Implications of Changed International Conditions for EITI

Paul Collier Oxford University, October 2008

1 Introduction

Since the launch of EITI the political economy of revenues from resource extraction has changed profoundly. The rise of China has both driven up commodity prices and introduced a huge and admired new player which has never espoused transparency. There have also been substantial, but opposing, new attitudes towards oil. The sudden increase in its price raised concerns about energy security: there is a scramble for secure access. However, new awareness of global warming has created concerns about carbon-based fuels: while increasingly valuable, they are also a menace. Yet more recently, the financial crisis has sharply reduced the prices of oil and other commodities, and is profoundly changing attitudes towards markets and the balance of international power. Potentially these events change the agenda for EITI. In Section 2 I speculate on how these recent shifts in attitudes might create opportunities for EITI to present an integrated message.

When EITI was first introduced commodity prices were low. The rapid and substantial increase in prices, followed by a rapid decline, has important consequences for the existing commodity exporters. In Section 3 I turn to these implications and how they relate to the EITI agenda. High prices have also triggered a wave of discovery, much of it in countries that have not previously been commodity exporters. The implications of this for EITI are discussed in Section 4. Finally, in Section 5 I focus on the implications of the entry of China. Section 6 concludes.

2 Shifts in Attitudes: Opportunities for EITI

Coincident with the commodity booms have been three international shifts in attitudes: awareness of climate change, awareness of growing energy scarcity, and the geo-political implications of the current financial crisis. How might these affect EITI?

The climate change debate has made people aware that burning fossil fuels has damaging effects: the rate at which the world depletes its oil and coal needs to be reduced from its current level. The concern about global energy security is that since conventional forms of energy are going to become increasingly expensive alternatives will need to be found and energy will need to be conserved by reducing the energy/GDP ratio. However, concern has also led to a beggar-thy-neighbour mentality in which each country tries to secure its own supplies of conventional energy and accelerate depletion. These two contrasting responses highlight the tension between collective interest and individual interest. The discovery of new energy technologies and energy conservation are global public goods

and so under-supplied. In contrast, rights to existing energy sources are private goods and so do not face the problems of free-riding that beset the provision of global public goods.

The global financial crisis has three distinct consequences of pertinence for EITI. First, it has highlighted the cost of unregulated private behaviour in global asset markets. As a result there is a new appreciation of the need for some sort of international coordination around standards. The step from financial assets to natural assets is not huge and so the financial crisis has indirectly increased the perceived legitimacy and value of the EITI approach. Second, the financial crisis has triggered a sharp reduction in commodity prices. One implication is that the helpful psychological shift that was being triggered by the $140 oil price, and its consequences for accelerated conservation and innovation, are in danger of being undone. Another implication of the peak-and-decline path of prices is that it has emphasized the need to save revenues at times when prices are high. The third consequence is that the international balance of power has shifted.

I now try to bring these three shifts in attitudes together. Both the climate debate and the energy scarcity debate have increased the prominence of the depletion of oil. Since oil extraction is central to EITI there is the potential for linkage, but also the potential for these other issues to detract from the EITI core agenda. How might EITI best position itself?

The private response to energy scarcity – the scramble for extraction rights – is potentially highly detrimental to the core EITI objective, and also globally dysfunctional. It is potentially detrimental if it leads back to corruption as the favoured technique for winning extraction rights. This is the reasonable fear that energy scarcity will lead to a 'race to the bottom'. If this occurs then not only is it damaging for the citizens of resource-rich countries, it also results in the global public bad of higher carbon emissions and intensifies future energy shortages.

At present no organization is offering a holistic vision on the three big issues in oil extraction:

1. the developmental consequences for exporters;
2. the implications for the climate;
3. the implications for future energy security.

Instead, there are three separate debates. This risks dividing scarce organizational energy. Public attention seems to have been diverted into concern for climate change and away from a development agenda. The energy security debate is insufficiently internationalized, and so has been dominated by nation-focused solutions such as the American discussion of accelerated oil drilling.

