. On the contrary, he has “the feeling that companies are generally keen to collaborate with the EITI and see no problems regarding transparency issues”. Secondly, the difficulty for him is sometimes to clearly understand what exactly it means for a company to support EITI, or for a country to be EITI compliant. As an example of this

⁸ The UK Department for International Development

blurry definition of requirements and status, he explains that Glencore is often blamed by NGOs for not producing enough sustainability reports in EITI participating countries. However, he argues that the EITI does not request the publication of such reports, but only the disclosure of government taxes. Thirdly, Fahrbach regrets the fact that it is difficult to see what the actual impacts of the EITI are, once the accounts are publicly disclosed.

Suggestions for improvements

Despite the fact that Glencore's involvement remains so far relatively low in the context of EITI, Fahrbach has also identified some starting points for potential improvements for the Initiative. Since the company is at this point not actively involved in the decision-making process of the EITI, Fahrbach has stressed that his remarks remain general suggestions, and thus further research shall be conducted in order to confirm their accuracy.

- More **EITI applications** should see their process being **completed** and the **number of compliant countries** relative to candidates should be **increased**.
- The **application process** for countries should be made **shorter**, and **countries** should be **downgraded or kicked out** of the process **in case of failure to fulfil the requirements** within the specified time frame.

The high number of long-term candidate countries that have not fulfilled the EITI requirements is problematic and harms the credibility of the Initiative. The new 2011 rules of the EITI impose clear application processes deadlines (but can still last in total three and a half years) and include the possibility for countries to be delisted (EITI Secretariat, 2011). Nonetheless, their effective implementation is still to be proven (so far, no country has been delisted). It is indeed an unpopular measure and may be difficult to implement, but it is necessary in order to sustain the EITI credibility.

- **Greater support from the United Nations** and other International Organization to the EITI is needed.

The lack of visibility of the EITI is highly problematic. Due to the limited resources of the organisation, large-scale advertising is not likely to be considered. Thus, IO's with larger budgets and well established networks should show extensively public support towards it in order to raise awareness of its existence. Regarding the UN, after the 2008 resolution showing support to the EITI (United Nations, 2008), public support from the organisation has been limited, or at least not been publicised enough. Regular declarations confirming the UN support to the EITI should be considered. The World Bank does important work in this matter, very often including the compliance to EITI rules in its govern-

ance programs, as was the case in Nigeria and through the Multi-Donor Trust Fund. (World Bank, 2009; IEG, 2011).

- **Global harmonization** of the **EITI standard** is **not necessary** and may generate too high costs. However, **levels of comparison** between EITI compliant countries at the **regional level** must be considered.

Structural differences between countries do not allow a harmonisation of the standard at the global level, and the effective implementation of EITI requirements at the local level (through laws, etc.) should fit the country's characteristics. However, the impossibility to assess the differences between two EITI compliant countries regarding transparency remains problematic and can be solved by creating a comparison system among similar countries.

Because of the fact that Glencore believes that the Initiative addresses a key issues related to development in resource-rich countries, the EITI is one of the few initiatives for which the company is showing effective support. Thus, it is important for Glencore to see in the near future if the current problems the EITI is facing now will be resolved in order to consider potential further involvement in the organisation.

3.3 Stakeholder III: Countries

The last stakeholder group is the EITI-implementing countries. This is the most decisive group, because it is in the countries where EITI finally gains practical relevance. Every company operating in those countries, regardless of its particular attitude to EITI, has to follow their rules. So far, only slightly more than a dozen countries are fully EITI-compliant, and what is even more obvious is the fact that only one OECD-country, namely Norway, is part of them. Other OECD-countries do at least support EITI, for example like Switzerland does.

At the moment, the future strategy of EITI is being discussed in the EITI Board and the countries have not yet developed their final position. Nevertheless, Harald Tollan, a senior adviser in the Section for Multilateral Development, Financing and Global Economic Issues of the Royal Ministry of Foreign Affairs of Norway, kindly provided us with a short assessment of EITI in its current situation and with propositions for its development.⁹ However, it has to be kept in mind that these are points currently being discussed and cannot be seen as an official position of Norway.

