

EITI 2011

Learning from Success and Challenges

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ABOUT THIS SERIES

Improving report quality and expanding the use of their contents are priorities for EITI. RWI has analyzed the value of report data and assessed the quality of EITI reports from 23 countries. These and other resources are available at: renewatch.org/EITreports.

Summary

Growth of the Extractive Industries Transparency Initiative (EITI) has surged over the last year at both the national and international levels. Increased participation also brought delays, however, along with questions about EITI’s effectiveness and impact. Drawing on results of a survey of civil society stakeholders and a review of validation reports, the Revenue Watch Institute (RWI) has explored lessons from the successes and challenges of EITI implementation, with an emphasis on views of civil society from implementing countries.

Civil society’s overall assessment of EITI is positive with more than 90 percent describing the initiative as either “successful” or “very successful” both in their own country and internationally. Further analysis, however, reveals that there is considerable room for improvement.

Although the EITI process has contributed to greater interaction and dialogue between stakeholders in implementing countries, the relationship between stakeholders is not always perfect, and meaningful engagement by all stakeholders could be strengthened.

Civil society stakeholders in particular could benefit from clearer elaboration of the important role they play in the initiative and the respect they are due from other stakeholders. This is in response to the unacceptable threats and intimidation that civil society sometimes faces when participating in EITI.

While supportive of the transparency goals of the initiative, respondents suggest that accountability is equally important. To meet the objectives of transparency and accountability, the initiative will have to become more integrated with oversight mechanisms. It is also imperative that the quality of EITI reports improves. Proposed changes to EITI rules to provide more guidance on preparing the reports will go a long way to address some of the most common problems, but there are other areas that also need improvement if the reports are to be relevant and useful to all stakeholders.

Finally, the paper finds that implementing countries need to take several steps to ensure they reach “compliant” status in a timely manner. International supporters can assist countries with these steps by assessing financial and technical capacity needs early and coordinating to make sure they are met promptly.

Contents

Summary	1
Introduction	2
Survey methodology	2
Endnotes	8

Briefing

ABOUT THE AUTHOR

Page Dykstra, a program coordinator at RWI, has worked extensively on issues related to EITI.

Introduction

Since its launch in 2002, EITI has grown into a globally recognized standard for transparency of revenues from the oil, gas and mining sectors. Growth of the initiative surged during the last year at the national and international level, with 33 implementing countries (as of Feb. 1, 2011). As the first group of candidate countries moved toward their validation deadline of March 2010, considerable work was done on EITI reconciliation reports and validation processes. These efforts continued through 2010 and into 2011, as more than 15 countries completed their validation processes and 23 countries published reconciliation reports. A wealth of data on government revenues and company payments is now publicly available, much of it for the first time.

With increased activity came delays, along with questions about the effectiveness and impact of EITI. Of the 22 countries whose original validation deadline was March 9, 2010, only three completed the process on time; 16 others got extensions, two were delisted, and one was suspended). While the spike in the number of total reconciliation reports should be celebrated, the results of validation that assesses the quality of those reports as well as the implementation process have been mixed. Only five of the 17 countries whose validation has been reviewed by the EITI International Board achieved compliant status.

As a founding member of EITI, Revenue Watch is invested in the initiative's success and continued relevance as a leading global standard. As a critical observer as well as an active participant and supporter, RWI believes there is an opportunity to strengthen the EITI through critical reflection and analysis of the work to date.

The following analysis presents the results of a questionnaire of civil society stakeholders from EITI implementing countries, along with a review of the validation reports and corresponding EITI International Board decisions as of January 2011. In sharing the results of this civil society survey, RWI seeks to complement the civil society voices from those countries in discussions about the future of EITI, highlighting common trends.

Survey methodology

RWI created a questionnaire to survey the perceptions of civil society stakeholders on EITI in implementing countries.¹ The questionnaire is based on EITI Principles and Criteria, and incorporates issues and concerns that have been raised both formally and informally at the international and national levels.

