The Extractive Industry Transparency Initiative in Mozambique

by

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1. Introduction

The purpose of this study is to investigate whether it would be useful for Mozambique to implement the Extractive Industry Transparency Initiative (EITI) to guarantee an effective and transparent handling of oil and mineral revenues in the future. The analysis of this issue is in itself potentially very important (if significant amounts of natural resources are found), but the study may also discuss more generally what is required to improve surveillance and scrutiny of the use of revenues in the public sector. Can there be a shift from external agents of restraint such as the IMF, the World Bank and donors to domestic agents of restraint such as the civil society and citizens generally?

The focus here is on the handling of resources generated from the oil and mineral sectors. It is an established fact that developing countries that have exploited natural resources on a large scale have since the 1960s done worse in terms of growth than countries without natural resources. This paradox is known as the natural resource curse and generally the explanation is taken to be rent-seeking that is possible in a weak institutional environment. Countries with good institutions such as Norway are not suffering from this problem. The EITI is set up to address exactly this problem.

This high dependence on natural resource income and its dramatic fluctuations means, that the management of these price and income swings is a key element in economic policy making in African economies. We will in this study also analyze the problems of handling large resource rents in an economically rational as well as honest and transparent way.

2. Determinants of African growth

The world economy is rapidly integrating, and in most regions growth has accelerated very significantly. There has also been extensive analysis of the determinants of economic growth, and Africa has been very much in focus in this research since the continent stands out as the worst performer. A decade ago Easterly and Levine (1997) even referred to it as “the African growth tragedy”. To put the analysis of the potential role of the EITI initiative in Mozambique in perspective, we start by reviewing relevant aspects of the research on African growth.

In the early cross-country regressions on growth analysts typically inserted a dummy to pick up “the Africa effect”, which was consistently found to be significantly negative. Since then, however, researchers have chipped away at this measure of our ignorance, so that it has been possible to replace the dummy by relevant explanatory variables. According to recent studies Africa seems to grow more or less in the same fashion as other regions, but it grows slowly because it rates badly on many of the variables that determine growth (Hoeffler, 2002). Thus, Africa is not different from other regions in how major growth determinants affect growth, but it has a bad growth environment. Factors that explain Africa’s poor growth are for example “expensive investment goods, low levels of education, poor health, adverse geography, closed economies, too much

public expenditure and too many military conflicts" (Artadi, Sala-i-Martin 2003, p. 1; Tsangarides 2005). It is features like these that have to be changed for Africa to take off.

There is an interesting recent analytical approach that does not focus directly on the long-run growth patterns, but on growth accelerations and the extent to which these can be sustained (see e.g. Hausmann, Pritchett, Rodrik, 2004). Pattillo et al. (2006) apply this approach and find that growth tends to accelerate particularly when policies and institutions improve. There is clearly a strong link from institutional quality, policy stance and growth accelerations. For growth episodes to be sustained for a decade or more countries require growth in trade and investment, low debt and democratic institutions. Pattillo et al. (2006, p. 31) find that growth in sub-Saharan Africa (SSA) would increase by 1.7 percentage points annually if the continent achieved the average world quality of institutions. They do not find any consistent association between resource availability and growth episodes, though. Hausmann et al. find that economic liberalization and democratization were associated with sustained accelerations, while the effect of positive terms of trade shocks were not sustained. This suggests that the impact of the current resource boom in Africa or of the discovery of new resources may lead to growth spurts, but that those may be hard to sustain. We will come back to this issue below.

The most ambitious study so far trying to explain variations in African economic growth has been undertaken by the African Economic Research Consortium (Collier, O'Connell 2006). The project has attempted to identify the growth opportunities and constraints and to explain the success or failure of countries in seizing the opportunities. The study characterizes opportunities for growth along two dimensions. The first dimension divides countries into three geographical categories, namely coastal countries, landlocked countries, and resource rich countries (irrespective of location). The second dimension is the degree of polarization in the society, from not polarized to moderately polarized and highly polarized countries. It may be noted here that resource-rich countries, such as Mozambique, are placed in a category of their own irrespective of whether coastal or landlocked. This is because it is found that resource rich countries in Africa have different development challenges and growth patterns than countries without resource-abundance.

After having defined the opportunities, the study goes on to investigate how domestic governments have shaped the growth environment in the various countries covered. Four different types of anti-growth syndromes are identified from the case studies. First, there is the regulatory syndrome which refers to excessive government interventions in markets. Second, there is the redistributive syndrome, where efficiency-reducing resource transfers play a dominant role in government policy. Third, there is the inter-temporal syndrome, which redistributes resources from the future to the present via for example looting by the elite or unsustainable government spending booms generally followed by sharp adjustments. Fourth, there is the state breakdown syndrome that is civil wars or severe political instability. Finally, there are also some countries that are characterized as syndrome-free. The empirical analysis shows that an absence of syndromes increases the growth rate by almost 2 per cent per year.

Also O'Connell (2004) notes that growth accelerations in Africa have tended to evaporate. One reason is that growth in the early stages of the acceleration is not real. For example, most of the government component of GDP is measured at cost, and thus increases with the growth of government wages. Since government wages often exceed the opportunity cost of government workers, the resulting increase in measured real GDP

is partly illusory. If the government expansion proves unsustainable, it is generally hard for the government to lay off workers, and instead other types of expenditures will be cut with negative supply side effects. This is thus one reason why overspending during booms often followed by economic decline. This is certainly something that can happen in case there is a major resource discovery or if there is a commodity price boom that pushes up export revenues dramatically.

The main conclusion of the AERC study is that African growth has faltered due to dysfunctional political-economic configurations or syndromes. Africa's poor growth performance is not the product of a uniform phenomenon but due to interaction different syndromes with different effects in different countries with different opportunities.

An alternative characterization of the African growth problem is due to Sachs (2004), who argues that Africa is caught in a poverty trap and that therefore small changes are not enough. Sachs does not believe that the poor African performance is due to poor governance. He argues that this is in itself an effect of poverty, and that poor countries are poorly governed because of lack of resources and skills. He argues that African countries are not more badly governed than other poor countries, but that there is a poverty trap. Savings is needed to cover replacement investment, investment to compensate for population growth, and finally investment to increase the capital stock. Since savings in Africa is low, the continent tends to get stuck in a low level of equilibrium. What is needed, according to Sachs, is a big push of investment to get the economy to the point at which it can converge to the high level equilibrium. Sachs identifies three reasons for the poverty trap. First, savings are too low, since people are too poor to save enough. Second, they have many children. Third, capital has a threshold level below which it is not productive. Investments are lumpy. Savings are therefore not enough to increase the capital stock. However, if financial resources were the binding constraint, African countries that have enjoyed commodity booms should have leveraged those into an exit from the trap. They have so far failed to do so, which suggests that economic resources by themselves are not enough. We will discuss the case of resource booms in the Section 3.

The innovation of the Sachs paper is that it advocates a massive and externally funded scaling up of country public service delivery. But the central thrust of the recent literature on African development including the AERC growth study has been to dismiss capital fundamentalism as a viable interpretation of Africa's way forward! Pritchett and Woolcock (2004) point out that many of the MDG services are both transaction intensive and discretionary. Unlike many macroeconomic reforms, the delivery of many health and education services requires the collaboration of multiple individuals who make highly discretionary choices in an environment where many key actions are unobservable. Such services cannot be delivered by a few politically protected technocrats. They are subject to deep incentive problems. The empirical link from spending on health and education to outcomes is notoriously weak (World Bank 2004). So again there is a concern about the efficiency of resource management. It is not enough that a country gets access to resources, one way or the other, but it must ensure that they are reliably and wisely used.

African economies face a whole range of development challenges, which means that the demand on policy makers in Africa is larger than in other regions at the same time there is a governance problem. In recent years African economies have changed many of their policies in a sensible direction, but the problem of revamping the administrative machinery is a task of a much larger order. Implementation is a key problem in Africa.

The main question concerning large aid injections is how the new or expanded programmes are to be managed. (Rapidly increasing revenues from natural resources have a similar character as aid, and is thus beset with similar problems.) How can one reach a situation where governments have incentives and possibilities to deliver efficient administration? Tight foreign control by donor in the form of policy conditionality has generally not worked so well. Domestic systems of control therefore must be tried, and the EITI is one example of such a system that can contribute to more effective public sector resource management.

3. Resource incomes and African growth

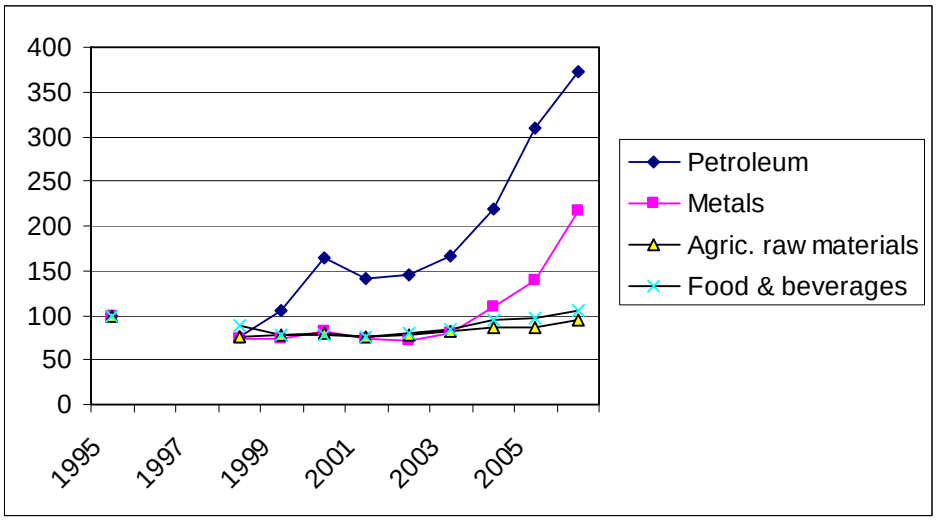
3.1. The evolution of commodity prices

Many African economies are highly dependent on natural resource incomes, which represent a large share of production, exports and tax revenues. The degree of dependence has fluctuated over time, but in recent years there has been a boom in natural resources which has meant that their importance has increased very significantly. This is mainly due to dramatic increases in prices of commodities but also due to new discoveries and increased investment in existing ones.

