

INCENTIVES FOR STAKEHOLDERS IN EITI: OVERVIEW PAPER

**A paper prepared for the EITI International Advisory Group (IAG)
by the EITI Secretariat**

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Key Questions for the IAG

- i. Do IAG members agree with the overall direction of the work on incentives?
- ii. Are IAG members aware of any additional incentives for stakeholders?
- iii. Should the stakeholder analysis in Annex A be widened to include a more detailed analysis of incentives for other stakeholders?

1. Introduction

1.1. Fully implemented, EITI will benefit all stakeholders. It is important that these benefits are clearly communicated and understood, and that they serve as incentives for sound implementation and for maximising transparency. The IAG will need to examine whether the incentives should be more clearly explained to stakeholders, and whether they could and should be strengthened. This overview paper sets out a process for tackling this work, and also includes a stakeholder analysis of the motivations driving the various participants in EITI.

2. Outline of proposed work on Incentives

2.1 The final report of the IAG should include an analysis of the incentives for implementing EITI and how these could be strengthened. It is proposed that there should be a two-stage approach to this work. The first stage is to examine the motivations for various stakeholders – i.e. what drives them to participate in EITI. This first stage is effectively a stakeholder analysis, and an attempt at this is set out in Annex A below.

2.2 The second stage is to consider the incentive structure – i.e. what incentives exist for thorough implementation of EITI – and how these might be strengthened. This will be dealt with in subsequent background papers. To break the work down, it is proposed to produce two separate papers, one on incentives for ‘host’ governments, and one on incentives for ‘companies’. It is not currently proposed to prepare separate papers on the existing and potential incentives for other stakeholders, including civil society and donor governments, and it is assumed that the stakeholder analysis sufficiently covers these issues. The IAG will wish to decide whether further work on these areas is required.

2.3 The paper on incentives for host governments will examine the existing and possible future incentives that exist for governments to implement EITI. The paper will look at both ‘direct’ incentives, in terms of the benefits derived

from implementation itself, such as an improved investment climate, and 'indirect' incentives, derived from the way that other bodies might interpret EITI implementation, e.g. ratings agencies. The paper will explore whether these incentives could be strengthened, and whether more could be done to encourage other actors to use EITI as an indicator of sound resource management. The paper will also need to consider the links to the validation process, as some of the incentives will only be effective if there is a clear process for assessing who is actually implementing EITI. Furthermore, there will need to be an analysis of the indicators that exist to discern support for, and implementation of, EITI.

2.4 The paper on incentives for companies will examine the incentives that exist for companies to endorse EITI and support EITI implementation at a country level. The paper will examine the short and long-term benefits to companies from EITI, and will explore whether the incentives for companies could be strengthened.

3. Stakeholder Analysis

3.1 Annex A begins to describe the motivations (realised and potential) driving the various participants in EITI broken down by stakeholder group. It distinguishes between stakeholders that participate directly in the implementation of EITI - government, companies and civil society - and stakeholders that support the initiative such as donors, investors, international financial organisations and business associations. Incentives are grouped in three categories: economic, governance and reputation management. Possible future incentives are shaded in the table to compare with existing incentives for each stakeholder.

Annex A: Incentives for Stakeholders to Implement EITI

Group	Economic	Governance	Reputation Management
Implementing Governments	<i>Increased growth:</i> EITI mitigates the potential negative impacts of mismanaged revenues so that they can contribute to sustainable economic growth.	<i>Accountability:</i> Publication of revenues through the EITI creates increased pressure for accountability for use of the funds and transparency of expenditures.	<i>Leader status:</i> Governments and leaders may want to be seen as leaders on international initiatives.
	<i>Regular tax revenues:</i> EITI might lead to predictable and increased revenue flows from both domestic and foreign companies	<i>Prevents corruption and rent-seeking:</i> Transparency in revenue flows can mitigate the risk of capture and misappropriation of government funds.	<i>Political integrity:</i> Leaders who campaign on an anti-corruption platform are keen to be seen as champions of integrity and to promote good governance.
	<i>Access to capital: aid, project investment and debt relief:</i> Donors, and international financial institutions could insist on EITI implementation as a condition of aid and project financing.	<i>Reduced risk of conflict:</i> transparency and better management of revenues can mitigate conflict around oil, gas & mining sectors.	<i>Building trust in public institutions:</i> EITI processes strengthen inclusion and accountability thus building trust in existing institutions.
	<i>Access to private capital:</i> ratings agencies use EITI as an indicator of improved governance for sovereign debt.	<i>Strengthens public financial management:</i> Availability of sound data on EI revenues facilitates fiscal management of such revenues, through more rational policy prioritisation process and better asset management – for example, improvements in the budget processes and creation of “oil funds” and similar policies.	<i>Increase knowledge & manage expectations:</i> EITI can assist in creating greater knowledge about the economy, improving public debate about the sector, adjust expectations regarding the benefits, and help inform media and civil society.
	<i>Improved enabling environment for investment:</i> EITI, as one element of improved fiscal transparency, creates an environment that is attractive for foreign and domestic investment.	<i>Improving public probity:</i> EITI can help protect civil servants who want to refrain from corrupt behaviour.	