The questionnaire is divided into five sections with an emphasis on identifying opinions regarding the successes and challenges of EITI thus far as well as priorities for the future of the initiative:

- I. Overall perceptions of EITI at the national level
- II. Assessing achievements at the national level
- III. Identifying challenges at the national level
- IV. Overall perceptions of EITI at the international level
- V. Next steps at the national level

The majority of questions are multiple-choice with the option to add an answer not already available. Several multiple-choice questions are also complemented by a similarly worded, open-ended question to allow respondents to further elaborate their views as well as verify that significant answers weren't omitted from the multiple-choice questions. Finally, there are a number of questions that ask respondents to rank or prioritize their answers.

Questionnaires have been collected from civil society in 24 of the 33 countries currently implementing EITI.² Although only one questionnaire was collected per country, a group rather than an individual often completed the survey, and respondents were asked to reflect on wider civil society views in their country rather than drawing on individual or organizational opinions. In most countries, the Publish What You Pay (PWYP) coalition coordinator or similarly designated representative was the primary contact for collection of the questionnaire. At least one civil society participant in the national EITI multi-stakeholder group (MSG) participated in completing the questionnaire in each country.

RWI staff collected the first group of questionnaires at the PWYP International Conference in November 2009, and the remaining questionnaires have been collected via email or by RWI staff during 2010. Questionnaires were available in English and French. For respondents not fluent in these languages, the questionnaire was completed via interview with RWI staff translating from the original English version.

Multi-Stakeholder Benefits of EITI

Civil society’s overall assessment of EITI is positive with more than 90 percent describing the initiative as either “successful” or “very successful” both in their own country and internationally. This recognition of the achievements the initiative has accomplished thus far should encourage further examination of the strengths that can be built on, as well as the weaknesses that still need improvement.

The survey asked respondents to identify the three key areas where their country has been most successful in EITI. Civil society stakeholders’ responses focused primarily on stakeholder engagement in the EITI process (28 percent said “civil society engagement in the process,” 21 percent said “establishment and functioning of the MSG,” and 10 percent said “company engagement in the process”). However, respondents also express strong achievements in the outcomes of EITI such as “increased dialogue,” “transparency,” and “trust between stakeholders” in open-ended questions.

