

# Private Sector Focus

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## EITI and improved opportunities for development through transparency – the private-sector contribution

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Corruption and a lack of transparency frequently act as a brake on the recovery process of resource-rich developing countries. In order to overcome these barriers to development and foster a future-oriented allocation of funds, anti-corruption measures need to be strengthened and transparency must be improved. The members of EITI – "Extractive Industries Transparency Initiative" disclose receipt of payments from the extractive industries, and in doing so, support the sustainable use of these funds. The number of member countries is growing, as is the number of companies supporting the initiative. In this way, the private-sector is highlighting the opportunity they perceive in transparency, and is taking appropriate action.

able and effective development.

The members of EITI – "Extractive Industries Transparency Initiative" – therefore disclose the receipt of payments from the extractive industries and promote transparency. The disclosure of payments to governments aims at intensifying the pressure to justify actions to an informed civil society. This, in turn, can contribute to the effective use of funds. Ideally, "good governance" and a farsighted economic policy should be mirrored in development indicators which portray poverty and human development. Differences can be observed if these indicators are compared between the group of EITI members and non-member states.

On average, the EITI member and candidate countries score better on the Multidimension-

al Poverty Index (MPI), than resource-rich non-members. The Inequality adjusted Human Development Index (IHDI) reveals a similar picture (see figure 1). The Corruption Perception Index (CPI) highlights that EITI countries are, on the whole, less affected by corruption than non-member states (see figure 2).

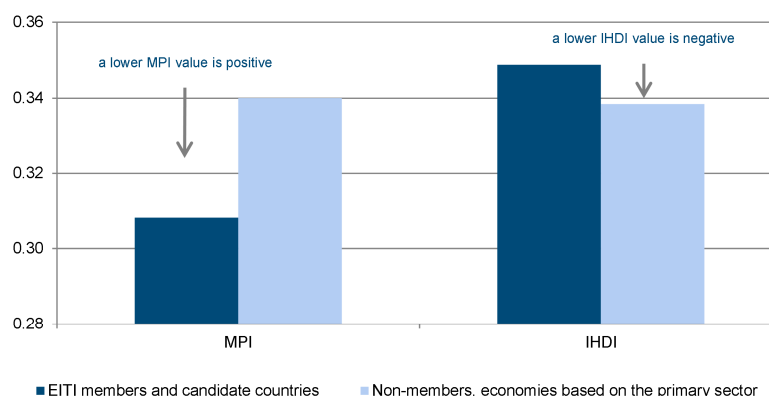
Even if the EITI membership is not the mono-causal reason for this positive impression, it does prove that the member countries have developed a heightened awareness for the development obstacle of "corruption/lack of transparency".

Accordingly the transparency initiatives of many EITI countries accompany improved business framework conditions. The private-sector regards the increase in transparency as a locational advantage, which is often reflected in the positive development of the Doing-Business-Index.

The acceptance of "transparency as a locational advantage" is based on the fact that the majority of companies perceive corruption and a lack of transparency as a risk factor, due to legal implications or reputational damage which can arise from corruption (cf. Ernst & Young, "Growing Beyond: a place for integrity, 12th Global Fraud Survey", 2012, pg. 4ff.). The growing number of supporting stakeholders from the private-(financial) sector supports

The natural resources sector plays a major role in many developing countries, particularly in Africa. The importance of commodities for these economies has again risen, due to the growing demand from dynamic emerging markets. Although the volume of exported natural resources and revenues from sales are continually on the increase, wealth remains extremely unevenly distributed in most of these commodity-based economies. Corruption and a severe lack of transparency prevent the natural resource revenues from being invested in a future-oriented way. Investments in education, the health-sector, infrastructure and in the diversification of the economy remain few. At the same time, poverty and inequalities are ever present. It is not possible to lay the foundation for sustain-