A key characteristic of the markets for these commodities is that prices are volatile and unpredictable. Prices do not follow a smooth development path. The typical pattern is instead a rapid price increase when there is a stockout of the commodity, that is when stocks fall below some level that is considered acceptable (Collier, 2007). This abrupt increase in the price of a commodity is then generally followed by a slow long-term decline. So the long-term pattern one observes is one with short periods of very high prices with slowly falling prices in between. The situation in Africa right now is one with extremely high natural resource prices, but the experience from other such periods suggests that it will be followed by a long period of declining prices.

We see in Figure 3.1 that there have been dramatic price increases in petroleum and metal prices in the last few years, while very little has happened with regard to agricultural products in the form of industrial inputs and edibles. The figure shows nominal prices, but even after correcting for inflation the price increase for non-agricultural commodities is very high. It is not easy to predict future prices but there had by the middle of 2007 not been any significant decline in prices. If experience is any guide, we would expect prices to come down gradually. However, there are some observers who believe we may be in a new situation, with some kind of super-boom, driven by the rapidly growing Asian economies.

Figure 3.1. Indices of Primary Commodity Prices, 1995-2006
(1995=100, current US dollars)



Source: IMF Primary Commodity Prices

3.2. The natural resource curse

From an African perspective the price increases described above may seem like good news. However, looking back a few decades one notes that countries with an abundance of natural resources actually have grown very poorly. There exists by now a huge literature on what has come to be known as the natural resource curse, which suggests that resource-abundant developing countries tend to grow slower than resource scarce countries.1 At the same time as there is extensive evidence that there is a long-term negative growth effect of resource abundance, there is recent evidence that recent commodity booms, even in Africa, have significantly increased the rate of growth (Raddatz, 2005). So we seem to be faced by a combination of positive short-term and negative long-term effects.

Let us first consider possible alternative explanations of the negative long-run effects? Three main explanations have featured in the literature. The first and most classical explanation is Dutch Disease. This describes the situation where an export boom leads to a currency appreciation, which makes other exports uncompetitive. There are numerous studies that have identified such an effect. A recent study by Rajan and Subramanian (2005) finds that an appreciating exchange rate reduces growth of labour-intensive industries. This is certainly a concern for African countries, since labour-intensive production is an area where they may be expected to have comparative advantages that they need exploit to generate long-term growth and employment.2

[1] The classical reference is Sachs and Warner (1995). A recent survey of the literature can be found in van der Ploeg (2006).
[2] Large inflows of aid are also associated with Dutch Disease effects. This may be a concern in the case of Mozambique; there foreign aid is above 15% of GDP at present.

The second explanation focuses on the negative effects of the volatility of incomes due to the price swings. It has clearly been hard for African economies to manage the booms to avoid boom-and-bust cycles.[3] Volatility can have negative effects on growth by making private sector investments more risky, which makes investors less willing to invest (Sala-i-Martin, Subramanian, 2003). It also tends to have negative effects on the efficiency of government spending. Governments often initiate large extra spending programmes during the booms, which have to be followed by dramatic cuts of expenditure programmes during busts.

Thirdly, there are a series of explanations that focus on the impact of resource incomes on governance. It has been suggested that lobbying and rent-seeking is more likely in situations, where there are large resource rents (Torvik, 2002). Mehlum et al. (2006) argue that this will mainly occur in countries with grabber-friendly institutions, while it will not be the case in countries with producer-friendly institutions. Many countries in Africa would be in the former category, while countries like Norway would be in the latter category. A key policy challenge is thus to find ways and means to reform grabber-friendly environments. A related explanation is due to Robinson et al. (2006), who argue that resource rents provide strong incentives to the politicians in power to pursue inefficient redistributive policies to build political support that can guarantee their power position. Examples are provision of public employment, subsidies to farmers, and protectionist measures for certain domestic industries. Both these governance-related explanations thus suggest that large resource-rents tend to undermine economic governance, which leads to lower economic growth. The handling of the (often substantial) revenues is therefore crucial to economic policy making in resource-rich countries.

Apart from these three types of explanations there are other explanations in the literature. It has for example been noted that resource abundance is associated with civil conflicts (Collier, Hoeffel, 2005). Resource rents can weaken the state and also provide resources for rebels (Olsson, 2007). Resource abundance tends to lead to increased inequality, since it is not uncommon that much of the revenue ends up in the hands of a small elite (e.g. Engerman, Sokoloff, 2002). This may influence growth negatively through various channels. It could for example be detrimental to the quality of institutions and lead to domestic conflicts or unrest. One has also observed that countries that earn huge rents have become credit-worthy and borrowed externally against the resource rents (Kuralbayeva, Vines, 2006).

3.3. Investigating the short-term vs. long-term paradox

So we are faced with a puzzle. The literature seems to identify positive short-run growth effects of resource booms but negative long-run effects. In a recent study Collier and Goderius (2007) try to sort out the conflict between the short-run and the long-run evidence on the growth impact of resource abundance. They use a panel co-integration methodology that makes it possible to disentangle the short-run effects of commodity booms from the long-run ones. They introduce fixed effects and regional time dummies to try to eliminate the effect as much as possible of omitted variables and they allow the

[3] See e.g. Addison (2007) on the impact of the oil boom on the volatility of Nigeria.

prices to vary between different commodities. They analyse panel data covering 1963-2004.

Collier and Goderius investigate whether the effect is the same for different types of commodities. They distinguish between oil, other non-agricultural and agricultural commodities First they show that there are significantly negative long-run effects of oil booms. In the case of Nigerian oil, for example, they find a long-run elasticity of -0.60, which means that a ten per cent price increase lowers long-term output by six percent. This is certainly a very dramatic effect. The estimated elasticity for Angola is even larger at -1.10. This suggests that Mozambique needs to be very concerned about what the long-run impact of significant oil production could be. With regard to other non-agricultural commodities there is a significantly negative effect, but only at the 10% level. The negative elasticity estimated for the case of Mauritania is as high as -0.70. When it comes to agricultural commodities they do not find any resource curse effect but instead a positive long-run effect. That is, the natural resource curse only seems to apply to non-agricultural commodities.

Their estimates of the short-run effects of commodity exports, on the other hand, are positive for all categories of commodities. The short-run growth effects are positive, and they estimate that in 2005 and 2006 the commodity boom added about 2.5 percentage points of extra growth in a typical African economy over and above the effect from the terms of trade gains. On top of this the terms of trade effect can be large. If for example export prices double, that income increases income by the same percentage as the share of exports in GDP. This is a tremendous positive shock to the economy, which it needs to handle with great care. If these extra incomes are wisely invested, the economy can gain a lot from a boom.

As an example of the interpretation of their results one can mention that they imply that a ten percent increase in the price of Zambian commodity export according to their estimates leads to a five percent decline in the long-term real GDP per capita in the long run. At the same time the higher price leads to an increase in the purchasing power of the country, but with reasonable assumption about magnitudes it is not enough to compensate for the negative long-run effect even if it mitigates the effect. Thus, in the long term the country will see both lower output and lower incomes due to the price boom.

3.4. Explaining the long-run curse

The real challenge is to sort out what explains the long-run effects. Collier and Goderis (2007) start by considering six different potential explanations, namely Dutch Disease, governance, conflict, excessive borrowing, volatility, and inequality. They do find that although they get a negative estimate for the coefficient for exchange rate appreciation or Dutch Disease, but it is not significant. Thus, the Dutch disease only explains a small part of the negative long-term growth effect of commodity booms. Collier and Goderius also find that the volatility explanation has some validity, but that it is not a major explanation..

The estimated coefficient for their governance indicator is positive, but this is not significantly either when entered directly. Collier and Goderius then go on to investigate the hypothesis of Mehlum et al. (2006) and Robinson et al. (2006) that the resource curse

occurs conditional on weak governance. They rank countries according to their average ICRG (International Country Risk Guide) score and then split the sample into two groups: good governance and bad governance countries. When their regression then is run for the bad countries only the coefficient for the commodity export price is negative and significant at the one per cent level. These countries thus seem to suffer from the resource curse. When the same regression is run for the good governance cases the coefficient is positive and significant at the five per cent level. So their conclusion is that not only is the resource curse absent in the good governance countries, but the higher export prices there instead have a significantly positive effect on long-run growth. Various checks of this result are tried but it seems robust.

So they conclude that it is primarily bad governance causes the resource curse. But which of the two approaches are most relevant? The Mehlum et al. (2006) was that high resource rents made it profitable to enter into lobbying and rents-seeking and these activities paid off in grabber-friendly environments but had low returns in producer-friendly environments. This meant that entrepreneurs had strong incentives in weak policy environments to shift their efforts away from productive activities to rent-seeking activities, with detrimental effects on long-run growth. Their hypothesis was that it would result in a lower share of manufacturing in GDP. This they could not test in their cross-section data, while Collier and Goderius (2007) could do so with the help of their panel data set. The alternative theory by Robinson et al. (2006) argued that the cause was the misallocation of government resources, or more specifically that resource booms provided incentives and resources that could be used for inefficient redistributions to buy political support. This could take the form of public employment, farmer subsidies, protection of domestic industries etcetera.