An Integrated Message

Potentially, there is an integrating message on the management of oil depletion. In general terms it would be as follows:

An unregulated scramble to maximize current extraction by means of a race to the bottom would have four adverse consequences:

1. It would reduce the developmental impact of revenues in low-income energy exporters.
2. It would increase the potential for political violence, both between competing international actors and internally in resource-rich countries, thereby impairing long term security of supply.
3. It would increase emissions of carbon above the ceiling appropriate for a stable climate.
4. It would accelerate the current crisis-induced reversion in energy prices, reducing the incentive to conserve, and so intensifying energy scarcity in the future.

In contrast to this unregulated depletion, international cooperation to manage extraction with integrity and due regard for the future can enable the process of discovery and depletion to:

1. Maximize the developmental impact of resources, including safeguarding the long term interests of the citizens of resource-rich countries.
2. Reduce international tension in access to supplies, and reduce internal risks of violence.
3. Moderate the rate of depletion and so lower carbon emissions.

4. Reduce the current crisis-induced decline in energy prices and so help to underpin the efforts for a secure energy future.

No international organization is ideally placed to deliver this message, but EITI has the advantage of being new and small, and so is likely to provoke fewer concerns about turf invasion than if it was a large and established player. Further, the public salience of EITI's core concern has been diminished by these other issues, and so linkage with them would be a sensible response. Finally, as a multi-stakeholder institution, EITI is better placed than others to gain broad acceptance for a message since it cannot be seen as representing some particular interest group.

3 Consequences of High Commodity Prices for Existing Commodity Exporters

I now focus down on the central issue of how high commodity prices will affect existing commodity exporters. As I have noted, commodity prices are now down from their peak and are likely to fall further, but they remain much higher than they were for the previous two decades. I first present new research evidence on the consequences of high commodity prices and then consider its implications.

New Research Evidence

Four new studies suggest both the potential and the risks implied by high commodity prices for commodity exporters. Alexeev and Conrad (2008) show that in the long run that resource-rich countries have significantly higher levels of income than other countries. This qualifies concerns about the 'resource curse': to date, resource wealth has tended to make countries better off. However, this may be only because they live well off resource rents rather than becoming productive: Saudi Arabia has indeed got higher GDP than many other countries but it is not an interesting model for those resource-rich countries that are low-income and aspire to developing their non-resource economies.

The consequences of resource extraction for national production are investigated by Collier and Goderis (2007, 2008). They estimate the short and long run effects of an increase in the world price of a country's commodity exports, based on global experience since 1960. Their analysis is not concerned with forecasting the commodity prices themselves, but rather simulates the effects of a price increase that is then sustained. Their focus is on the growth of production rather than the growth of income. Production and income may diverge: for example, in recent years Nigerian oil output has declined, whereas income from oil has increased because the decline in the number of barrels extracted has been more than offset by the increase in the world price. Collier and Goderis are concerned with aggregate output: not only the output of the resource extraction sector but that of the rest of the economy. Their question is essentially *whether a commodity boom helps an economy to produce more output*. They find that for the first few years following an increase in the price of commodity exports output does indeed increase relative to what it would otherwise have been: people become more productive. However, usually this is not sustained. After two decades the typical resource-extracting economy is actually producing less than it would have done in the absence of the boom. Collier and Goderis simulate the current booms for the typical African commodity exporter and find that, if global history repeats itself, after two decades its national output will be around 25 percent *lower* than it would have been without the increase in commodity prices. This is the resource curse: if the society is lucky its income may nevertheless have risen because the extracted resources themselves generate a large income, but people are much less productive.

This decline in production is astonishing, since the influx of revenues from a sustained commodity boom is an opportunity to enhance output through investment. Indeed, the key finding of Collier and Goderis is that although a decline in production is the norm, it is by no means inevitable. Some societies have succeeded in harnessing commodity booms for sustained increases in production, while others have not. *The consequences for production depend upon the level of governance*: above a threshold level of governance there is no resource curse. On the contrary, those resource-exporting countries with good governance grow more rapidly in the long run as well as in the short run. These are the countries which succeed in harnessing resource exports for sustained development, Botswana being an African example. Unfortunately, during the

period 1963-2003, the critical level of governance required to avoid the resource curse was above that prevalent in many low-income resource-rich societies.