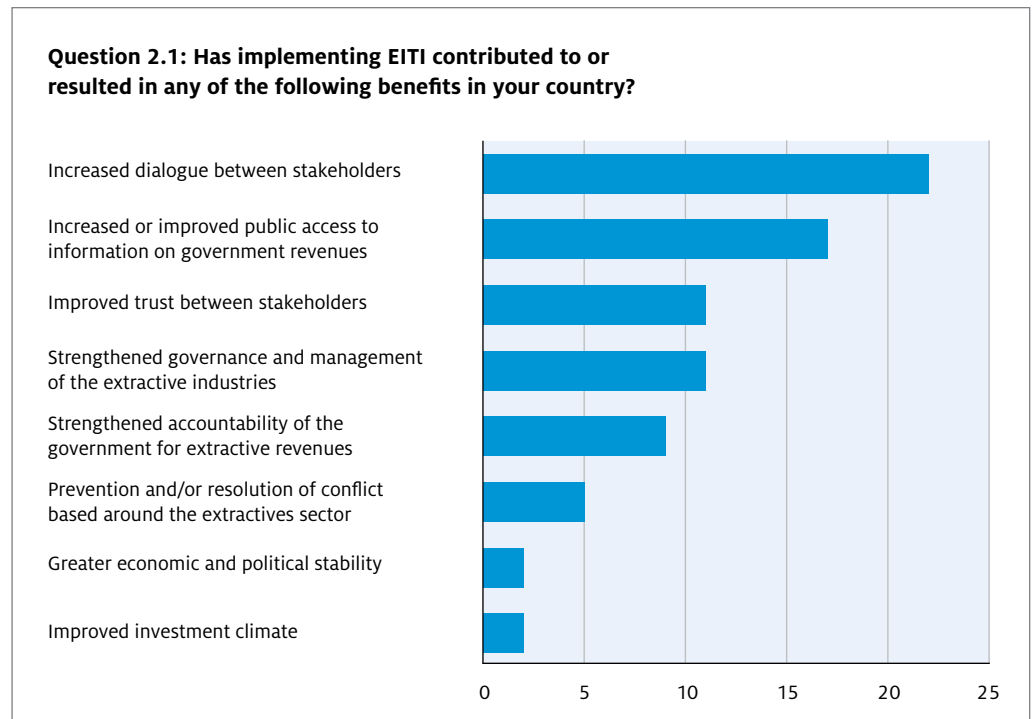


Figure 1: Benefits of implementing EITI

Briefing

Civil society recognizes the achievements of EITI, but the relationship between stakeholders is not always perfect, and meaningful engagement by all stakeholders could be strengthened.

Overall, respondents seemed to feel there are significant benefits from EITI in their country as a whole, as well as for the separate stakeholders. The themes of increased dialogue, improved relations and trust between stakeholder groups are frequently repeated. As seen in Figure 1 below, increased dialogue between stakeholders topped the list of overall benefits (92 percent) with increased or improved public access to information on government revenues also ranking high (71 percent). Improved relations with civil society (71 percent) and government (33 percent) were seen as top benefits for companies and investors operating in EITI implementing countries. Civil society identified an increased ability to speak openly and publicly about the extractives sector (92 percent) and more opportunities to discuss issues related to extractives sector with other stakeholders (92 percent) as the top benefits of their participation in the initiative.

Such benefits are highly dependent on active support and participation of all stakeholders, however. The validation reports give some insight into involvement by different stakeholder groups, primarily through assessing the first seven indicators that refer to the establishment of a MSG to oversee EITI implementation (indicator 5), the engagement of civil society (indicator 6), the engagement of companies (indicator 7), as well as various signs of commitment from the government (indicators 1, 2 and 3). Of the 17 countries that have completed a validation process to date, very few have had problems with these indicators.

While this confirms that at least a minimum level of participation exists by all stakeholders in most countries, passing this threshold may not be enough to achieve the full potential benefits of EITI and that further improvements could still be made in this regard. This sentiment was expressed by civil society survey responses, which were generally positive yet showed room for improvement in their assessment of stakeholder involvement. At least half of respondents saw each stakeholder group as performing at an average level or above, while a significant number still view the engagement of government (25 percent) and companies (42 percent) as below average.

Although relatively positive, opinions were also diverse when assessing the effectiveness of the MSG; 50 percent believed that effectiveness was “average,” 17 percent reported it was “effective,” and 17 percent answered “very effective.” Similarly, while MSGs show room for improvement in some countries, when asked how they would assess the working relationship of the MSG in their country, 54 percent replied that “all stakeholders work well together,” and the remaining 46 percent replied that “some stakeholders work well together, but others do not.”

While civil society recognizes the achievements of EITI thus far, particularly in contributing to greater interaction and dialogue between stakeholders, the relationship between stakeholders is not always perfect, and meaningful engagement by all stakeholders could be strengthened.

Civil Society Participation

Indicator 6 refers to how engaged a country’s civil society has been in the EITI process. It is the only indicator that all 17 countries were found to have met in their validation process, suggesting that civil society was fully engaged. While civil society also felt that engagement from their stakeholder group was particularly strong, they also pointed to some serious challenges facing civil society stakeholders when trying to take part in the EITI process. This was reflected by the majority (58 percent) of respondents selecting civil society participation as their number one priority for improving EITI in their country over the next one to three years.