The governance hypothesis is tested by considering several indicators of government activity. Again they have difficulties in finding a general effect on the whole sample. They then went on to check whether there could be a non-linear effect. They experimented with different specification where the variables were interacted with the proportion of non-agricultural commodity exports in GDP. They then found that the level and change in government consumption, and the lack of trade liberalization explain the resource curse effect together with the level and change of total consumption.

Collier and Goderius (2007, p. 22-23) then draw the conclusion that “the resource curse occurs conditional on weak governance/institutions and that it works through inefficient redistribution”. So if it can be concluded that the resource curse does not occur in countries with good institutions, then it seems clear that what is needed to prevent it from happening in the creation of good institutions. The challenging question is then how this can be done. The EITI is one example of an attempt to provide incentives for good governance, and the usefulness of this initiative is what this paper will investigate.

3.5. Economic policy for booms

Effective public spending is crucial for good long-term growth outcomes according to the supported third interpretation. The aspects that are important are first to allocate public money to the right activities and second the ability of the government to make sure that the money is effectively used. How well the government can perform these tasks depends on both the level of skills of the civil servants and the structure of incentives. For the

incentive structure to be effective there must be pressure on both the government and the public sector institutions to be accountable. This typically requires that they accountable to the citizens of the country. This in turn requires a set of checks and balances and good opportunities for the citizens to scrutinize how the money is used. This is where the EITI comes in as one option to strengthen the process of scrutiny and then also policy making and growth effects. Collier and Hoeffler (2006) show that a higher number of checks and balances have a significantly positive effect on economic growth. They also find that as resource rents increase, the number of checks and balances seem to decline. So instead of better accountability when rents increase, one typically finds the reverse.

A major problem associated with efforts to make a system such as the EITI work is the so called free-rider problem. Government scrutiny is a public good, that is the benefits accrue to all citizens, which means that it is not in anyone's individual interest to exert the control for everyone's benefit. Sometimes citizens can organise themselves to the exert control. This may be the case when there are large effects of certain government policies, such as high taxation. However, there is a risk in resource-rich countries, where much of the taxes come from resource rents paid by firms, that citizens do not feel it is their obligation to get organized and to scrutinize government activities. So the dilemma is that it is in these cases that the need for scrutiny is the highest, while the incentives to undertake the scrutiny are the lowest.

From a policy making perspective the most important decisions are taken during the booms, and often taken without taking the long-term implications into account. Decision makers should take into account that the high prices are unlikely to persist and to evaluate what the appropriate long-term policy choices are. Moreover, it is during the boom periods, and not the bust periods, that there is a reasonable scope for choices. It is less painful to hold back spending somewhat during the boom than to be forced into panicky measures once there has been a bust and there is much less resources available.

Collier (2007) discusses how policy makers should deal with booms. The key issues are how much of the revenue that should be saved, how much of the savings that should be invested domestically, and how this investment should be divided between public and private sectors. There might also in some instances be a need to think about how much of the revenue that should be transferred directly to households.

For economies that depend heavily on highly fluctuating incomes from non-agricultural resource exports it is very important the public expenditures are handled well. The decisions on savings are vitally important to deal with the problem of the volatility of revenues. And if policy makers manage to smooth the income flow, it is more likely that they will be able to maintain the quality of public expenditures.

Collier (2007) points out that when taking decisions about how to deal with the revenue from a natural resource such as oil, one needs to assess the trend of international prices for that commodity and whether it is below or above its trend value. It may be reasonable to expect that the trend in real oil prices in the long term is upward, but with large swings around the price trend. There are two dimensions to the savings decision. First, one needs to take a long-run decision that makes it possible to achieve a sustainable (possibly increasing) path of consumption. The choice here depends on the real price trend and the extraction rate. With reasonable estimates of these one would probably set more aside for investment than for current consumption. To come up with reasonably realistic estimates

in cases like Mozambique where extraction is in its early stages is of course hard. But once the production gets underway the government will need to take a decision on the consumption-investment trade-off.

This long-run decision then needs to be complemented with decisions about how to smooth the fluctuations generated by the oil price swings. Basically the notion here is that incomes from prices above normal should be saved and then used in periods when prices are below normal. This means that the government should be able to draw on these savings in periods of decline, and this suggests that they should be held in liquid forms. By holding them in liquid form abroad and then bring them back home when prices of the commodity falls the government can also help smooth the path of the real exchange rate.

Collier (2007) compares the handling of the copper boom in 2005 in Chile and Zambia. Chile applied the above mentioned rule that all of the extra revenue was saved, while Zambia continued to run a fiscal deficit.[4] In the case of Chile the exchange rate actually even depreciated, while in the case of Zambia it appreciated by as much as 80%. This of course was extremely problematic for non-copper exporters in Zambia.

So the handling of large and volatile inflows of foreign exchange is a concern. If the inflow represents a permanent shift in the earning ability of the country than the appreciation of the exchange rate would not be a misalignment, but it would be appropriate for the economy should adjust to the new situation. However, if the boom is temporary, then a short period of appreciation may well lead to the bankruptcy of industries that in the long-term would have been viable. Thus, industries where the country has comparative advantages in the long-term would be closed down and capital that had been invested would go to waste.

Fluctuating exchange rates also increases the riskiness of investments, and thus holds back private investments. So the handling of booms has both a fiscal and an exchange rate aspect. In booms the government should run a fiscal surplus and the central bank should build up its foreign exchange reserves.

The next policy issue is the investment choice. Should the money be invested at home or abroad? This decision to some extent depends on the relative returns. The returns at home in turn depend on the scope for profitable domestic investments. This depends on the costs on investment, and experiences from booms in Africa show that the cost of domestically produced capital increases very significantly (Bevan et al., 1990). With regard to the allocation of investments between private and public sectors the government can of course directly control public investments, while it has to use indirect means to influence private investments. This may for example be done via the purchase of domestic debt from the public, which would leave money in the hands of the citizens that can be used for investment (Collier, Gunning, 2005).

When government revenues are very large it may even be appropriate to transfer some of the resources directly to the citizens. Otherwise the public sector may become too large relative to the private sector. This is not easily done in poor African economies, so one

[4] It may be noted, though, that in the case of Zambia the government at the turn of the century when copper prices were extremely low had entered agreements with the mines about tax holidays, which now means that very little of the extra revenue ends up in the government coffer (except indirectly via increased income taxes and the like).

may need to think of effective ways of managing the transfer. One would be to use the schooling system. There are experiences outside Africa of transfers of money to children that attend school, which have had beneficial effects on both school attendance and poverty reduction.

3.6. Incentives for implementation of sound policies

Democracy has two important dimensions, electoral competition and checks and balances. Particularly resource rich countries need democracy to avoid elite capture of rents, but it needs checks and balances to prevent that the elections are converted into corrupt patronage games which is financed by the resource rents. One needs system scrutiny to achieve honesty and other systems to achieve efficiency. The resource rich countries often have resources, but they also need good systems of public spending. A serious constraint here is political will, and since much of government income comes in the form of resource rents the elite may be tempted ton capture the rent for itself. For rents to be effectively used it is probably necessary that power is diffused. It is crucially important that money from resource booms is used well, and that requires accountability. Since scrutiny is a public good it is subject to collective action problems. Donor initiatives could here help organise citizens and maybe also stimulate peer group evaluations.

There is a general political problem in handling money from a windfall such as those due to temporarily high commodity incomes. The problem is that the government in power will normally soon be up for re-election, which means that it has a strong incentive to try to "deliver" during its spell in power. If it behaves prudently it may instead lose power. It is also politically very hard to argue for prudence and high savings, in a situation where the immediate needs of the population are very obvious. It has been politically problematic even in rich countries to pursue a prudent policy, and even in the case of Norway critique of such policy has led to great progress for populist politicians. It is of course even harder to pursue a prudent policy in a poor country, both because the pressure from the population is larger and because the costs for policy makers of being thrown out of power are probably higher.

The question then is what one can do to improve incentives to pursue policies that are long-term desirable but may be short-term costly for the decision makers themselves. One possibility is to introduce some form of policy rule into the constitution or at least make it last beyond the immediate fiscal year. It is of course not easy to convince policy makers that it is in their interest to tie their own hands behind their backs.

The agency problem of the process of scrutiny can be reduced by improved information for the principals. There should be support for the building of capacity to analyse information and incentives for agents to perform. External pressures from donors can help local civil society and citizens by insisting that rewards and penalties are built in and are implemented.5 Audit systems and parliamentary scrutiny are key areas of intervention. A top priority is competitive bidding for government contracts. When this was introduced in Nigeria recently costs of projects fell by on average 40%. To ensure efficiency of resource

[5] The EU was successful in influencing institutions in Eastern European countries by requiring reforms as a condition for EU accession. Since African and other developing countries are not candidate countries, the EU cannot exert such an influence. But the issue is certainly worthy of consideration.

use one needs all of ex ante authorisation, scrutiny during implementation, and ex post evaluation.

If a domestic solutions cannot be achieved or as a complement to domestic mechanisms one may try to rely on some external agent of restraint. In for example Eastern Europe major policy reforms were undertaken quite quickly, when it was realized that they were necessary for the countries to become EU members. In Africa the external agents of restraint have been the World Bank, the International Monetary Fund, and other donors, but their record has been mixed. Policy reforms have been undertaken, but the implementation of the agreed reforms have often left a lot to be desired.[6] The domestic interest in fulfilling the promises has been too small. Therefore it seems reasonable to try to find a solution where the citizens of the country can influence and control policy makers. Donors could support such a process by pushing for governance conditionality that can restrict the power of the governing elite (Collier, 2006). Unfortunately there is a knowledge gap about how to implement governance conditionality.

