

**FIGHTING CORRUPTION, STRENGTHENING GOVERNANCE:  
THE ROLE OF CIVIL SOCIETY IN THE EXTRACTIVE INDUSTRIES  
TRANSPARENCY INITIATIVE**

**FEBRUARY 2009**



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## **ACKNOWLEDGEMENTS**

This report is an abridged version, containing only the Executive Summary and the Recommendations. The full report was prepared for Global Witness and the Publish What You Pay coalition.

The research team is grateful for the efforts of countless contributors, whose time and talents made a study of this magnitude possible. The team is especially indebted to the following individuals for sharing their insights in the classroom, facilitating manifold meetings in Azerbaijan and Gabon, and/or providing valuable feedback on the final report.

Tutu Alicante  
Gubad Bayramov  
Galib Efendiev  
David Goldwyn  
Joe Kraus  
Jeffrey Krilla  
Tom Mayne  
Alain Moupopa  
George Mpaga  
Emil Omarov  
Marc Ona  
Anton Op de Beke  
Diarmid O'Sullivan  
Sarah Pray  
Jennifer Widner

Special thanks to Corinna Gilfillan, who served an instrumental role throughout the entire process as workshop instructor.

Cover photo courtesy of James Ellis.

## *EXECUTIVE SUMMARY*

In 2002, the Extractive Industries Transparency Initiative (EITI) was launched with the ambitious goal of improving governance in resource-rich countries and helping to combat the resource curse, the well-documented phenomenon that such countries tend to suffer entrenched poverty and greater political and economic instability than their less well-endowed equivalents. The purpose of the EITI is to ensure that all revenue payments to the governments of such countries by oil, gas and mining companies are independently checked and fully disclosed to the public, thus helping citizens to exercise oversight over these revenues and reducing the mismanagement associated with the resource curse.

This study examines how EITI implementation affects the management of extractive industry revenues, with a focus on the role of civil society in these efforts. In particular, this study analyzes four specific elements or implications of the EITI process: civil society capacity and engagement, data disclosure and dissemination, government accountability, and broadening the debate beyond revenue transparency.

To do so, the study uses academic literature, policy reports, and field research conducted in Azerbaijan and Gabon, two countries which are rich in natural resources. Both Azerbaijan and Gabon have implemented the EITI for several years, but they are at different stages of implementation and operate in different economic, political, and social contexts.

The study ends with an assessment of the two countries' EITI implementation, which is based on the EITI Validation criteria that countries must fulfill to be considered compliant with the EITI requirements. Validation is a formal process performed by accredited analysts and overseen by the international EITI Board. The research team submits the assessment as a preliminary indication of areas of strength and weakness in the two countries' implementation of the EITI, which are likely to come to the fore during the official Validation process.

Overall, the research team finds that the measures taken to implement the EITI in both countries have been able to centralize, certify, and publish revenue and payments streams in a more reliable and consistent way than ever before. Efforts are still needed to ensure that the EITI is sustainable and effective in Candidate countries, but the research team has seen incremental gains in Azerbaijan and Gabon. Civil society engagement in the EITI is inherently valuable and important; indeed, the procedural interactions that arise from implementation are arguably more important than the actual reports the EITI produces. Yet, serious challenges to civil society engagement remain in both case study countries, as demonstrated by the recent arrests of civil society activists in Gabon.

Specifically, the research team finds that:

- Civil society is engaged in the EITI. Its members are active in meetings and use the process to pursue policy changes. Still, neither country has a political environment that is conducive to a free civil society. Recent events in Gabon raise serious questions about the extent to which civil society groups can freely operate in an EITI context when

serious constraints are imposed by the government. Civil society operates more freely in Azerbaijan, but there are real constraints there as well.

- Civil society capacity has improved since the EITI was launched. Some members have developed expertise and have been able to influence the process. Financial and technical constraints remain major concerns.
- Revenue data from governments and companies are available and reconciled. However, both countries have not adequately met the EITI requirement for all data to be audited to international standards to ensure reliability. Companies are not systematically required to have their data certified by independent auditors, and the EITI does not have clear guidelines for how governments demonstrate that their data is audited to international standards and reconciled with their national budgets.
- Data are disseminated to the public through websites and other media, as required by the EITI rules, but both countries lack a strategy for coherent and clear dissemination, which inhibits the public's engagement.
- Both governments appear willing to consider civil society's views on limited issues. Continued international engagement is required to enable civil society to hold governments accountable.
- The EITI has provided an entry point for civil society to raise significant issues about the management of natural resource wealth which are not directly covered by the EITI itself, such as the transparency of companies' contracts and of public expenditures. Although this has not translated into significant policy changes, this is an important step forward in generating broader debate on management of natural resources.