Figure 2 illustrates respondents’ elaboration on the areas where civil society participation should be improved or expanded. Despite most countries having met the minimum criteria for civil society participation as outlined in indicator 6, some of the top priorities for improvements of civil society engagement suggest there is still a lot of room for improvement.

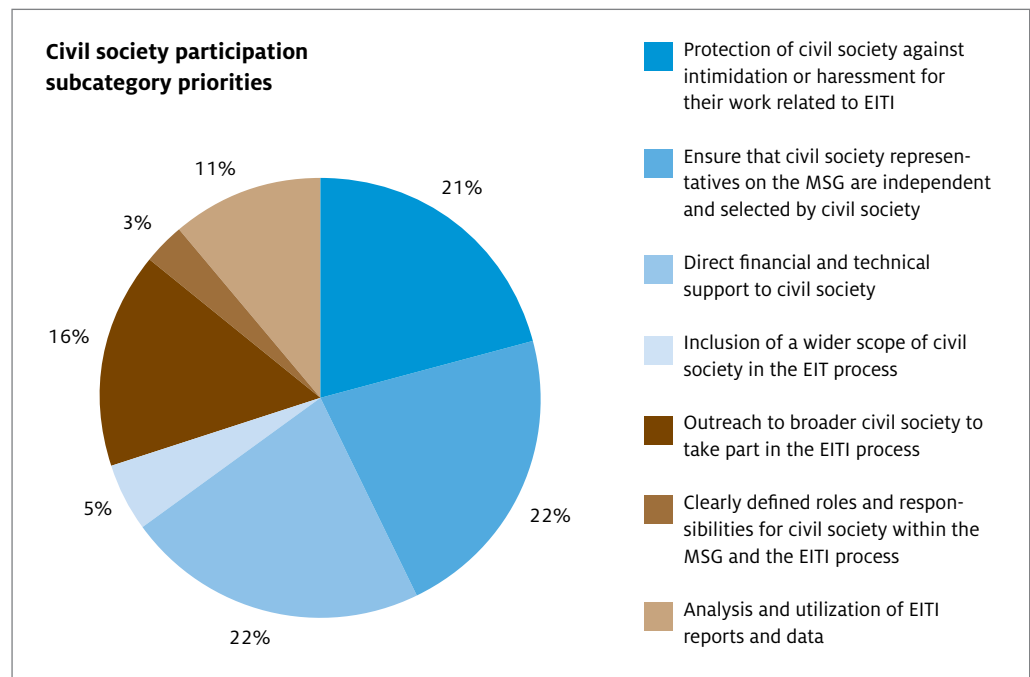


Figure 2: Priorities for improving civil society participation

It is particularly noteworthy that respondents identified protection of civil society against intimidation and harassment as a top priority for future improvement. Unfortunately, the Rapid Response Committee of the EITI International Board has intervened in several cases when civil society members were facing threats or intimidation related to EITI implementation. While these reactions should be encouraged to continue when circumstances escalate, more preventative measures should be taken to ensure the security of civil society participating in EITI. Clearer elaboration of civil society’s role and ensuring that other stakeholders respect that role should be incorporated into EITI Rules. This should include further clarification that civil society representatives on the MSG should be independent of other stakeholders and selected by civil society.

Going Beyond Transparency

Unsurprisingly, 32 percent of respondents chose “increase transparency through publication of company payments and government revenues” as the most important objective of their participation in EITI. Significantly, “increase accountability of the government for extractive revenues” also ranked high with 29 percent of respondents putting this as the first priority of their participation and 25 percent ranking it second.

While the objectives of transparency and accountability appear to be almost equally important for civil society, there is less clarity on the link between EITI and accountability, with transparency often receiving far more emphasis in the EITI Rules. This may be why respondents were almost split on whether the Criteria, Principles and Rules of EITI provide a framework that allows their main objectives to be met. As one respondent stated, “Accountability is not actually on the EITI agenda.”