If governance matters for the ability to harness resource income for sustained growth, what form of governance is most effective? Collier and Hoeffler (2008) investigate whether democratic decision processes improve the governance of resource rents. Using a global data set for 1970-2003 they find that on average democracy and resource rents interact badly. Whereas in the absence of resource rents democracies tend to grow more rapidly than autocracies, if resource rents are substantial democracies grow more slowly. Rather than democracy strengthening the governance of resource rents, it appears that the resource rents undermine the normal good functioning of democracy. However, Collier and Hoeffler distinguish between two aspects of democratic governance, the degree of electoral competition and the number of checks and balances. The degree of electoral competition determines the process by which a government *acquires* power, whereas the number of checks and balances determine the limits on how it can *use* power. They find that both aspects of democratic governance have distinctive effects in the context of resource rents. Electoral competition is distinctively damaging, whereas checks and balances are distinctively beneficial. Ideally, resource-rich countries would have distinctive polities with particularly strong checks and balances.

In resource-rich countries a key function of checks and balances is to limit private access to rents. Such institutions are likely to come under pressure, the activity of undermining them being termed rent-mining (Ross, 2001). For example, Ross showed how in Thailand over a long period the institutions established to control logging were gradually eroded. Consistent with rent-mining, Collier and Hoeffler find that globally resource rents gradually weaken checks and balances. Once resource rents become substantial, over the ensuing thirty years checks and balances are weakened. Hence, on this evidence *the governance challenge for resource-rich low-income countries is to strengthen checks and balances in the face of pressures to weaken them*.

Finally, there is new evidence on the link between commodity prices and the risk of violent political conflict. For several years this link has been debated, but new evidence by the highly distinguished economists Besley and Persson (2008) comes closest to establishing it empirically. They investigate the effect of changes in commodity prices on the incidence of civil war and find that an increase in commodity prices significantly increases the incidence of violent conflict for exporting countries. They explain the heightened risk in terms of the greater value of contestable resources which increases the returns to violence. Their key result is that this unfortunate effect of high commodity prices is conditional upon governance, which they measure by the extent of restraints upon the power of the executive. *With effective restraints on the power of the executive increases in commodity prices do not increase the risk of civil war.*

What can be made of this new evidence? First, it suggests that unless natural resources are so abundant as to make concern for national output irrelevant, there is indeed a resource curse but that it is not inevitable: the possession of valuable resources can indeed raise income. Second, it suggests that whether this occurs depends on governance: without good governance resource revenues are not harnessed for development. Third, it suggests that good governance is related to effective limits to the concentration of power, whether proxied by checks and balances (as in Collier and Hoeffler), or the closely related concept of restraints on the executive (Besley and Persson).

On this evidence, the recent increase in commodity prices will tend to weaken the governance of commodity exporters. This heightens the importance of EITI's existing agenda. If EITI is to counter the pressures for deterioration in governance it needs to understand the main routes by which governance deteriorates. One is that the sudden increase in public spending reduces its quality. The other is that too little revenue is devoted to investment.

Implications of worsening governance: the quality of public spending

One key route by which governance deteriorates is through a reduction in the quality of public spending. Deterioration is not inevitable but it is

likely because the quantum increase in the revenues from commodity extraction is a high-profile public event. The consequential quantum increase in public spending is therefore fully anticipated by political actors. They recognize that there will be plenty of incremental money free from the bureaucratic necessity of maintaining existing budgets. This increases the return to political lobbying. Once lobbies have won increased spending the forces of bureaucratic inertia tend to lock them in. Realizing this, lobbies have an incentive to devote a massive effort to winning increases in spending: lobbying efforts become a perverse form of investment. The result is the lobbying equivalent of a gold rush: lobbies rush to stake claims to future income streams by capturing their share of the additional revenues.

Lobbying is subject to free-riding and so favours those components of public spending that confer large benefits on small groups. It can take a variety of dysfunctional forms, from financing election campaigns that create political obligations, through strike threats by public sector unions, to bribery of decision takers. In general, such an increase in political pressure squeezes the use of public money for those purposes which benefit everyone. Thus, lobbying will tend to reduce the social return on incremental spending.