Based on these findings, the research team proposes the following recommendations:

#### *RECOMMENDATIONS FOR THE EITI SECRETARIAT AND BOARD*

**1. Pressure implementing governments to allow civil society to operate freely.** Civil society is harassed and intimidated in some countries, especially Gabon, which inhibits its engagement in the EITI. Civil society engagement is an important part of the EITI process, and government interference weakens its integrity.

**2. Institute three levels of the EITI managed by the EITI Secretariat:**

- **EITI Bronze:** current requirements.
- **EITI Silver:** disaggregated reporting of company data.
- **EITI Gold:** contract and expenditure transparency added.

By providing three levels of Validation, the EITI could further recognize the best performers without harming those countries that choose to participate as before. A tiered system could incorporate important data concerns (disaggregation) and other transparency issues (contract and expenditure transparency) into an EITI framework, provide incentives for additional reforms by Candidate countries, and clarify the actual achievements of disparate states.

**3. Ask supporting governments to implement the EITI at home, make disclosure of payments to governments mandatory for all extractive companies listed on their home stock exchanges, and provide concrete support for EITI implementation in Candidate countries.** If supporting governments implemented the EITI, it would raise the initiative's

credibility in countries where the EITI is viewed as a double standard. Stock exchange listings are an important point of leverage for companies seeking access to capital, and mandatory disclosure at this level would bolster transparency. Also, supporting governments should be pressured to do more to support EITI implementation in Candidate countries, employing resources rather than mere rhetoric.

**4. Require that civil society representatives of the multi-stakeholder group (MSG) be selected by civil society.** Currently, some governments nominate civil society representatives to the MSG rather than having civil society groups select their own representatives. This practice reduces the credibility of those representatives and the ability of civil society to effectively engage in the process.

**5. Give Validators clear guidelines to look beyond the paper trail and focus instead on actual implementation as it happens on the ground.** Despite progress, civil society still has concerns over implementation that only an in-depth Validation process can address.

**6. Define clear minimum standards for a government to fulfill Validator Grid Indicator #13.** Grid Indicator #13 requires government accounts to be audited to international accounting standards, but the EITI Secretariat has never clarified the government equivalent to the company standard defined by the International Accounting Standards Board (IASB).

**7. Work towards mainstreaming the EITI so that it becomes a standard indicator of transparency.** The more widely the EITI is used as a standard metric – for example, in shareholder activism for corporate social responsibility or transparency rankings of states – the more important it will become for governments and companies to join and implement. This will raise the benefits of adherence to its standard and improve the reputations of stakeholders that join, a significant reward already.

**8. Increase civil society capacity-building efforts and coordination of existing activities among external actors.** Many supporting embassies and international financial institutions (IFIs) already have begun capacity-building efforts, but there is little evidence that any of these activities are coordinated in the field. More coordination would allow civil society coalitions to consolidate gains already made and identify new areas for future growth.

**9. Ask the World Bank to stop using the EITI brand for its initiatives (EITI ++)** and to **reconsider management of its Multi-Donor Trust Fund (MDTF).** The World Bank currently operates an initiative called EITI ++. Having a separate organization use a similar name for a different purpose causes confusion. Currently, the World Bank’s MDTF that supports EITI implementation reaches civil society via governments, which increases the risk of governments co-opting civil society.

#### *RECOMMENDATIONS TO THE GOVERNMENT OF AZERBAIJAN*

**1. Establish a multi-stakeholder group and a country work plan with defined roles and responsibilities to govern EITI implementation.** An ad hoc EITI framework in Azerbaijan inhibits meaningful stakeholder engagement, causing civil society organizations to lag behind the

government in overseeing the implementation process. More formal structures will increase the benefits of civil society participation and help the government meet the requirements of Validation Grid Indicators #4 and #5.

