Extractive Industries Transparency Initiative: Combating the Resource Curse in Fragile and Conflict-Affected Countries

Access to extractive industry resources—and to the revenues springing from them—is at the root of many conflicts. Recent examples include the several wars fought, in part, over access to oil in the Middle East and wars fueled by “blood diamonds” in West Africa. The Extractive Industries Transparency Initiative (EITI), launched in 2002 and endorsed by the World Bank in 2003, has provided tangible governance improvements in resource-rich conflict-affected countries. It works with multiple stakeholders—a coalition of governments, companies, investors, international organizations, and civil society organizations (CSOs)—to manage a process of publication and verification of company payments and government revenues from oil, gas, and mining (see Box 1). This SmartLesson shares our experience implementing EITI in five prominent conflict countries (Table 1) and provides recommendations and lessons that may inform implementers of other World Bank programs in fragile and conflict-affected countries.

A Liberian diamond miner displays his find while colleagues continue to dig. Two recent civil wars, fueled by “blood diamonds,” killed and displaced hundreds of thousands and enslaved several thousand children as child soldiers. Since the cease-fire, Liberia has become (with the Bank’s help) the fastest implementer of EITI, voluntarily establishing a mineral resources law that goes beyond the EITI requirements to manage resources sustainably. But tensions remain. We could approach the miners only after the head of the Liberian miners association assured them of our good intentions. (Photo by: Georg Caspary).
**EITI in Action**

Control over natural resources often plays an important role in armed conflicts, either because warring factions fight over access to natural resources or because natural resources help finance one or several of the factions. EITI facilitates public control over the wealth generated by natural resources and limits corruption. EITI has proven highly successful in reducing the risk of post-conflict countries’ relapsing into conflict. In this way, EITI contributes to wider peace and reconciliation processes in post-conflict countries, such as those shown in Table 1.

**Recommendations and Lessons**

We present below six general recommendations for operations in fragile and conflict-affected countries. The recommendations are based on challenges that EITI implementation faced in such countries and the lessons learned from tackling these challenges.

**Recommendation 1: For each stakeholder, define a specific interest that will motivate that stakeholder to come on board.**

**Challenge:** In post-conflict situations, it is often difficult to bring on board all the stakeholders necessary for the implementation of the project. There might be, for example:

- deep mistrust between stakeholders, especially if the extractive industries played an important role in the conflict.
- reluctance of companies and governments to disclose their payment and revenue flows.

**Lesson Learned**

In discussions with stakeholders, emphasize their key interests that will be served by EITI.

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**Box 1: About EITI**

A fundamental principle of the EITI is its participative multistakeholder approach, where CSOs and extractive industry (EI) companies are actively involved in governing the process. The World Bank Group, the EITI Secretariat based in Oslo, and other bilateral donor agencies provide technical and financial assistance to almost all countries implementing EITI across five continents. The World Bank Group (WBG) administers the Multi-Donor Trust Fund and supports EITI-implementing countries by:

- making EITI advisers and consultants available to the governments;
- sharing international best practice; and
- providing grants to governments to help support EITI implementation.

IFC increasingly uses EITI implementation as a proxy for commitment to governance improvements in a country where it is considering investments, and makes EITI implementation an important part of its investment decision in the natural resources sectors of post-conflict countries.

- CSOs that are weakened and traumatized by persecution during times of conflict—possibly at the hands of people who might still be represented in government.

**Lesson Learned**

In discussions with stakeholders, emphasize their key interests that will be served by EITI.

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**Table 1: Five Countries Implementing EITI**