If citizens come to believe that the windfall will be captured by such special interests there are likely to be two adverse consequences. First, people might pressure for second-best alternatives that at least provide some benefits that are more widely distributed and highly observable such as subsidized petrol or an increase in the national minimum wage. Second, perceived misuse will legitimize claims to ownership of the resource by those sub-national areas from which it is being extracted. The best defence against such claims is for the revenues to be visibly used for the national benefit. A revealing example here is the contrast between Nigeria and Malaysia. In Nigeria there has been prolonged and violent pressure for local ownership from the Delta. In Malaysia the basic geography of natural resource extraction is far less favourable to national unity than in Nigeria: the resource-rich regions of Sabah and Sarawak are not part of the mainland Malay Peninsula. Yet over the decades Sabah and Sarawak have essentially acquiesced in the use of resource revenues for national development.

If the government is to resist pressures for deterioration in the quality of public spending it needs to face down the lobbying surge. However, it can reasonably be more ambitious: the quantum increase in revenues is also an opportunity for the government to improve the quality of spending, especially if existing public spending is of low quality. The large increase permits innovation and changes in priorities that might be politically impossible when the overall budget is flat. Explicit and transparent decision processes can be established for incremental revenues without the need to defeat the interest groups that defend existing budgets.

Good procedures for public spending involve two distinct hurdles: honesty and efficiency. In a well-functioning system honesty and efficiency are enforced in multiple ways. Some work *ex ante* and are about how decisions get authorized, while others work *ex post* and are about evaluation. Enforcement is partly through top-down authority, partly through bottom-up pressure from citizens and their representatives, partly through peer groups, and partly through norms internalized by the public sector workforce. Table 1 presents a simple classification, giving examples of each of the sixteen resulting mechanisms. The quality of public spending depends jointly on all of these mechanisms, the balance between them varying according to the needs and opportunities of each situation. A key political opportunity created by a quantum increase in resource revenues is to upgrade these mechanisms.

The success of EITI demonstrates that the ability to achieve change locally is assisted by an international message around which local actors can rally. Hence, I suggest that EITI should consider mounting an international campaign around the theme of 'enhancing the quality of public spending'. I should emphasize that this is not an anti-government message. Often the government is as frustrated as are citizens by the sheer difficulty of raising the quality of public spending: it cannot be done by ministerial decree, but depends up the coordinated response of thousands of actors. Further, the

government will appreciate that pressures for violent secession can be reduced once citizens recognize that public spending is effective. The multi-stakeholder nature of EITI lends itself to such a theme since the responsibility for enhancing the quality of public spending is widely diffused across different actors.

Table 1: A Classification of Accountability in Public Spending

Purpose and Timing of scrutiny	Top-down	Bottom-up	Peer Group	Internalized by Workforce
Honesty: ex ante	International competitive tendering required for public investment projects	Civil society scrutiny of public spending	Ethical norms set by an association of doctors	Opportunities for corruption resisted due to integrity
Honesty: ex post	Audit by Auditor General	Exposure of public corruption in the media	Peer group disciplinary processes in professions	Guilt and regret induce confession and restitution
Efficiency: ex ante	Cost-benefit analysis of proposed projects	Parliamentary approval of budget	Presentation of spending plans by ministers in cabinet	Pride in skill induces high effort
Efficiency: Ex post	**Evaluation of completed projects**	**Comparison of benchmarked performance of service delivery in media**	**Comparison of examination results among headmasters**	**Failure induces an effort to learn from mistakes**

Implications of worsening governance: plundering the future

I now turn to the second route by which high commodity prices worsen governance: the temptation to neglect of the future.

The extractive industries are depleting a natural asset that rightly belongs to all citizens, both current and future. Inevitably, resource extraction therefore raises issues about the balance between the use of revenues for current consumption and their use for the accumulation of assets. Since the revenues from resource extraction are intrinsically unsustainable, to be fair to the future a substantial proportion of the revenues need to be devoted to investment. This continuous issue of offsetting depletion is periodically compounded by the commodity price cycle: when prices are high, as at present, it is important to save some of the revenues in order to protect spending during periods when prices are lower.