**2. Allow more freedom in media sources. Do not intimidate reporters or suppress stories.**

The research team found evidence in Azerbaijan that intimidation and suppression have led to media self-censorship. More press freedom will improve civil society's ability to engage in the EITI.

**3. Certify that government and company reports are based on accounts audited to international standards.** There are not adequate measures taken to ensure that both government and company data entering the reports is reliable, only that the information provided by companies and governments has been reconciled. Having audited accounts will help the government meet the requirements of Validation Grid Indicators #12 and #13.

**4. Report monetary value of in-kind receipts and request an independent administrator to reconcile government's reporting with budget outcomes.** There are no monetary amounts attached to the payments the government receives in oil and gas. Giving these payments a corresponding value will provide a better understanding of the true revenue stream.

**5. Create a communications strategy for disseminating the EITI report results.** Current dissemination takes place at irregular intervals and is dominated by government press. A more comprehensive plan with clearly defined roles and responsibilities would allow other perspectives to be heard.

**6. Educate government employees in the Tax and Finance Ministries on the EITI.** Currently, the EITI is a very centralized process within the Azerbaijani government, with only a handful of government employees engaged in the process. Engagement from other ministries outside of the State Oil Fund of Azerbaijan (SOFAZ) will improve government accountability.

**7. Codify the EITI requirements into law.** This will make reporting from companies and government ministries mandatory and will help to ensure meaningful compliance. It will also more clearly define roles and responsibilities, which will strengthen civil society.

*RECOMMENDATIONS TO THE EITI GABON MULTI-STAKEHOLDER GROUP*

**1. Require that all companies making material payments are included in the next report and provide information on the proportion of revenues not covered by the report.** Without information on the proportion of total revenues covered, discrepancies are difficult to interpret – they could represent good revenue management or company self-selection. The EITI MSG should define material payments and require that all extractive industry companies report accordingly to the Independent Expert. If companies fail to report, the Independent Expert should include estimates of revenues not covered in the reconciliation. This should enable Gabon to meet the requirements of Validation Grid Indicator #18.

**2. Require that all companies submit audited reports.** The EITI MSG should require that all EI companies provide the Independent Expert with reports audited to international standards, not only principal companies. This should ensure that Gabon meets the requirements of Validation Indicator Grid #12.

**3. Create a communications strategy for disseminating the EITI report results.** The EITI information dissemination is weak. The EITI MSG should identify a communications focal point among its members with the responsibility, authority and necessary resources to launch the communications plan now and to lead communication strategies in the future. This will help Gabon meet the requirements of Validation Grid Indicator #18.

**4. Include timber in the EITI reports.** Given Gabon's recent interest in nature conservation as a means to diversify into eco-tourism, inclusion of timber in the EITI would capitalize on gains already made by the Gabonese environmental law (16/93) relating to the improvement and protection of the environment. The EITI MSG should require that timber companies be included in the EITI as a means to monitor forest management and logging activities in areas already under protection by law. There is nothing in the EITI framework that prohibits the inclusion of timber, as witnessed by EITI implementation in Liberia.

#### *RECOMMENDATIONS TO THE GOVERNMENT OF GABON*

**1. Respect the right of civil society organizations (CSOs) to operate freely without fear of harassment.** The Gabonese government should immediately drop all charges against the PWYP coordinator and EITI MSG member Marc Ona and other anti-corruption campaigners who were arrested on December 31<sup>st</sup>, 2008. Unwarranted government action against civil society activists prevents the country from realizing the full benefits of civil society engagement in the EITI.

**2. Publicize the results of the government's oil revenue projection and estimation model.** By making the results of the oil revenue projection and estimation model public, interested parties will be able to compare projected revenues with actual revenues received - conferring additional legitimacy to government figures and the EITI reports. This is especially useful since audited government accounts are not published in a timely fashion.

**3. Appoint permanent staff to support EITI implementation.** The research team applauds the government for giving weight to the EITI by appointing senior officials to the Technical Committee and MSG. Appointing permanent technical staff, however, would relieve some of the pressures already felt by members, help clarify roles and responsibilities going forward, and provide additional assurance that Gabon is in compliance as it works toward Validation.