Collier (2006) wants a shift in aid policy from policy conditionality to governance conditionality. The former undermined accountability to citizens, while the latter would reinforce it. In the Paris Declaration there is one point about "mutual accountability": meaning mutual assessments of donors and recipients of progress and a mutual accountability mechanism. When it comes to budget support there is extensive use of performance indicators. The structural adjustment lending during the 1980s and 1990s was based on ex ante conditionality, that is, promises of policy reforms. Since this did not work very well, there has been an argument that donors should shift to ex post conditionality, that is to say aid based on recipient performance according to certain ultimate goals. The European Commission pioneered this type of aid allocation, and since 1999 financing conventions with ACP countries include a "variable financing tranche", where aid transfers are based on the outcomes of certain social and economic variables (Adam et al., 2004). The idea is that performance-based contracts, will lead to better ownership, which in turn is considered essential for good performance. This new modality was introduced gradually and in several instances existed alongside conventional conditionality.

3.7. Concluding remark

The conclusion from our analysis of African experiences of handling resource rents clearly shows that the area of governance and public resource management are key areas. It is of course essential to get the economic policy analysis right, but that is still easier than to bring about an institutional set-up that guarantees the effective policy choice and policy implementation. The EITI can be an important components in the institutional development required to ensure that resource booms are used for the long-term good of citizens.

[6] There has been some modest reduction in the extent of conditionality relative to the old structural adjustment programmes. The constraint is that the reduction of conditions that donors are willing to accept depends on whether the recipients are able to put adequate reporting systems in place.

4. The EITI – structure of the initiative

4.1. Background

The resource curse has resulted in resource rich developing countries having poor results in socio-economic development, often as a result of corruption, clientelism and political instability. Many countries have made efforts to avoid the curse by improving transparency and accountability. The international community has supported these attempts towards improving governance through a number of important initiatives and as a complement to these, the Extractiv**e** Industries Transparency Initiative (EITI) was announced by UK Prime Minister Tony Blair in September 2002 at the Word Summit on Sustainable Development in Johannesburg. The following year in June, the initiative was launched at an Inaugurating Conference in London.

The EITI sets a global standard for greater transparency and accountability in resource rich countries. It is voluntary multi-stakeholder initiative open to governments, international organizations, companies, civil society, investors, and business and industrial organizations. For instance, at the inauguration conference the statement of principles were signed by a broad alignment of governments, important players in the international oil industry, and a civil society coalition Publish What You Pay (PWYP).

The Publish What You Pay campaign was launched in June 2002 by a small group of founding non-governmental organisations (NGO's) as Global Witness, CAFOD, Open Society Institute, Oxfam GB, Save the Children UK and Transparency International UK. The coalition has grown extensively to include more than 300 members today. The background to the campaign was a report on Angola by Global Witness (1999), where it became clear that major oil companies refusal to release financial information aided and abetted the mismanagement of oil revenues in the country. The report concluded with a call on the oil companies to publish what you pay.

4.2. Main idea

The EITI provides a global standard for transparency and accountability, assisting resource-rich countries avoiding mismanagement of revenues from oil, gas and mining. Instead these revenues could contribute to sustainable development and poverty reduction (EITI, 2005).

The initiative is supported internationally, but focus of the initiative is on the national level and the implementation should be government led. The EITI is a voluntary multi-stakeholder initiative and implementation benefits vary for the different organisations. Overall, the participants gain in the signalling effect that the government as well as companies are committed to high standards of transparency and accountability in public life, government operations and in business. More, specific, implementing countries improves the resource management promoting economic and political stability. In addition, the investment climate improves increasing future interest from investors and international financial institutions to invest (EITI, 2005).

A reduction of political and reputational risks is the main benefits for companies and investors. Political stability is important for revenues generation, especially since

investments in extractive industries are long term and capital intensive. Greater transparency will improve companies' possibility to show their contribution to the socio-economic development of the host country. In addition, competition is increased when the playing field is levelled. The civil society benefits from improved public information making it easier to hold the government accountable for resource allocations (EITI, 2005).

The EITI aims at increasing transparency and accountability through two mechanisms:

- The publication of all payments made by extractive industries to government and of all revenues received by government from those companies. These figures should:
  - Come from all companies operating in a country.
  - Be audited to international standards
  - Be reconciled by an independent organisation

- The involvement of local civil society groups in the design, management, and monitoring of the initiative.

It is important that all payment and revenues are reported. These could include host government's production entitlement, national state-owned company production entitlement, profit taxes, royalties, dividends, bonuses (such as signatories, discovery, and production), licences fees, rental fees, entry fees, and other significant benefits to host government.

The cornerstones of EITI are the principles and criteria. The EITI Principles were agreed at the Lancaster House conference in 2003, while the EITI Criteria were agreed at the EITI London conference in 2005. They establish the common, mutually-agreed, minimum requirements for all countries implementing the EITI. The principles summarises in broad strokes the international consensus on the importance of transparency and the need for collaborative efforts by public and private sectors in ensuring accountability and good governance (Ocheje, 2007). The criteria are based on verified payments and receipts by an independent administrator, publication, involvement of civil society and the participation of all extractive industry operators.

Box 4.1: EITI Principles

1. We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.

2. We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.

3. We recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.

4. We recognise that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.

5. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.

6. We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.

7. We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring.

8. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.

9. We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business,

10. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.

11. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.

12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations.

Box 4.2: The EITI Criteria

1. Regular publication of all material oil, gas and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner.

2. Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.

3. Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.

4. This approach is extended to all companies including state-owned enterprises.

5. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.

6. A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

Administratively, the initiative is since this year governed by a board supported by an international secretariat in Oslo, Norway.[7] The board consists of members from EITI implementing countries, supporting countries, civil society organisations, companies and industrial associations.

4.3. Country participation and validation process

According to the EITI website[8], there are 22 EITI countries. Most of them are African, but countries from Europe, Asia and Latin America have also endorsed the initiative. The EITI countries are Azerbaijan, **Bolivia**, Cameroon, Chad, Democratic Republic of Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Kazakhstan, Kyrgyz Republic, Mali, Mauritania, Mongolia, Niger, Nigeria, Peru, Republic of Congo, São Tomé and Principe, Sierra Leone, Timor-Leste, and finally Trinidad & Tobago.

The EITI countries have reached different levels of implementation. When the PWYP coalition last year presented an analysis of progress of the EITI process (Publish What You Pay , Revenue Watch Institute, 2006), they noted that many countries had not yet even taken the initial step as appointing individuals to lead the EITI process. The coalition pointed out that some countries might have endorsed the EITI without having the political commitment to implementation. These governments might have signed merely because it is the politically correct thing to do or **maybe** to gain Heavily Indebted Poor Country (HIPC) status. The coalition suggests that action needs to be taken to protect the credibility of EITI by ensuring that rhetorical commitments are matched by concrete actions.

[7] Before the move to Oslo, the administrative secretariat was located at DFID.
[8] www.eitransparency.org

At the time of the PWYP report, only Azerbaijan and Nigeria had published fully audited and reconciled EITI reports. By July 2007, an additional five countries, Cameroon, Gabon, Guinea, Ghana and Mauritania, had shown political commitment and published EITI reports.

The civil society critique was an important input into the work of the International Advisory Group[9] (IAG) that was formed in July 2005 to look into ways to strengthen the EITI. The IAG recommended EITI to introduce a validation process at least every two years (EITI, 2006). The process should be focused on implementation only to assess if a country is a compliant, a candidate or if no meaningful process is being made. The compliant countries are those that have fully implemented EITI. Candidate countries would be those having committed to implement EITI, but where implementation still is ongoing. The key implementation steps are;

- Appointment of senior official to lead the implementation;
- The establishment of a multi-stakeholder committee;
- A drafted and approved work plan;
- Publishing of an audited and reconciled EITI report.

The validation process will surely affect the "free rider" problem and thereby positively influence the political will of hesitant policy makers.

4.4. Participation from oil, gas and mining industry

There are three industry associations, 28 extracting industry companies and more than 70 global investment institutions supporting EITI. Peter Clapman of the TIAA-CRED has emphasised that improved transparency standards would benefit investors both as lower business risks for existing operators as well as expanded investment opportunities that would ensue as a result of the improved business climate (EITI, 2004a).

The Industry Associations are American Petroleum Institute, International Council on Mining and Metals, International Organisation of Oil and Gas Producers.

The companies are Amerada Hess, Anglo American, AngloGold Ashanti, Areva, Barrick Gold, BG group, BHP Billiton, BP, Burren Energy, ChevronTexaco, ConocoPhilips, DeBeers, Eni, ExxonMobil, Katanga Mining Limited, Lonmin, Marathon, Newmont, NorskHydro, Petrobras, Repsol YPF, Rio Tinto, Shell, Statoil, Talisman Energy, TOTAL, Woodside, and Xstrata.

More than 70 global investment institutions including some of the world's largest pension funds are supporting the EITI. They are listed on the EITI website, http://www.eitransparency.org/section/supporters.

[9] The IAG included representatives from seven governments, four companies, four civil societies and one global investor.

4.5. Participation from the supporting countries, international organisations, and civil society

The initiative is supported by the following countries: Australia, Belgium, Canada, France, Germany, Netherlands, Norway, United States of America and United Kingdom. In addition, G8 is also supporting EITI.