⁹ Interview conducted on 15 May 2012 by email

I believe most actors realize that EITI is limited in its focus on taxes paid/revenues received. If the idea is to reduce corruption it would help to extend transparency both upstream (exploration rights, contracts etc.) and downstream (public financial management, use of revenues). The companies will not necessarily agree that transparency should be extended along the value chain and believe there must be some confidentiality. A serious challenge to EITI in the future will be to make sure that complying countries have something to “strive for”. Norway easily complies and would have published most of the data even without EITI, including their major company, Statoil. So how to make sure that there is progress that all countries continue to improve. One possibility is to differentiate what compliance means, for instance by introducing some sort of scoring system which would reward transparency going further than the strict EITI-criteria. There are many other possible ways of doing this, but the bottom line is that a discussion is ongoing, which will probably try to make EITI relevant in the future and an attractive option for countries that would like to demonstrate a commitment to transparency and good governance. I believe Norway will favour one or several of such proposals to extend the EITI-concept and make it a bit more ambitious.

A very positive aspect of EITI which should not be lost in any future strategy is the national stakeholder groups, bringing together national authorities, companies and the civil society. In many countries this has created extremely valuable dialogue and participation.

Rather than there being a limitation in inclusion of national oil companies there is a need to include more countries. The decision of the US to join EITI is extremely encouraging. So far, Norway had been the only OECD-country implementing EITI and this is not the best signal to send to poorer, developing countries. Our own credibility is enhanced by showing we are ourselves willing to undergo the scrutiny. Another positive development has been the involvement of Chinese companies, although China, of course, is not participating in EITI. Chinese companies participate in about 10 different stakeholder groups, and in a few cases chairing them.

To conclude, the whole discussion about the future is still taking place, so it’s a bit early to state positions. But I think it’s quite clear more ambition will be added, although some people would say that EITI has been a success with its simple format and should not risk destroying that by complicating or expanding it.

And I would love to see Switzerland join EITI. Companies based in Switzerland conduct up to 25 % of global trade in commodities, and much more for certain of the fossil fuels and minerals.

The following enumeration summarizes the essence of the proposals made by Harald Tollan:

- **extend transparency** both upstream (exploration rights, contracts etc.) and downstream (public financial management, use of revenues)
- introduce a **scoring system** in order to differentiate what compliance means, so that every country can step forward with intern improvements
- **preserve the national stakeholder groups** which offer the frame for a very valuable intra-country dialogue.
- support the **adhesion of more countries** to the EITI, especially OECD countries as the US or Switzerland too

4 Suggestions for improvement

After having examined the three EITI stakeholders, it is crucial to contemplate the Board's position in relation to the Initiative's evaluation before evaluating, comparing and assembling the discussed points. Not only the constituencies, but also the members of the Board have realised that EITI has elementary deficits.

In the EITI Strategy Review (Strategy Working Group, 2012), the Board raises fundamental questions concerning the effectiveness as well as actual results and benefits of the Initiative. They point out that unfortunately, the Initiative obviously lacks a sufficient impact and it has to be questioned whether it really helps in practice to improve today's governance of natural resources. Furthermore, they identify the missing *theory of change* as an intrinsically basic prerequisite to formulate realistic prospects for any future direction of impact and that higher-order goals should be promoted. Overall, the Board observed a significant change in the global context to which the Initiative has to adapt quickly.

It is conspicuous that in regard to the EITI's flaws and the necessity of change in its design, all stakeholders and participants seem to agree. But: They differ fundamentally in their proposals for improvements, which shall be the operative point of the following section.

4.1 Suggestions of the EITI Board

Even though the Board is convinced of the necessity to develop the Initiative further, it should be noted that they still leave a wide range both for interpretation as well as for modification. In short, three main aspects:

- **Improvement of the quality of EITI implementation** within the current rules
- **Addition** of more types **of information** to EITI reports
- **Strengthening the linkages** between the EITI and its broader context

(Strategy Working Group, 2012).

But not only do these truly basic points clarify the Board's indecisiveness; neither the voluntary or mandatory character nor the validation process or preferences of starting points are clearly highlighted. For better or worse, some measures have to be taken to improve the Initiative's impact, to increase its quality and to prepare and adapt for future developments.

4.2 Suggestions of the stakeholders

Luckily, the four interview partners and representatives of the constituencies were more precise. They all agree, that today's practice of lumping together all data from the countries', regardless of

their individual peculiarities, is neither fair nor fruitful for any sort of comparison. In order to improve this circumstance, the suggestion of establishing a

- **scalar system**

finds broad support. The yet adapted yes/no-criteria are simply too unspecific and allow no distinction between a perfectly performing state and a just sufficiently one.