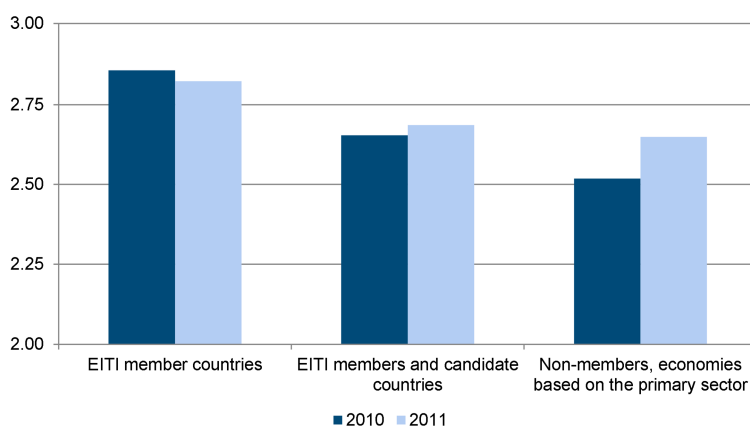
Figure 1: EITI members, candidates and resource-rich non-members "Multidimensional Poverty Index" (MPI) and Inequality adjusted "Human Development Index" (IHDI), simple average



Source: UNDP, OPHI

Note: The EITI country Norway was not included in figures 1 and 2.

Figure 2: Corruption Perception Index  
Simple average, 10 = highest score (positive)



Source: Transparency International

this theory, and underlines the fact that companies are recognising and seizing their chances.

Companies have supported EITI since its establishment in 2003, and more than 60 oil, gas and mining companies are EITI members or supporters. The giants of the sector figure are among this number, as well as companies from the dynamic emerging markets. In terms of reporting, some companies even go beyond the EITI requirements; disclosing payments even in non-member countries.

Alongside the increase in membership of companies in the extractive sector, the number of institutional investor members has also risen significantly. Meanwhile, more than 90 asset management companies support EITI with assets under management of more than

USD 16 trillion.

Stock-exchange listed companies in the extractive industry who are not part of the transparency initiative are considered as potentially risky, from an investor's perspective. The initiative is therefore widely supported by investors, as the companies which they invest in contribute to the development of resource-rich countries through improved transparency, in addition to benefiting from their growth, while also mitigating reputational risks (cf. EITI "Investors' Statement on Transparency in the Extractives Sector", pg. 1, 2009).

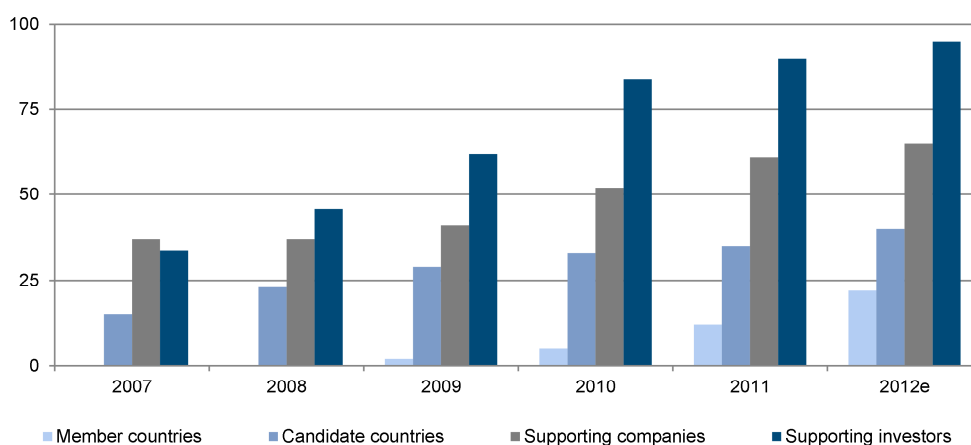
The rising number of EITI members means that pressure is being increased on private-sector non-EITI members; in turn increasing EITI's market power. This effect is enhanced

by the increasing integration of the global financial markets. Nevertheless, the diffusion process can be subject to delays, despite the very welcome developments to date.

The most recent initiatives of some industrialised countries, aimed at regulating transparency, for instance, the Dodd Frank Act in the USA, European Transparency Initiative, the Bribery Act 2010 in Great Britain (anti-corruption legislation) play a supporting role. If they can be implemented and enforced in the most important financial markets, they could support the creation of a global level playing field.

This concerted proceeding could allow the power, transparency wields on the market, to be leveraged, and the competitive edge of non-participants to be minimised. In this way, the private-sector's actions can complement state transparency initiatives and contribute to a more sustainable development of resource-rich economies.

Figure 3: EITI Members  
No. according to category



Source: EITI

Note: the number of supporting investors is only available for 2003 and from 2010 onwards. Figures for the intervening years have been interpolated.