In August 2004, the United Kingdom's Department for International Development (DFID) and the World Bank established the multi-donor trust fund for the EITI. Germany, Norway and the Netherlands joined in 2005. The goal of the trust fund is to broaden support for the EITI principles and processes in EITI countries. The trust fund currently funds activities in twelve countries.

Multilateral organisations as the African Development Bank, European Bank of Reconstruction and Development, International Monetary Fund, Organisation for Economic Co-operation and Development and World Bank Group support EITI.

The EITI is also supported by civil society organisations as Catholic Agency for Overseas Development, Georgia Revenue Watch and NGO Coalition "For Transparency of Public Finance", Global Witness, Open Society Institute, Publish What You Pay coalition, Revenue Watch Institute and Transparency International.

4.6. Initiation, implementation and governance structure

The initiative is government led and each implementing country will need to develop its own unique governance structure for implementing the initiative. The EITI is though providing some guidance.[10] The first step of the EITI process is of course the endorsement by the government. Thereafter, the initiation is made in consultation with stakeholders. This phase includes the establishment of the governance structure for decision-making, outlining a work plan, and arranging for capacity building and sustainable financing of the programme. In the implementation stage, government, companies and civil society organisations together disclose, disseminate and discuss reported revenues. Finally, the process includes a review of the implementation, where concerns and opportunities for improvements are fed back into the process (EITI, 2005).

The basic institutions are the multi-stakeholder steering group and the secretariat. All EITI countries are reported to have established these institutions. This basic set-up could then be supplemented with a cross-governmental group, a broader consultative group and sub-groups (see figure 4.1 below).

The key institution in EITI implementation is the multi-stakeholder steering group or committee. The steering group needs to be large enough to be representative of the key stakeholders but small enough to be able to meet easily and function efficiently. These groups are responsible for the key decision making in the EITI process, thus representatives should have the ability to participate in decision making. Typically they

[10] This section is based on information provided by Sefton Darby of the EITI World Bank and the EITI (2005).

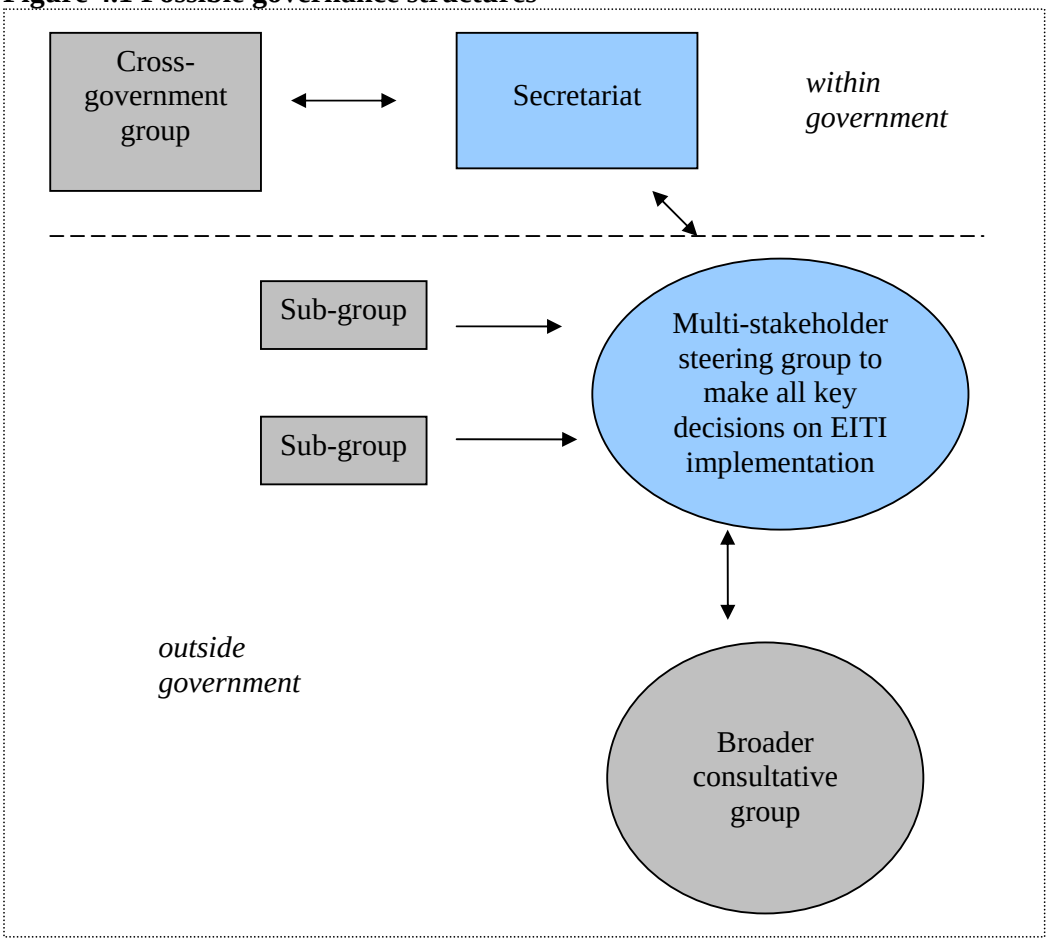
are 10-15 people drawn from government, industry and civil society. Common tasks for the steering groups are:

- Responsibility for overall strategic decision making;
- Developing a work plan;
- Appointing an auditor;
- Rising public awareness;
- Assessing and removing barriers to implementation;
- Reviewing validation report.

The membership of the group could be established in different ways, but it is important that it done in a transparent and open manner. The government could make the selection or different stakeholders could be invited to nominate representatives. Thus, some representatives of the steering group could have constituency arrangements, representing a broader group outside the steering group.

The secretariat or implementing unit oversees the development of the initiative. These units are almost always based inside government, at a revenue ministry, a sector ministry, or in a cross-cutting ministry or agency. Typically, they are responsible for supporting the work of the steering group, as well as carrying out all the work required in government to implement EITI. Important tasks are of course to develop a fully financed work plan and look into necessary regulatory or legislative changes.

Figure 4.1 Possible governance structures



Some countries have created broader consultative groups to allow for interested stakeholders to participate in the EITI process. This allows for interested organisations to participate in a regular manner. Other countries have chosen another way for broader consultations. They hold regular workshops and conferences as to consult with all interested stakeholders. It is not unusual that countries have introduced small multi-stakeholder subgroups to address specific questions.

In addition to the secretariat some governments have introduced special cross-governmental groups. Often EITI involves many different government ministries and agencies, and there is need to coordinate government positions before going to stakeholders group meetings. These groups are for internal coordination only and should not be mistaken as decision-making bodies in rivalry with the multi-stakeholder steering group.

Organisations that might need to be involved in EITI design, implementation and monitoring as members of stakeholder groups according to EITI are presented in Textbox 4.3 below (EITI, 2005).

Box 4.3 Candidate organisations to the multi-stakeholder steering group

Public institutions

- Executive
  - Agencies responsible for management of natural resources
  - Agencies responsible for revenue collection and management
  - Agencies responsible for economic development, private-sector regulation and public administration
- Legislature
  - Budgetary and/or natural resource committees
  - Sub-national levels of government
- Supreme audit institutions

Private sector

- Companies operating in the country
  - Domestic state-owned companies
  - International state-owned companies
  - Domestic private companies
  - International private companies
- Investors
- Business associations

Civil society

- Community-based organisations
- National non-governmental organisations (NGOs)
- International NGOs and their local affiliates
- Media, trades unions, academic and research institutions, and faith-based organizations

EITI implementers

- Administrators, auditors and/or disclosure agencies

International partners

- International institutions (IMF, World Bank, United Nations)
- Donors

The assessment of EITI by the PWYP coalition in 2006 pinpointed some important issues for a successful implementation to be reached (Publish What You Pay , Revenue Watch Institute, 2006). These are

- Appoint the "right" leader for the implementation;
- Make sure to recognise and get genuine civil society participation;
- Support the civil society participation;
- Allocate sufficient funding;
- Institutionalise EITI in statutory law.

4.7. Way forward for EITI

The EITI is an international instrument combining government commitment with business interests and civil society demands. The EITI is receiving support from OECD countries and companies based in these countries. On the international scene, companies from emerging countries like Brazil, Russia, India, China, Mexico and South Africa are becoming more active in international exploration and production of natural resources. The IAG therefore suggests EITI to work with these emerging economy governments to

encourage their greater engagement with the initiative (EITI, 2006). If the EITI only is applied to some companies active within a country, this might imply a loss of competitiveness for companies disclosing their payments (Schultz, 2007).

The initiative arouse in the aftermath of a number of scandals where international oil companies actively participated. As mentioned earlier, the Global Witness reported involvement of oil companies in the severe mismanagement of resources in Angola. Internationally, the increasing focus on good governance implied that the oil industry seemed to face either some kind of own governed self-regulation or an externally imposed system via international law (Schumacher, 2004). Within EITI, the oil industry has pushed for the actual voluntarily nature (thus self-regulation), while the international civil society organisations would prefer an international mandatory regulation. One option available, chosen by Nigeria, is to make the EITI participation mandatory on a national level, by passing a law. Companies from emergent economies are then obliged to participate in the national EITI.

The IAG also noted that the EITI was originally designed for the oil and gas industry, and that EITI implementing in the mining sector was not proceeding very well (EITI, 2006). While transparency in revenue payments is important for the oil and gas industry, contributing to a sustainable development and environment issues are more important for mining companies. The revenue flows are significantly less than in oil and gas industry. The mining industry needs a clearer link to good governance beyond revenue transparency (Rader , Sabater, 2006). The EITI has also been the starting point for local activists as way of demanding greater accountability for government spending (Soros, 2005). Companies being members of the International Council on Mining and Metals (ICMM) are already following a mandatory requirement of reporting tax revenue in a transparent way. While the industry includes a larger variety of products, the payments to governments are not very complex. The EITI has established a separate mining sub-group, following the IAG suggestion.