Additionally, both the Norway representative as well as Mr Kummer pointed out the usefulness of an enhanced

- **downstream and upstream transparency.**

This proposition focuses on even more detailed disclosing and goes therefore beyond the original Initiative's requirements. It seems comprehensible that with the publishing of revenues only half the distance of the way towards more transparency is covered. It is one question to disclose the government's liquidity, and it is a different one to ask for its disposal.

A third point that has been raised repeatedly is the urgently needed

- **stronger support, both in promoting and financing the Initiative.**

When comparing the stakeholders' statements, it is conspicuous that all other mentioned suggestions for improvements are somehow connected to this simple point. The whole project stands and falls with its degree of publicity and the resulting international monetary support.

Lastly, it would be a good idea to extend the EITI and promote

- **the uptake of more members**

However, while Mr Kummer and Mr Tollan favour more countries, especially OECD-countries, to start the application process, Mr Fahrback from Glencore favours to accelerate the adhesion of those countries already in the process.

4.3 The group's final suggestions for the SECO

It is an unquestioned fact that some alternations or diversification have to take place in order to make the Initiative in the long term a true success story and not only a well-meant "nice try".

Notwithstanding Switzerland's scope and scale, the country is in an extraordinary position due to its disproportionately high number of commodity trading companies. But this special status is twofold: On the one hand, it supports the Swiss economy enormously and advances the country's status internationally. But on the other hand, with the prestige came the duties. Especially NGOs expect the state to take a sterner stand in the discussion about fairness, the disclosure of payment flows and the fight against corruption. But also globally operating companies such as Royal Dutch Shell point their fingers towards Switzerland; in their eyes, financial systems such as the Swiss one facilitate the embezzlement and misappropriation of public funds and result in it being accused of being a *safe haven* for corrupt governments to hide the countries' revenues.

Keeping this in mind and recalling Mr Fahrbach's¹⁰ and Mr Tollan's¹¹ statements, it seems inevitable for Switzerland to take action. The following propositions include two kinds of requests:

- **Switzerland should become a “member” of EITI**

Admittedly, Switzerland itself is not a resource-rich country and could therefore not become a compliant state in the original sense of the EITI membership. But the creation of a supplementary status for resource-poor countries that are highly involved in the extractive industries sector through other channels, such as commodity trading, would be welcomed. Through this step, Switzerland would set an internationally recognised signal and could act as a role model and truly contribute to the enhancement of the international degree of popularity and support. When looking at other initiatives of the NGO *Transparency International*, such as the yearly published *Global Corruption Report* and the significance this publication already attained, it should be one of the core goals of EITI to emulate this successful example. Thus, together with a systematic **promotion** and the resulting increase in reputation of the Initiative, the EITI membership could become an internationally accepted and respected brand.

By becoming a member, Switzerland would not only promote the publicity of EITI, but also boost the before criticised credibility of the Initiative. Hardly any other country could make a bigger impact than Switzerland: Long-term OECD-member, well-known for hosting several *Big Players* of the commodity trade, adhering to the bank secrecy and nevertheless convinced that the EITI is precious and has to be supported. Although it would definitely be a breach of common practice, this step could be the key to getting out of the dead end street the Initiative seems to be stuck in at the moment.

Moreover, thanks to a more intensive corporation through inclusion, the process of establishing **best-practice standards** and a controlled **capacity-building** are not merely negligible, but in the centre of activities. When assisting developing countries in introducing high-standard auditing systems, Switzerland could furthermore reduce the monetary burden imposed on the states willing to subscribe to transparency.

- **Several modifications should be made within the EITI organisation**

The first idea is that **subgroups** should be established within the compliant states, in which countries with a similar profile can be compared to each other. This not only raises the significance and value of the results, but also allows both the absolute and relative comparison of countries, viz. what degree of transparency they already achieved (status) and what improvements they succeeded in im-

¹⁰ Glencore would in fact be willing to publish more details of its payments to governments but the “blurry definition and requirements” of the EITI do not demand for them.

¹¹ For the credibility of EITI it is crucial that more OECD-countries join the Initiative.

plementing over the past year (process). If this course of action is adopted successfully in the area of transparency enhancement, the same pattern can be applied to related problems such as the advancement of good governance, investment security, and eventually poverty reduction.

When classifying the compliant states into reasonable groups, it also holds out Mr Fahrbach's opposition¹² to **more member states**; the process of becoming a compliant state is not expected to be slowed down by, for example, countries of the OECD as their accounting and reporting systems are highly developed and on a sophisticated level. In contrary, it can be assumed that the application process would be accelerated thanks to the assistance of prosperous, well-institutionalised and developed countries.