The single biggest past failure of governance in many of the resource-rich low-income countries has been to devote insufficient revenue to investment, especially during commodity booms. Many of the resource-rich low-income countries are now democracies and so the government cannot defer consumption unless voters are willing to accept it. If citizens do not understand the issues then elections are liable to degenerate into competitive offers of populist strategies of high current spending. This implies that in the resource-rich democracies there is

no alternative to making citizens aware of the ethical issues posed by a failure to invest a reasonable proportion of the resource revenues.

It is much easier for local politicians to guide citizens on this issue if there is an international campaign on which they can draw: then their message is less likely to be misconstrued as self-serving or misguided. The obvious analogy here is the campaign on climate change. In a remarkably short time citizens around the world have become aware and concerned about the ethical dilemmas posed by excessive emissions of carbon. Yet both the scientific and the ethical basis for the climate change campaign were far more contestable than the case for the protection of future citizens from the consequences of insufficient investment. Hence, my suggestion is that EITI consider organizing or encouraging an ethical campaign analogous to that on climate change around the theme 'don't plunder your future'. In effect, the agenda could be broadened from countering corruption to countering the neglect of the future.

The ethical aspects of depletion sometimes also extend to the pace of depletion. For example, there is some evidence that oilfields currently under the control of the national government of Sudan, but located in the South, are being depleted at an accelerated rate in anticipation of the referendum of 2011. Similarly, during the short rule of the transitional government of DRC many extractive rights were sold off. In both cases the interests of the government controlling the depletion rate may not have been coincident with the long term custodial role on behalf of future citizens.

4 Implications of High Commodity Prices: Resource Discovery

High commodity prices are inducing prospecting, most especially in countries that have previously not had substantial resource extraction. I now consider the implications for EITI of the new wave of prospecting.

There are very large differences in the extent to which different places have already been heavily prospected. An indicator of this is the value of known sub-soil assets as of 2000, a year for which there is a rough global snapshot. As of 2000 the global average value of sub-known soil assets per square kilometre was around $115,000. The OECD, despite around two centuries of mineral depletion, was above this global average at around $125,000. In contrast, Africa was far below it with an average of only $25,000 of discovered sub-soil assets per square kilometre. Since natural assets are presumably randomly distributed over the earth, a discrepancy of this magnitude between two areas as vast as Africa and the OECD is statistically rather unlikely. The most reasonable explanation for Africa's low value of discovered natural assets as of 2000 is that the region has far more left to be discovered than the global average.

Consistent with the presumption that Africa has considerable scope for prospecting, this is where many of the new discoveries have been made. Massive further discoveries are likely in these environments in coming years.

Resource discovery in low-income societies that have previously not had major extractive industries poses a distinctive agenda for EITI. The long-established commodity exporters, such as Nigeria, have the advantage of being able to learn from their own experience, and the disadvantage of having strong established interest groups which are likely to resist change. The countries with new discoveries have a brief period of political fluidity in the context of an explosion in expectations. This is a good time for new ideas to be introduced. In effect, EITI needs to develop a business model for countries with new discoveries: a phase of education of the society on the issues that it will need to confront.

In these societies the most urgent issue is not those already discussed above which concern the downstream use of revenues, but the upstream issue of how the process of awarding contracts and capturing value for citizens is organized. While some aspects of the design of appropriate taxation are technical and clearly not appropriate for EITI, one key aspect is highly pertinent. The modern theory of tax design for resource extraction emphasizes the desirability of competitive auctions as opposed to secretly negotiated deals. Competitive auctions overcome two major difficulties facing governments. One is the asymmetry of information between the resource extraction companies and the government: the companies are in a better position to judge the

value of prospecting rights. An auction overcomes this by forcing companies to compete against each other, thereby revealing the true value to the government. The other difficulty is the moral hazard which agents of the government face in conducting secret negotiations: it is too easy for companies to achieve an advantageous deal by means of corruption. Again, a properly conducted auction radically reduces the scope for such conduct. Since these advantages of auctions essentially amount to the greater transparency of information, they nest naturally with the existing EITI agenda but extend its reach into the important domain of new discoveries.