Finally, the IAG wanted EITI to associate more closely with other transparency initiative, especially with IMF and the World Bank. The EITI is only one of several international programmes promoting good governance and the EITI is best implemented as part of a broader reform and as a complement to other programmes (EITI, 2006). The IMF and the World Bank promote efficient resource revenues management through policy advise, policy-based lending and technical assistance. The IMF has promoted good practises on fiscal transparency, resulting in the development of codes, guides and manuals being published since 1998. These were last updated in April this year (IMF, 2007b, 2007c, 2007d).

The World Bank performed an Extractive Industry Review in 2001, concluding that the bank needed to implement serious reforms. The World Bank has been working on a worldwide governance indicators project covering 212 countries and six dimensions of governance (Kaufmann et al, 2007). World Bank has also provided technical assistance to countries implementing the EITI.

The IFC and the European Bank of Reconstruction and Development have started to promote revenue transparency through the conditions the place on their support for investments in the extractive industries (Global Witness, 2007).

4.8. Concluding remark

The EITI is a voluntary multi-stakeholder code of conduct. This kind of innovative instrument is becoming more and more important in an increasingly globalised world for the promotion of important ideals, such as human rights, labour rights, environmental rights and anti-corruption practices. The adoption of codes of conducts is driven by corporate social responsibility and the anticipated benefits of good corporate citizenships to stakeholders (Ocheje, 2007). This is extra relevant for the petroleum industry having been involved in many international scandals. Initially the EITI has focused on the oil and gas industry, but the initiative is also incorporating mining industry.

5. Experiences of EITI implementation in Nigeria and Ghana

5.1. Background

There are seven countries that have published EITI reports. This section takes a closer look on the implementation of the EITI in two of these countries, namely Nigeria and Ghana. Nigeria was the first country to endorse the EITI and the initiative is an important part of a comprehensive anti-corruption reform package. The initiative has so far been focusing on the petroleum sector, while the mining sector will be included soon. In Ghana, the mining industry has been the focal point for the EITI implementation.

5.2. Nigeria

The resource curse is evident in Nigeria. The country is one of the largest crude oil producers in the world, with earnings over 350 billion USD between 1960 and 2000. Poor economic management has though led to decades of economic stagnation with rising poverty levels. Nigeria ranks as one of the 15 poorest countries in the world (Iyayi, 2005) and poverty[11] increased from 26 percent in 1970 to almost 70 percent in 2000 (van der Ploeg, 2006). The poor management has resulted in lack of public investments implying large infrastructural bottlenecks.

When former Nigerian President Obasanjo took office for his second term in 2003, he introduced a comprehensive reform program focusing on improving macro-economic stabilisation, pursuing structural reforms, strengthening public expenditure management, and implementing institutional and governance reforms. Nigeria has since the oil boom of the 1970s had a reputation of corruption and poor governance. The institutional and governance reform aims at tackling the corruption via two elements. First, anti-corruption measures were embedded in the reforms making the battle against corruption an integral part of the broader economic reforms. Second, the government identified public procurement, public expenditure management and lack of transparency in the oil and gas sector as specific areas where anti-corruption measures were felt as being most important. Thus, both government revenues and expenditures were included in the anti-corruption fight (Okonja-Iweala, Osafo-Kwaako, 2007).

[11] Measured as surviving on less than one US dollar per day.

Public procurement fraud was particularly severe in Nigeria. The government tackled this by introducing an open tender process with value for money audit in public contracts. Competitive costing bidding is ensured by openness and comparison with international prices. A public tender journal is published monthly and completed government projects need to be certified before the final payment is done. It has been estimated that project costs has been reduced by 40% since the introduction of the value for money audit (Collier, 2007). Transparency of public expenditure management is improved by a monthly publication of federal, state and local government shares of revenues from the government. The publication has opened up dialogue on public revenues and expenditures (Okonja-Iweala , Osafo-Kwaako, 2007). In an attempt to improve transparency in the oil and gas sector, Nigeria has successfully adopted the EITI. We will discuss the implementation in the following sections.

Overall, Nigeria's reform program and the fight against corruption have been successful. The country has experience real economic growth per capital lately and the inflation rate has decreased. In 2005, Nigeria is the 37th poorest country in the world (WDI, 2007). Further, the country's score in the Global Corruption report by Transparency International has improved from 1.4 in 2004 to 2.2 in 2007, resulting in Nigeria leaving the 132nd place of 133 in 2004 for a ranking as 142nd of 163 countries this year.

5.3. The Nigerian Extractive Industry Transparency Initiative (NEITI)

The Nigerian Extractive Industry Transparency Initiative (NEITI)[12] is the Nigerian version of the EITI. As mentioned above, the initiative is an important part of the overall anti-corruption program. The Nigerian President Obasanjo announced in November 2004 that the Government would publish its revenues from oil and will require the companies to do likewise. On 16 February, the President announced the formation of a Nigerian Stakeholder Working Group (NSWG) to guide the development of EITI in Nigeria.

The NSWG oversees the activities of NEITI and is made up representatives of government, private sector and civil society. The government has 14 members in the working group, while the national assembly and states legislature have two each. Private sector business associations has four members, the oil industry three, while the civil society has two and media one. The working group also has an international advisor, Goldwyn International Strategies.

NSWG is organised in five teams. The technical team evaluates all tenders for NEITI assignments. The legislative team has a mandate to develop the NEITI bill. The focal team designs and oversees technical assistance program to the stakeholders. So far, the team has designed and implemented networking seminars, conferences, and workshops for staff and stakeholders, as well as a variety of coordinated training programs, inward secondments and infrastructure support for government agencies. The media team ensures that the work of NEITI is published broadly, while the civil society team engages the wider civil society constituency. The team has developed a comprehensive civil society engagement strategy based on a grass root communication strategy and the engagement of rural communities, and regional civil society groups. The strategy aims at building capacity within civil society organisations and also finding ways to deepen the NEITI

[12] See www.neiti.org

ideas with the organisations and developing feedback mechanisms from the civil society to the NEITI.

The NEITI commissioned the first comprehensive independent audit of Nigeria's petroleum industry for the period 1999 to 2004. An international consortium led by the Hart Group conducted the audit including a physical, financial and process audit. A draft audit report was presented in April 2006, while the final reconciled results were presented in December the same year. The financial audit investigated the financial flows and 99.99% of revenues were accounted for. The audit revealed, though, serious limitations in government data keeping as well as weak coordination between government agencies.

The physical audit produced a reconciliation of the amount of oil and gas produced, refined, exported or lost. This audit pointed to the systematic loss of crude oil between the wellhead and the export metering terminals (Okonja-Iweala, Osafo-Kwaako, 2007). Furthermore, it was noted that the flow rate at night was lower than during the day indicating theft during the hours of darkness (Okogu, 2007). The audit also noted that the metering standard was poor and the calculation of royalty liabilities were not standardised.

The process audit examined crucial extractive industry processes in licensing, capital expenditure proposals and importation of products. The audit revealed serious lapses in the governance of the oil industry in for instance allocation of oil blocks and petroleum importing licenses. The audit suggested the introduction of a more simple and practical definition of royalty, an update of the petroleum act and the introduction of more transparency in licensing and bidding (Hart Group, 2006).

The government has responded to the critique from the auditors by launching an Inter-Ministerial Task Team with all relevant government agencies represented. The task team will ensure data convergence and provide technical assistance to the agencies (Okogu, 2007). The government has already introduced a transparent and competitive auctioning of oil blocks licenses (Obasanjo, 2006).

The NEITI legislative team developed a NEITI bill that was sent to the National Assembly in December 2004. The bill passed the House of Representatives in 2006 and the Senate in 2007. Finally, the legal NEITI bill was signed into law on 28 May 2007. The bill provides legal teeth to the quest for increased transparency. The act authorises NEITI to conduct comprehensive audits of the oil, gas and mining sectors every year, using international accounting standards.

The act introduces heavy penalties. If an extractive company defaults in providing timely and accurate information to NEITI, the company will be liable for a thirty million Nigerian Naira fine. In addition, the underpaid amount has to be refunded and the company might loose the operating license. The company's director and other officials involved are liable to five million Naira fine or a jail term of two years. The same is valid for government officials involved in misinformation activities.

The act implies that NEITI has to continue its work in a new situation and the NSWG has set up a strategy committee to evolve modalities for bringing its activities in line with the law. A comprehensive remediation programme has been drawn up covering the following areas:

- Developing a revenue-flow interface among government agencies;
- Improving the oil and gas metering infrastructure;
- Developing a uniform approach to cost determination;
- Building human and physical capacities of critical government agencies;
- Improving overall governance of the oil and gas sector.

The act also proposes the introduction of a budget line supporting the implementation of the NEITI.

The NSWG is also proceeding with more comprehensive audits. NEITI is currently requesting tenders for two new audits. First, the financial and physical audit for 2006 is a continuation of the first NEITI audit. Second, an value-for-money audit of the oil sector is planned that will audit the terms, procedures and practices associated with joint ventures and production sharing contracts between Nigeria and commercial oil companies. This audit's objective is to investigate if over-invoicing is common by controlling if the financial accounting represents actual costs incurred in exploring, extracting and transporting oil and that these costs are reasonably consistent with international costs.