In the same way, when having regional subgroups, a **scalar system** is feasible on a regional level too. Today's yes/no criteria have to be replaced as soon as possible, because this method has one major negative effect: It fosters a minimalist attitude, both of the well-performing members and of the just sufficient ones. As long as there is no instrument of measurement and, later on, even rewards for outstanding good governance, especially the poor countries will settle for providing only the mandatory disclosing of revenue and nothing more. The general implementation of a scalar system is unquestioned, but whether it is established at regional or global level will be part of the EITI Board's discussion and negotiation.

Last but not least, **extending transparency both upstream** (exploration rights, contracts) **and downstream** (public financial management, use of revenues) is a crucial point, perhaps even the most decisive, for a successful development of the EITI.

¹² Regarding the high number of candidate states and the relatively low number of compliant state, Mr Fahrbach advocates to first succeed in transforming the candidate states into compliant, rather than seeking for more applicants.

5 Conclusion

The aim of this paper was to develop recommendations for the Swiss State Secretariat for Economic Affairs on how to proceed concerning the Extractive Industries Transparency Initiative in the next board meeting. These proposals are not only based on a theoretical evaluation of the EITI, but also on interviews with relevant stakeholders. Furthermore, in a preliminary discussion with the Seco in April 2012, two main points have been identified on which the EITI should focus: on the one hand, an extension of membership is to be pursued and on the other hand, internal changes within the EITI organisation, concerning rules and criteria seem crucial for greater success.

The evaluation in this paper results in two main proposals, presented in chapter 4:

1.) Switzerland should become a full adherent of EITI

Switzerland hosts several *Big Players* of the commodity trade, is a long-term OECD-member and convinced that the EITI is valuable and has to be supported. The full adhesion of Switzerland (and of other OECD-countries) to the EITI could promote the Initiative and increase its reputation. This is important for this Initiative, as it is suffering from a lack of branding. Within the EITI, Switzerland could be of use with its high capabilities to strengthen for example **reporting standards** or **capacity building** in poor countries related to EITI.

2.) Reforms inside the EITI organisation should be promoted

Establishing **subgroups** within the compliant states would facilitate an inter-country comparison of levels of compliance. To enhance the incentive structure a **scalar system**, on regional and/or global level, should replace the current yes/no-logic. Probably the most crucial point at the actual stage is an **extension of transparency** both upstream (exploration rights, contracts) and downstream (public financial management).

The process that has led to these proposals went through various stages:

- Chapter 2 provided the reader with an overview of the EITI framework, its members as well as the actual challenges. Crucial is the fact that the theory of change, respectively the casual chain from transparency enhancement to corruption and poverty reduction, does not automatically work as expected, even in countries like Mongolia where EITI was successfully implemented. Thus, when aiming at future development, new measures have to be considered.
- Such measures with regards to the proposals were discussed in the interview-chapter 3 from the perspective of the affected stakeholders and based on a wider problem analysis than in chapter 2. For the authors of this paper it was a central concern to include all stakeholders and this aim was

reached: Swissaid as most specialized NGO on EITI in Switzerland stated its view; on a company level both Shell from the oil and gas sector and Glencore from the mining and trading sector contributed and finally Norway as an implementing country too. Non-controversially, all stakeholders agreed that the EITI need change and on several occasion proposed identical or similar measures, but there are some differences in details or main focus.

- Chapter 4 filtered out common points of the stakeholder's proposals after having taken reference to the inputs from the EITI board in the EITI Strategy Review (Strategy Working Group, 2012), which can be resumed as unspecific, thus showing the Board's indecisiveness. The four points were derived from the interview partners, namely the establishment of a scalar system, transparency extension, stronger financial and promotion support and membership extension, served as direct basis for the proposals evaluated for the Seco, thereby closing the cycle.

It is important to note that the two main proposals should not be seen as exclusive. The Seco should, of course, support any step which is constructive and output-orientated towards and is taken towards weakening the "resource curse". Especially binding regulations fall into this category, like the Dodd-Frank Act in the US or the Transparency Directive in the EU. Also, within Switzerland binding regulations should be considered, as long as they do not disproportionately harm the country's economic interests.

The EITI is still a young Initiative and change is possible – this paper gives a large number of ideas. It will be interesting to observe which steps are focused on at the upcoming Board meeting in Lima in June 2012.

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