<table>
<thead>
<tr>
<th>Country</th>
<th>Circumstances</th>
<th>Achievements</th>
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<tbody>
<tr>
<td>Liberia</td>
<td>• 14-year civil war (1989–2004) sustained by diamond resources</td>
<td>• Successfully conducted presidential and legislative elections, October 2005</td>
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<td></td>
<td></td>
<td>• First African country to be designated EITI-compliant, October 2009</td>
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<td></td>
<td></td>
<td>• Best EITI Implementing Country award granted by the EITI board in Doha, Qatar (2009), based on Liberia’s rapid progress and trend-setting performance</td>
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<tr>
<td></td>
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<td>• First EITI report published, March 2010</td>
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<td></td>
<td></td>
<td>• “Meaningful progress” and excellent quality of the report acknowledged at an EITI board meeting, October 2010</td>
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<tr>
<td>Timor Leste</td>
<td>• Occupied by Indonesia (1975–99), which claimed part of Timor Leste’s oil and gas resources • Armed violence after pro-independence referendum, 1999</td>
<td>• Two successful election rounds, 2001–02 and 2007</td>
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<tr>
<td></td>
<td></td>
<td>• EITI candidate country since February 2008</td>
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<tr>
<td></td>
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<td>• Declared EITI-compliant, July 2010</td>
</tr>
<tr>
<td>Iraq</td>
<td>• Several international wars since the 1980s, with the world’s third-largest oil reserves as a strong contributing factor</td>
<td>• Two election rounds, 2005 and 2010</td>
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<td></td>
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<td>• Iraqi government has formally committed to implementing EITI</td>
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<tr>
<td>Afghanistan</td>
<td>• Extractive industries—extensive mineral deposits and potential for oil and gas production—are urgently needed to finance reconstruction but remain underdeveloped due to deeply fragile situation</td>
<td>• Two election rounds since 2004</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Official EITI candidate country since February 10, 2010</td>
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</table>
For example:

- CSOs usually have a natural interest in EITI, because it makes governments and companies more accountable to the country's citizens and is a crucial step toward the broader sharing of the gains of natural resources.

- Governments can use EITI implementation to demonstrate to their own people the benefits derived from large and sometimes controversial EI projects; to improve credit-worthiness; and to achieve a recognized stamp of approval for good governance.

- Companies can prove via EITI that they are contributing financially to the development of the country. For instance, EITI implementation allowed Arcelor Mittal Liberia to show publicly that it contributes 75 percent of the total tax and royalties from the oil, gas, mining and forestry sector, and is meeting all tax and royalty requirements.

Evidently, such arguments need to be tailored to specific country circumstances. Ultimately, when each stakeholder understands how its own interest is served by EITI implementation, they all begin to understand their common interest in it as well: namely that common ownership of natural resource data avoids capture of these resources—and ultimately of the state—by factions prone to fight with each other.

Table 2: Examples of Motivations for Implementing EITI

<table>
<thead>
<tr>
<th>Country</th>
<th>Motivations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq</td>
<td>The political class, including the prime minister, shares a consistent, high-level commitment to EITI—seeing EITI as an essential part of the postwar recovery for Iraq. Despite remaining social and regional fissures, representatives of the Kurdish areas and the nascent CSOs also see the benefit of actively engaging in EITI, because it serves as a convening forum where few, if any, alternatives exist for such dialogue and concrete actions on transparency and better governance.</td>
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<tr>
<td>Afghanistan</td>
<td>Despite the ongoing conflict, there is consensus among stakeholders for EITI as a mechanism to address decision making and transparency concerning mining revenues, once donor contributions start drying up. These insightful stakeholders understand the potential for EITI in a setting where the mining sector may prove to be the foremost source of formal economic activity and national budget revenues when international development assistance begins to draw down.</td>
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Usually, one stakeholder group takes the lead in pushing for EITI. In Liberia, for example, the government enforced stakeholder participation and data publication via law. In Sierra Leone, highly vocal CSOs were the driving force. Sometimes the key drivers are large Western companies sensitive to their image, not wanting to be seen investing in a nontransparent environment (see also Table 2).

**Recommendation 2: Provide a platform for institutionalized dialogue among stakeholders.**

**Challenge:** In post-conflict situations, distrust still exists among stakeholders, particularly those that were on opposite sides during the conflict.

**Lesson Learned**

*Facilitate—as honest broker and through financing—regular collaborative efforts of a multistakeholder group.*

This can be done by, for example:

- Providing initial capacity building on the extractive industries sector and financial transparency issues (notably for CSOs).

- Accompanying the collection and comparison of revenue and payments data.

- Identifying gaps in EITI implementation that might hinder eventual successful EITI validation of the country.

The multistakeholder platform helps strengthen democracy, restore shattered trust, and prevent a relapse into civil war. In this way, EITI—besides serving its own purposes—becomes a vehicle for encouraging stability and sustainability in post-conflict countries.

**Recommendation 3: Use credible and verified data to allow stakeholders to negotiate peacefully.**

**Challenge:** In post-conflict situations—in particular where the conflict was about “who gets what” of the natural resources—reliable, official data concerning the extractive industries sector are rarely available in the public domain. Without having the data verified by an independent body, it
is difficult, if not impossible, for the different parties to have a constructive dialogue.