The NSWG is also extending the transparency initiative into the mining sector. So far, the NEITI has been focused on the petroleum sector, due to its sheer importance, providing 70% of government revenues, 40% of GDP and more than 85% of foreign exchange earnings (NEITI, 2005). The government is currently looking for a revival of the mining sector that was a key sector economically before the discovery of oil in 1965. The mining sector reform is said to transform government participation from "owner-operator" to "administrator-regulator" (Mining Journal, 2006). The government has reviewed the Mining and Minerals Act removing discretionary powers of government officials. The reform also establishes transparent mechanisms for granting access to mining titles, improving the access, security and transferability of the titles (Okogu, 2007, Mining Journal, 2006).

The civil society has praised one aspect of the NEITI implementation process, namely the appointment of a senior official to guide the implementation. The NEITI chairperson had a close working relationship with the president, proving to be an important factor when gaining internal momentum (Publish What You Pay, Revenue Watch Institute, 2006). The government has though been heavily criticised for interfering in the selection of civil society representation at the NSWG. The first three civil society representatives in the NSWG were actually appointed by the president, affecting the civil society's independence. The interference also implied that no mechanism for the representatives to report back to the larger civil society was established. In addition, the civil society were not consulted about work plans and reporting formats. The situation was improved in 2005 when a civil society steering committee was established, with ten representatives selected by a broad civil society coalition. In 2006 the NSWG and this committee signed a memorandum of understanding, institutionalising a process that broadens the scope of civil society engagement (Publish What You Pay, Revenue Watch Institute, 2006).

5.4. Ghana Extractive Industry Transparency Initiative (GEITI)[13]

The government of Ghana committed itself to participate in the EITI in 2003. A multi-stakeholder National Steering Committee (NSC) has been set up as a governing body, consisting of ten members representing Ministry of Finance and Economic Planning, Ministry of Lands, Forestry and Mines, Minerals Commission, Ghana Chambers of Mines, Office of the Administrator of Stools Land, Internal Revenue Services, Wassa West District Assembly and Civil Society Organisations. The NSC has established two sub-committees, one working with technical issues and the other with sensitization. The GEITI is also supported by an Implementation Secretariat at the Ministry of Finance (Boas & Associates, 2006).

The GEITI is fully emphasised on the mining sector in Ghana. The sector is important to the economy, providing almost 40% of foreign exchange earnings and 11% of government revenues. Mining also contributes to 5% of GDP and accounts for a significant percentage of formal sector employment. The most important minerals are gold, diamonds, bauxite and manganese.

The GEITI has also appointed the audit firm Boas & Associates to perform a financial and process audit. The firm will present four reports semi-annual reports covering the years of 2004-2005. The first Ghana EITI financial audit report has been submitted to the EITI secretariat, providing information on financial flows, including mineral right licences, mineral royalties, ground rent, property rate, corporate tax and dividend, from mining companies to government. The report also looks into financial flows from government to beneficiaries in mining communities, and how these royalties has been utilised in the mining communities.

The audit investigates financial flows from eight major mining companies to the government during the period January 2004-June 2004. In general, payments were well accounted for, but some shortcomings are reported. First, royalty payments depend on the purity of the minerals and the mining companies themselves determine the degree of purity of the minerals. No independent controls are made. Second, there are no guidelines on price determination implying that mining companies use different pricing methods. Third, different exchange rates were used when determining royalties. Fourth, there is lack of coordination between government agencies. Fifth, no capital gains taxes were recorded (Boas & Associates, 2007).

The audit report noted that the government failed to provide adequate information on financial flows from government to beneficiaries in mining communities hindering the assessment of the utilisation of mining royalties (Boas & Associates, 2007). The auditor has also claimed that accessing information from both mining companies and key government agencies was a big challenge and he supports the idea of making GEITI mandatory by legislation (GEITI, 2007).

When the audit report was done, GEITI followed the established work plan and the NSC organised a technical roundtable to share the report with relevant institutions, other key stakeholders, and a team of experts. The report from this high-level consultative roundtable discussion is published on the GEITI website together with the audit report.

[13] See www.geiti.gov.gh

The government seems to have had a good working relationship with the civil society. After endorsing the EITI, the government approached the national civil society umbrella organisation and asked them to nominate a representative to the national steering committee (Publish What You Pay, Revenue Watch Institute, 2006). Initially, only one organisation was engaged in GEITI, but civil society participation has increased and the Ghana chapter of the global Publish What You Pay Campaign includes twenty organisations today. The chapter is involved in community mobilisation programmes and capacity building workshops (Civil Society Statement, 2007).

The NSC is looking into the Minerals and the Mining Act and the Financial Administration Act to present recommendations on a possible EITI legislation making the EITI mandatory (GEITI, 2007).

5.5. Concluding remarks

The experiences from Nigeria and Ghana clearly show that EITI implementation is country led and it can differ substantially between countries. In Nigeria, the NEITI is an important part of a comprehensive anti-corruption reform package, focusing primarily on the petroleum industry, but mining will soon be included. The first ever audit pinpointed severe bureaucratic shortcomings within government agencies and institutions making corruptive actions possible. The successful completion of the first ever audit was due to government commitment from the president and other important policy makers. In addition, the process received support from international governments and institutions as well as from companies involved. The government made an initial mistake in the civil society participation, but this was corrected later. The process has been different in Ghana. The GEITI is focusing on the mining sector and the civil society has been participating from the very beginning. In both countries, the EITI process continues and it is important to note that EITI is a process not an event.

6. Natural resources in Mozambique

Natural resources are in this study limited to ores, metals and fuels, including electricity, excluding the exploration of agricultural, fisheries and forestry resources.[14] Although one may argue that strictly spoken electricity is not a natural resource since it is a man-made product, we will treat electricity in this paper as an integral part of Mozambique's resource wealth. It is to be noted that by far most existing and future electricity generation in Mozambique is based in hydro, the exploration of which requires investments that in essence not much differ from the investments needed to extract and process natural gas, coal, mineral sands and oil.

The principal natural resources of Mozambique are: coal, natural gas, hydro, mineral sands and probably also oil. Hydro is a renewable resource that serves to generate electricity, while in the near future also part of the natural gas and coal reserves in Mozambique will be used as (non-renewable) sources of electricity generation. Table 6.1

[14] We also exclude gold and various types of mineral stones which, although available in Mozambique, are found in very small quantities and are to a large extent explored in an informal (illegal) way.

provides an overview of the principal sources of resource wealth in Mozambique, based on information we collected through the Ministry of Energy, the Ministry of Mineral Resources, and a variety of other sources including the Unites States Geological Survey (USGS) Minerals Yearbook, the journal African Mining Review and websites of the involved companies. Concerning electricity, the Table shows that hydro by far is and will be the main source for electricity generation, with an estimated potential of 12,500 MW. Currently, just over 2,000 MW of this potential is being explored, almost exclusively through the Cahora Bassa hydro dam. In the near future, new hydro dams are planned, including the Mphanda Nkuwa dam (1,300 MW), which will raise total exploration of hydro potential to around 3,700 MW. In addition, it is expected that in 2010 a 700 MW natural gas-fired electricity plant will become operational, fuelled by gas from the Pande/Temane fields in Inhambane province. Furthermore, the planned large-scale exploration of the Moatize coal mine (to start in 2009/10) has given rise to the possibility of constructing a coal-fired power station with a capacity of 1,500 MW, of which we expect 1,000 MW to become operational in 2012 while the remaining 500 MW will probably be available as of 2015.

Regarding natural gas, total reserves of the Pande/Temane fields in the Inhambane province are estimated to consist of more than 5 million TJ. Total coal reserves are estimated to be at least 6 billion ton, including the Moatize and Mucanha-Vuzi coal mines in Tete province.

In addition, large deposits of Mineral Sands have been identified in Moma in the Zambezi province and near Chibuto in the province of Gaza. The most recent figures indicate a reserve of 299 million ton of mineral sands in Moma, mainly consisting of contained ilmenite as well as zircon and rutile. The Chibuto (Corridor) heavy sands mine represents one of the world's largest deposits of heavy minerals and has a lifespan of well over a hundred years. Our figures indicate a reserve of at least 157 million ton, but this is probably (much) more. Reserves include mainly titanium slag, as well as zircon and rutile, leucoxene and high purity pig-iron. Mineral ilmenite (iron titanium oxide) is smelted into titanium slag and then sold to the pigment industry, rutile can be used directly by pigment manufacturers and titanium metal producers, zircon is used in the ceramics industry, while high purity iron is a by-product of ilmenite smelting.

Table 6.1. Natural resources in Mozambique – potential/reserves

		Reservas / Potenciais	Actual *2006*	Será Realisado *2007/8*	*≥ 2009*
Electricidade	**MW**	**14,700**	**2,185**	**2,265**	**5,885**
Hidro	**MW**	**12,500**	**2,185**	**2,265**	**3,685**
HCB		2,150	2,150	2,150	2,150
Mavuzi & Chicamba		90	35	90	90
Massingir		25		25	25
Lúrio		120			120 *(2012?)*
Mphanda Nkuwa		1,300			1,300 *(2014)*
Rio Zambeze (outros)		6,800			
Outros		2,015			
Thermal - Gás Natural	**MW**	**700**			**700**
Inhambane		700			700 *(2010)*
Thermal - Carvão	**MW**	**1,500**			**1,500**
Moatize		1,500			1,500 *(2012/15)*
Gás Natural	**TJ**	**5,334,000**			
Pande/Temane		5,334,000			
Carvão Mineral	**1000 tonelade**	**6,000,000**			
Moatize		2,400,000			
Mucanha-Vuzi		3,600,000			
Minerais (Areias Pesadas)	**1000 tonelade**	**456,220**			
Moma		299,000			
Contained Ilmenite		273,000			
Zircon		20,400			
Rutile		5,600			
Chibuto*		157,220			
Titaniferous (titanium) slag		100,000			
Zircon		6,250			
Rutile		1,220			
High-purity pig iron		49,110			
Leucoxene		640			
Petróleo (crude)	**1000 tonelade**	?			