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Companies	<i>Host governments:</i> Host governments implementing EITI require all companies operating in their country to publish their payments to the government and government related entities.	<i>Improved shareholder relations and access to capital:</i> Institutional investors support transparency in order to mitigate risk.	<i>Leader status & company reputation:</i> Companies can influence the attitudes and perceptions of their shareholders and other stakeholders and help reduce the risk of adverse publicity.
	<i>Cost of capital:</i> EITI implementation will reduce the political / sovereign risk of operations and thus the cost of capital.	<i>Tax breaks:</i> tax breaks, concessions or financial support might be awarded to those companies (particularly domestic private companies) that agreed to support EITI implementation.	<i>Employee satisfaction:</i> Promoting accountability and transparency helps in attracting and retaining a talented and diverse workforce.
	<i>Prevents corruption:</i> Lowers cost of access to markets (i.e. the need to pay bribes).	<i>Risk management:</i> Engaging with stakeholders to understand their priorities and needs reduces operational risk and contributes to the company's social licence to operate.	<i>Reputation in country:</i> Companies can demonstrate their contribution to the country's economy.
	<i>Home government legislation:</i> (so called "mandatory approach") which forces companies to disclose what they pay to governments in all countries in which they operate. This could be done through accounting, company law, listing and securities regulations and freedom of information laws.	<i>Improving private probity:</i> EITI can help protect company employees who want to refrain from corrupt behaviour. It can also help protect company employees from personal liability, e.g. for false financial management or accounting.	
	<i>Liability:</i> This could involve mitigating liability cases through the Foreign Corrupt Practices Act and / or OECD Guidelines.	<i>Prevents corruption and rent-Seeking:</i> Helps prevent internal corruption.	

Group	Economic	Governance	Reputation Management
Civil Society Organisations	<i>Increase the economic well-being of local communities:</i> civil society organisations represent communities that can be made better off through accountable public expenditure.	<i>Aligns with organisational objectives:</i> Values promoted by civil society organisations—such as social justice, accountability, anti-corruption, and good governance - all fit with EITI principles and criteria.	<i>Leaders status:</i> Some leaders and organisations are keen to be seen as leading on ideas and partnerships that promote social justice.
	<i>Funds for the future:</i> EITI may encourage better inter-generational equity (eg through use of oil funds).	<i>Builds and strengthens relations with companies:</i> working closely with companies at a national or international level improves understanding, strengthens existing partnerships and offers more collaborative opportunities.	<i>Reputation management:</i> Support to an initiative like EITI offers a means by which organisations can raise their profile and influence a wider audience.
		<i>Builds and strengthens relations with governments:</i> Civil society encouraged to engage with budgetary processes and enables them to make productive policy recommendations.	<i>Strengthen relationships with donors and members:</i> Funding may be available from northern NGOs and donors to southern NGOs engaging on EITI. As more tangible results appear from EITI implementation civil society organisations will want to share this with their donors and members.
		<i>Builds and strengthens networks</i> particularly with investors, international organisations and other civil society organisations thus preventing overlap and raising opportunities for future collaboration. Civil society participation in EITI implementation also provides opportunities for building of CSO capacity and experience at national level.	<i>Opportunity to engage:</i> Participation in EITI provides opportunities for the development of civil society freedoms in countries where there has in the past been limited opportunity for local CSOs to build reputation for constructive contribution to the national wellbeing

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Incentives for Other Stakeholders Supporting EITI Implementation

Investors & Banks	Business Associations	Auditors & EITI Implementers	Multilateral Organisations	Donors
Good corporate governance & good public governance mitigates risk of non payment on loans	Raises the bar on good corporate governance standards for members.	Enhances "independent" status	Encourages growth and investment; mitigates corruption and conflict	Encourages growth and investment; mitigates corruption and conflict
Establishes leader, 'best practice' status	Establishes leader, 'best practice' status	Increased opportunities for consulting contracts internationally	Complimentary to existing initiatives - efficient use of resources	Complimentary to existing initiatives, efficient use of resources
	Promotes opportunities for SMEs to engage on this issue		(For IFIs) Mitigates risk of non-payment on loans	
Strengthens engagement strategies with companies and governments	Strengthens engagement strategies with companies and governments	Strengthens relationship with development agencies	Strengthens relationship with members	Strengthens bilateral relations