In order for EITI to go beyond transparency toward accountability, the initiative must become more institutionalized and integrated into existing oversight mechanisms. Respondents expressed a desire for this to happen when highlighting “government support for implementation” as a priority area for their countries to improve or expand EITI over the next one to three years. A closer breakdown of priorities within this category reveals a desire for EITI to be more integrated in government regulation of the sector and for oversight bodies such as parliament and the supreme audit institution to be more engaged in the process.

Briefing

Strengthening EITI Reports

In order for EITI to be able to contribute to either transparency or accountability, however, the reports produced must be of a high quality. Currently this is not the case. Several of the validation indicators that countries have found most challenging relate to the quality of EITI reports. Out of the 17 countries that have undergone validation, a high percentage did not meet the following indicators: agreeing on reporting templates (indicator 9, 41 percent); ensuring that all companies will report (indicator 11, 53 percent); ensuring that company reports are based on audited accounts to international standards (indicators 12, 29 percent); ensuring that government reports are based on audited accounts to international standards (indicator 13, 53 percent); disclosure of all material oil, gas and mining payments by companies to government (indicator 14, 59 percent); and disclosure of all material oil, gas and mining revenues received by the government (indicator 15, 59 percent).

These six indicators represent some of the most technical aspects of EITI implementation. They also speak to the heart of EITI Criteria and Principles because they ensure that all material payments and revenues are covered to an international standard. As one of the only sources of extractives revenue data available to everyone, including the citizens who these revenues are meant to benefit, it is important that EITI reports reach these quality standards. Improving the quality of EITI reports is also vital to the continued success and growth of the initiative as better reports will be valued and demanded by diverse audiences, and this demand will bolster EITI's sustainability.

There were three areas where countries frequently faced difficulty in trying to fulfil these indicators. The first common problem was clearly defining materiality, or in some cases, a complete failure to do so. The current rules only touch briefly on materiality within the indicator assessment tool for indicator 9, providing neither the emphasis nor the guidance needed for such an important step. The revised draft rules should address this problem by creating a separate indicator devoted to materiality and providing additional guidance to MSGs on how to create a definition that is appropriate for their country.³

The second common problem was the reliability of data provided by governments in particular and companies to a lesser extent. EITI reports are only valuable if they contain reliable numbers that have been audited to international standards, which is required by indicators 12 and 13. Several validators commented on the lack of clarity about what was needed to meet these indicators and how countries should address situations when audited figures are not available. Further guidance to be added to indicators 12 and 13 has been provided by the board and incorporated into new proposed rules.⁴

The third common problem relates to the report's coverage of relevant companies and government agencies. In some instances this was a problem of materiality not being adequately defined, which would be solved by addressing indicator 9 as outlined above. In other instances, however, some companies or government agencies were not included because no comprehensive list of who should be included was made available to the report administrator. This oversight can be easily avoided by requiring the MSG to compile a list of all licensed companies involved in the extractives sector as well as all government entities that are involved in collecting revenues from the sector. The report administrator can then request information from each and note which entities failed to provide information.

Including clarification and guidance on these problem areas in the revised EITI Rules should go a long way toward improving the quality of EITI reports and making sure they comply with the basic Criteria and Principles of the initiative. Unfortunately, these initial steps will not be sufficient to guarantee that all reports are as relevant and understandable as they could be. Several other issues such as regularity, timeliness, level of disaggregation, comprehensibility and comparability should also be addressed in order to ensure the reports are of the greatest use to all stakeholders.⁵

Reaching Compliance

More and more EITI candidate countries are reaching compliant status, but few are doing so before their first validation deadline of two years after their admission as a candidate country. Of the 17 countries that have completed a validation process thus far, 82 percent needed an extension of their two-year deadline. Even with an extension, usually an additional six months, 65 percent were ultimately found to be a candidate country deemed “close to compliance” and given yet more time to reach compliant status.