**Lessons Learned**

To reduce the potential for recriminations and mistrust, ensure the publication of reports containing all the declared revenue and payment flows. For stakeholders with divergent interests to cooperate on sensitive subjects, there must be unambiguous and reliable data to serve as a basis for dialogue. EITI places immensely rich data and information in the public domain.

Have all stakeholders agree on an independent auditor or reconciler to prove the sensitive data, thus ensuring that the correctness of the data is guaranteed and that all discrepancies will be questioned and disclosed. This then allows for the joint planning of the use of natural resource proceeds toward peace building and poverty reduction.

**Recommendation 4:** Use a preemptive approach to avoid giving involved parties the opportunity for wrongdoing—instead of going after rule breakers after the fact.

**Challenge:** In post-conflict situations, corruption often remains a huge problem, especially in resource-rich countries. Traditional anticorruption measures rely on commissions or courts, which carry great potential for conflict by “cornering” perpetrators, who may respond with bribery—or, worse, recourse to arms.

**Lesson Learned**

Reduce the opportunity for corruption by obliging companies and governments to disclose revenue flows—rather than going after corruption ex post.

**Recommendation 5:** To foster cooperation toward peace building among neighboring countries, bring them together to share capacity-building best practice.

**Challenge:** Conflicts over natural resources often involve neighboring countries. Even in post-conflict situations, lingering grievances among neighboring countries may prevent deeper efforts toward peace building.

**Lesson Learned**

To create a basis for further cooperation and even regional integration, take a precise, technical topic (such as EITI and management of the natural resource sector) and provide the platform for regional knowledge sharing. 1

Such regional cooperation is essential for a stable political environment. Countries that are more advanced in EITI implementation can help newcomers (see Box 2).

**Recommendation 6:** Use the implemented initiative as a springboard for relevant related governance efforts.

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1 Such cooperation on a similarly technical topic (coal and steel) allowed for regional cooperation between former warring countries in postwar Europe in the 1950s, paving the way for regional integration and leading to the European Union.

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**Box 2: Example of Regional Cooperation**

To help Sierra Leone benefit from Liberia’s successes in implementing EITI, the World Bank team organized a visit of the Liberian EITI Secretariat to Sierra Leone in 2009. The new Mines and Minerals Act of Sierra Leone, similar to the Liberia Extractive Industries Transparency Act, was signed into law at the end of 2009.

The Liberian EITI Secretariat’s visit helped motivate the Sierra Leonean EITI Secretariat to speed up implementation of EITI, which had stalled during the 2007 elections. Sierra Leone is now well advanced in its EITI implementation process.

**Challenge:** In post-conflict countries, resource governance problems may go well beyond the need for transparency of revenue flows into other realms of the extractive industries value chain (see Figure 1).

**Lesson Learned**

The institutionalized EITI implementation framework—multistakeholder group, independent reconciler, capacitated CSOs, and reliable data on revenue flows—can be used to subsequently intervene at other levels of the extractive industries value chain.

Thus, EITI often becomes a springboard for broader reform. Whether to extend EITI—and to which level of the EI value chain—is a country-specific decision. This can eventually lead to more transparent negotiations of contracts between the government and companies operating in the extractive industries, or to better monitoring of EI firms’ activities.

It is relatively easy to extend EITI training activities—carried out by the World Bank and bilateral development partners— to these additional efforts, especially once stakeholders are generally capacitated on technicalities of extractive industries. For example, EITI was closely integrated with the establishment of the national oil fund in Timor Leste to finance the country’s long-term development, and the government used EITI structures to communicate with citizens on broader oil-sector issues.

**Conclusion**

Its considerable contribution to good governance in fragile and conflict-affected situations has helped EITI become a recognized brand in many countries. As Negbalee Warner, National Coordinator of EITI in Liberia, points out, “…through this process, suspicion and distrust are being reduced, helping to diffuse the tensions that led to conflict in the past.” As an increasing number of countries successfully implement EITI, this lays the groundwork for the next steps of good governance. Thus, the World Bank is currently designing assistance strategies for EITI implementation at the subnational level. Given that revenue sharing between the federal and regional level is often a sensitive issue due to spatial concentration of natural resources, subnational EITI holds significant potential for conflict-prone regions of EITI-implementing countries (e.g., Indonesia, where conflict about EI resources...
has caused friction between the central government and regions such as Aceh).

For an example of the benefits of EITI implementation in fragile or conflict-affected countries, see the video (approximately 10 minutes) on EITI & Transparency in Timor-Leste.

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