While the transparency of the process by which the rights to the extraction of natural assets are sold is the most urgent issue in the context of new discoveries, the issues already covered in the previous section will also become pertinent over time. The early period of prospecting and discovery is a good time in which to sensitize government and society to the issues that will need to be faced. The implications for EITI are that it needs to standardize an approach to societies with new discoveries, both in terms of the substantive content of messages, and of the processes for engagement with stakeholders.

5 China and Resource Extraction

The entry of China as a major actor in resource extraction is of fundamental importance. To date China has been largely outside the established international institutions and so has been acting separately. The proper inclusion of such a large new actor within a common international system would in any case be difficult, but this is compounded by the fact that China has an ethical foundation for its operations which is someone different from the OECD model of participatory social democracy. It is this OECD model from which the EITI principle of transparency is derived.

Chinese motivation in resource extraction combines self-interest with broader ethical goals. As with all countries and companies active in resource extraction, China is evidently, and entirely reasonably, to a substantial extent motivated by self-interest. This is simply a fact to be recognized: resource extraction companies are not charities acting on behalf of resource-rich societies and should not be criticized for a failure to be so. However, China clearly has significant ethical concerns alongside its own interest. The ethical pillars of China's involvement in resource extraction include a long history of solidarity with low-income, formerly colonized countries, and a high value attached to order and social stability.

Not only is China outside the established framework and applying somewhat different ethical standards, it has developed a distinctive model of doing business for resource extraction: deals in which resource extraction rights are bartered directly for the construction of infrastructure. The package also includes a component of Chinese aid, although since the packages are not individually priced the value of the aid is uncertain. Such packages have both attractions and drawbacks compared with the conventional unbundled approach in which aid is provided to the budget by a donor, revenues from resource extraction are paid into the budget by the company that has acquired the rights, and public spending of these revenues is not earmarked. One advantage of the Chinese model is that it enables a finance minister to lock into the use of resource revenues for investment: the package provides a 'commitment technology'. This can be very helpful if the likely consequence of the resource revenues reaching the budget is that they will be diverted into consumption or captured by special interests. A second potential advantage of the packaged deals is that since they bypass the civil service they avoid implementation bottlenecks, including corruption. One disadvantage is the obverse of these advantages: the society forfeits the ability to spend the revenues flexibly, with priorities determined in the course of spending. Although this is the cost that the IMF is concerned about when it espouses an 'integrated budget', in many contexts it is somewhat hypothetical. A cost that is probably more important is that because the components of the package are not individually priced the package as a whole is hard to compare with conventional deals. In this sense the terms of the package are not transparent.

Even before the current financial crash it was apparent that China needed to become part of the international system, but this was often seen as a matter of *including* China in existing arrangements. As a result of the crash it is likely that the balance of international power has irrevocably shifted. Future international architecture will evolve to become a

synthesis of Chinese and existing approaches rather than merely incorporating China. It is beyond the remit of this paper to speculate on the broader aspects of this process of synthesis, but its application to the Chinese approach to resource extraction is highly pertinent for EITI.

It has to be recognized that the Chinese model has genuine attractions: in some situations it is likely to be superior to the conventional approach and it is most surely going to be important for the foreseeable future. While it is not consistent with the conventional standards of transparency by which resource extraction is assessed, the right approach is not to assert the superiority of the conventional approach, but to adapt standards so as to produce a synthesis which meets the sound ethical concerns of the resource-rich countries, China and the international community. The Chinese government is not the equivalent of cowboy resource extraction companies: its deals include an element of aid motivated by a sense of solidarity. This is potentially a common ethical basis for a synthesis.

A second common basis for synthesis is China's tradition of taking a long term perspective and its high priority on avoiding disorder. The Chinese government is most surely concerned to avoid resource extraction increasing the risk of future insecurity since this would jeopardize future supplies. For example, they will wish to avoid a situation such as currently prevailing in the Nigerian Delta, where oil supplies have been drastically reduced as a result of violence.