While some delays and challenges are unavoidable and countries should be encouraged to build on even modest progress, an endless cycle of extensions and incremental improvements will only erode the legitimacy of EITI as a globally recognized standard. The proposed changes to EITI Policy Note #3 would clarify that candidate status is for a finite period and that progress should be made in a timely manner toward achieving compliance. This will encourage countries to avoid unnecessary delays while still providing means to accommodate truly unavoidable obstacles.⁶

To ensure that timely progress is made, countries should be encouraged to prepare all stakeholder groups for active participation in the EITI process from an early stage so as to avoid any delays due to capacity constraints later in implementation. Several countries that requested extensions cited establishing an MSG and building the capacity of all stakeholders to fully participate as tasks that took more time than expected and ultimately delayed the creation of an EITI report and completion of the validation process. Changing EITI sign-up criteria to require the formation of a MSG (Indicator 5) prior to receiving candidate status would also help avoid some of these delays by encouraging meaningful stakeholder participation earlier in the process.⁷

While steps can be taken at the national level to prepare for and efficiently implement EITI, most countries require both technical and financial support from the international partners in order to implement EITI. Such support is often provided by the EITI International Secretariat, the World Bank through the Multi-Donor Trust Fund (MDTF), and directly from supporting countries and international civil society.

Of those who answered, 53 percent of civil society respondents stated that they did not feel the international support they had received was adequate in meeting the needs of all stakeholder groups to implement EITI. This was despite the fact that a majority of respondents claimed their country had received financial and/or technical support from the World Bank and international civil society, and that a minority of respondents claimed they'd received additional support from the EITI International Secretariat, other international financial institutions and individual EITI support countries. Several respondents expressed a need for financial and technical support that goes beyond the basic implementation of the initiative to empower all stakeholders to engage more meaningfully and to increase the public awareness of EITI.

The timeliness of support was another issue that arose during the EITI International Board's discussion of requests from several countries for validation deadline extensions. Delays in receiving funding, particularly but not exclusively from the MDTF, were frequently cited as a reason for delays in starting implementation. While the reasons for funding delays varied, in several countries the government's limited capacity to navigate the process for accessing MDTF funds seemed to exacerbate the problem. This suggests that the timeliness of financial support is somewhat dependent on the early provision of technical support. A greater emphasis on identifying these capacity constraints early in the sign-up phase and increased coordination between national stakeholders and international supporters could help overcome these unnecessary delays.

Briefing

revenuewatch.org/EITIreports.

ENDNOTES

1. A copy of the questionnaire can be found online at www.XXXXXX.
2. Questionnaires were collected from Afghanistan, Azerbaijan, Burkina Faso, Cameroon, Chad, Cote d'Ivoire, Gabon, Ghana, Guinea, Kazakhstan, Kyrgyzstan, Madagascar, Mali, Mongolia, Mozambique, Niger, Nigeria, Norway, Peru, Republic of the Congo, Sierra Leone, Tanzania, Timor-Leste and Yemen.
- 3 "Draft EITI Rules," 15, www.eiti.org/news-events/eiti-launches-consultation-eiti-rules, accessed Jan. 5, 2011.
- 4 "Draft EITI Rules," 17, www.eiti.org/news-events/eiti-launches-consultation-eiti-rules, accessed Jan. 5, 2011.
- 5 For a discussion of what makes a good EITI report and quality assessments of the most recent EITI report from each country, see *RWI's What makes a good EITI report?* or visit www.XXXXXX.
- 6 "Draft EITI Rules," 41, www.eiti.org/news-events/eiti-launches-consultation-eiti-rules, accessed Jan. 5, 2011.
- 7 "Draft EITI Rules," 12, www.eiti.org/news-events/eiti-launches-consultation-eiti-rules, accessed Jan. 5, 2011.



The Revenue Watch Institute promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. Through capacity building, technical assistance, research, funding and advocacy, we help countries to realize the development benefits of their natural resource wealth.

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