While these ethical concerns readily form a common foundation for a synthesis, China does not attach a high value to transparency. How can the Chinese standards here be synthesized with current standards? The incompatibility between the Chinese business model of resource extraction and EITI standards is not, fundamentally, that it packages transactions that would conventionally be kept distinct and thereby fails to price individual components. Rather, the incompatibility arises as a consequence of China currently being the monopoly provider of a valuable design: the packaged deal. The way to generate transparency is not to resist packaging but to embrace it, and thereby introduce competition: competition reveals value and thereby generates transparency as a by-product.

Incorporating the Chinese business model into auctions

The most satisfactory way to organize such competition is through an auction. The government of a resource-rich country would specify in advance the rights of resource extraction that were on offer, and also the types of infrastructure that it wanted in return, listed in a descending rank of priorities. For example, a government might offer particular mining rights in return for the construction of roads, with the roads ranked in a wish-list. The Chinese and other consortia of resource extraction companies, construction companies and aid agencies would be encouraged to bid in the auction, each specifying how far down the list it was prepared to go in return for the extraction rights. The auction process would thereby reveal which package was the best value. Since it is difficult for any single government to inaugurate this process, it would most readily be launched if the World Bank were to offer aid for such packaged approaches: all bidders, whether Chinese or private consortia, would be eligible for the aid should theirs be the winning bid. Note that since the Chinese are using government aid as part of their package, it would be appropriate for other governments to embrace the same strategy: part of their bilateral aid budgets could legitimately be used to support bids by their national consortia of resource extraction and construction companies. This would, of course, require a major imaginative leap in the OECD aid agencies, essentially learning to imitate the Chinese model. But genuine synthesis of approaches, as opposed to the inclusion of China into existing approaches, will require such revolutionary changes in the behaviour of OECD actors.

This approach would have major advantages for all key stakeholders. For China, it would provide international recognition of the validity of its approach, something clearly of important to the Chinese government. This would indeed be a move to synthesis rather than merely offering to include China in the existing system. It would also enable China to demonstrate that its offers indeed contain an aid element. For the governments of resource-rich countries it would enable a much more informed choice between the packaged approach and the conventional approach, while quelling public concerns about a lack of transparency. For

international resource extraction companies, deeply worried that they will be outbid by China because they are not competing on a level playing field, it would provide the opportunity to compete on an equal basis, with Chinese aid matched by bilateral aid. For international civil society it introduces transparency into a major class of deals that are currently opaque.

The implication for EITI is that it should recognize that transparency can be achieved by more than one route. While the publication of detailed financial information is one such route, another fully effective route is through auctions on a common basis. Of course, the proper conduct of the auctions is essential and an appropriate concern for EITI. Standards of conduct for auctions could potentially be incorporated into EITI along with a monitoring and verification process.

6 Conclusion

EITI is a young organization, yet it is astonishing how radically the international landscape has already altered. At the worst, the changed landscape risks reducing the significance of EITI: new energies are being drawn to climate change or energy security, and some of the resource-rich countries are so awash with revenue that issues of transparency may appear not to matter so much.

The reality is that the changed landscape presents EITI with important opportunities. The financial crash has considerably increased public recognition of the importance of international cooperative regulation in asset markets. Once the immediate panic is over, EITI can surely build on this shift in public perceptions by making the analogy. The concern with climate change has sensitized international public opinion to the importance of managing natural assets properly, and of safeguarding the future, an issue which is central to the depletion intrinsic to resource extraction. Alarm at energy scarcity can be turned from its present focus on globally destructive national strategies, to viable international strategies.

The increase in commodity prices has both intensified the need for EITI in existing producers and brought in many more client countries. In the existing commodity exporters the range of issues that are pertinent for EITI could reasonably be broadened to include the two core governance challenges of raising the quality of public spending, and prioritizing investment so as to protect the future. In the countries where resources have only recently been discovered there is a need for an approach tailored to their specific needs: particular attention to the process of awarding contracts, and a means of sensitizing the entire society to issues with which it is unfamiliar.

The commodity booms are the best opportunity for transformative development that many of the societies of the bottom billion have ever had. The booms of the 1970s were largely missed opportunities. EITI is the only international multi-stakeholder institution dedicated to resource extraction: it has a key role in ensuring that history does not repeat itself.

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