** com base em: exploração anual x 100 anos*

On top of this, Mozambique probably has yet unproven reserves of oil. Recently, a number of (foreign) companies were licensed to investigate the supposedly considerable potential of oil reserves in Mozambique, both on-shore as well as off-shore (Mozambique and Rovuma-basins). Unfortunately, since the investigation is in its initial phase no useful data yet exists on the potential oil reserves of Mozambique.

So far, the major part of Mozambique's natural resources is under-explored, but this situation is rapidly changing. Table 6.2 summarizes the existing and foreseen production of electricity, natural gas, coal and minerals. From the Table it can be seen that total electricity production is expected to increase from about 15,000 GWh/year currently to over 41,000 GWh during the next 7 years. The major part of electricity is and will be generated from hydro, followed by coal and natural gas. Large scale natural gas production started in 2004 with the exploration of the Pande/Temane gas fields in the Inhambane province by the South African company Sasol, and is expected to grow steadily over the next years to circa 145 thousand TJ per year. Coal production used to be small-scale and became marginal during the civil war. This situation is, however, going to change since the Brazilian Company Vale do Rio Doce (CVRD) won a bid in 2004 to develop the Moatize coalfield in Tete province, with an expected coal production of 15 million ton per year, starting in 2009/10. The Moma heavy sands mine, explored by Kenmare Resources, began its operations in 2007 and is expected to gradually increase its annual production from 900 thousand ton to over 1,300 thousand ton. The start of the exploration of the Chibuto heavy sands deposits has been delayed due to difficulties with

power supply. After having redesigned the project, the company Corridor Sands is now expected to start production by the end of 2008 at a level of circa 590 ton per year, with production gradually increasing to over 1,500 thousand tone per year by 2017.

Table 6.2. Natural Resources in Mozambique – Annual production

	Por Ano	Actual *2006*	Será Realisado *2007/8*	*≥ 2009*
Electricidade	**GWh**	**14,732**	**15,873**	**41,242**
Hidro	**GWh**	**14,732**	**15,873**	**25,824**
HCB		14,502	15,067	15,067
Mavuzi & Chicamba		230	631	631
Massingir			175	175
Lúrio				841 *(2012?)*
Mphanda Nkuwa				9,110 *(2014)*
Rio Zambeze (outros)				
Outros				
Thermal - Gás Natural	**GWh**			**4,906**
Inhambane				4,906 *(2010)*
Thermal - Carvão	**GWh**			**10,512**
Moatize				10,512 *(2012/15)*
Gás Natural	**TJ**	**102,494**	**123,494**	**144,494**
Pande/Temane		102,494	123,494	144,494
Carvão Mineral	**1000 tonelade**	**5**	**5**	**15,000**
Moatize		5	5	15,000
Minerais (Areias Pesadas)	**1000 tonelade**		**1,466**	**2,888**
Moma			877	1,316 *(2010)*
Ilmenite			800	1,200
Zircon			56	84
Rutile			21	32
Chibuto			589	1,572 *(2017)*
Titaniferous (titanium) slag			375	1,000
Zircon			22	63
Rutile			5	12
High-purity pig iron			184	491
Leucoxene			3	6
Petróleo (crude)	**1000 tonelade**			**?**

Most natural resources explored in Mozambique are exported. With respect to the coal from the Moatize mine, we expect 15% to be marketed in Mozambique, including consumption by the electricity plant, while the remainder will be exported for consumption by steel plants in Brazil (USGS, 2005).

The vast majority of natural gas is and will be exported to South Africa, although domestic consumption tends to increase due to the realization in 2005 of a new pipeline to the Beleluane industrial park near Maputo and because of the natural gas-fired electricity plant to be constructed. Also in terms of electricity, almost all production is exported, mainly to South Africa but also to Zimbabwe and in the near future to Malawi. Table 6.3 summarizes natural resource export figures for Mozambique, both in terms of quantity as well its (average) prices. The prices are best estimates based on (projections of) world market prices as well as existing long-term contracts.

Table 6.3. Natural resources in Mozambique – annual exports

	Por Ano	Quantidade				Preço da Exportação		
		2006	2007/8	≥ 2009		2006	2007/8	≥ 2009
Electricidade	**GWh**	**10,877**	**11,300**	**27,366**	**US$c/kWh**			
Hidro	**GWh**	**10,877**	**11,300**	**15,102**	**US$c/kWh**	**1.66**	**1.83**	**2.48**
HCB		10,877	11,300	10,547		1.66	1.83	2.21
Mavuzi & Chicamba		0	0	0				
Massingir			0	0				
Lúrio				0				
Mphanda Nkuwa				4,555				2.75
Rio Zambeze (outros)								
Outros								
Thermal - Gás Natural	**GWh**			**2,803**	**US$c/kWh**			**3.20**
Inhambane				2,803				3.20
Thermal - Carvão	**GWh**			**9,461**	**US$c/kWh**			**3.50**
Moatize				9,461				3.50
Gás Natural	**TJ**	**101,162**	**119,789**	**137,269**	**US$/TJ**			
Pande/Temane		101,162	119,789	137,269		1,200	1,200	1,200
Carvão Mineral	**1000 tonelade**	**4.9**	**4.9**	**13,500**	**US$/Tonne**			
Moatize		4.9	4.9	13,500		30	32	35
Minerais (Areias Pesadas)	**1000 tonelade**		**1,466**	**2,888**	**US$/Tonne**		**136**	**142**
Moma			877	1,316				
Ilmenite			800	1,200		85	87	92
Zircon			56	84		700	714	743
Rutile			21	32		450	457	471
Chibuto			589	1,572			**398**	**408**
Titaniferous (titanium) slag			375	1,000		425	429	438
Zircon			22	63		700	714	743
Rutile			5	12		450	457	471
High-purity pig iron			184	491		300	303	309
Leucoxene			3	6		500	505	515
Petróleo (crude)	**1000 tonelade**			**?**	**US$/Barril**			**50-70?**

Using the (projected) export quantities and prices as shown in Table 6.3 we calculated the total (projected) value of natural resource exports from Mozambique for the period 2006-2020 and combined this with historical data for the period 2000-2005 from the SADC Trade Database (SADC, 2007). In addition we estimated the total value of exports until 2020 by assuming that non-natural resource exports will grow with 10% annually.[15] The results are shown in Figure 6.1, including the value of aluminum exports by Mozal. The Figure shows a spectacular growth of export from about 365 million US$ in 2000 to almost 6,500 million US$ by 2020. Of the latter, circa 1,800 million consists of non-natural resource (related) exports (under the assumption of a 10% annual growth rate). A large part of the primary exports consists of aluminum (products), the growth of which is to be explained by expansion of production capacity of the Mozal factory (Mozal 3 in 2009/10).[16] In addition, electricity, mineral sands and coal will be major elements of Mozambique's export, while the share of natural gas is relatively small as compared to the other natural resources.

To further illustrate the importance of natural resource (related) exports in Mozambique, we plot in Figure 6.2 primary exports (fuel, ores and metal) as % of total exports for the period 2000-2020. The Figure shows that the share of primary exports will fluctuate around 70-80%. Again, it can be seen that aluminum (products) produced by Mozal constitutes a major part of this. Without aluminum, the share of natural resource related exports in total exports will be around 40-50%.

[15] This is in line with the projections of the Quadro Macro of the Ministry of Planning and Development (until 2010).

[16] We assume a doubling of production capacity in 2010, as well as the following annual growth figures: 2007 (3%), 2008-2009 (1%), 2011 (10%), 2012, (5%), 2013-2014 (1%), 2015-2020 (0.5%).

Figure 6.1. Projected exports

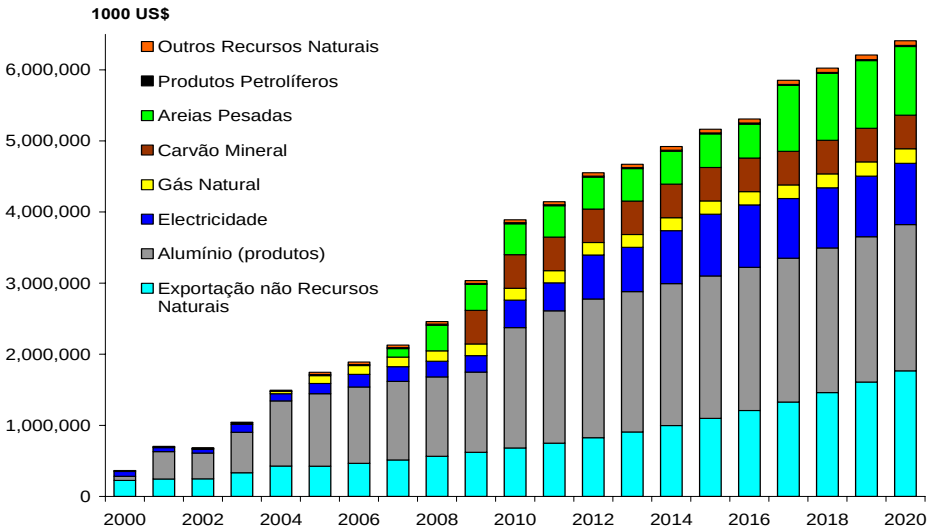
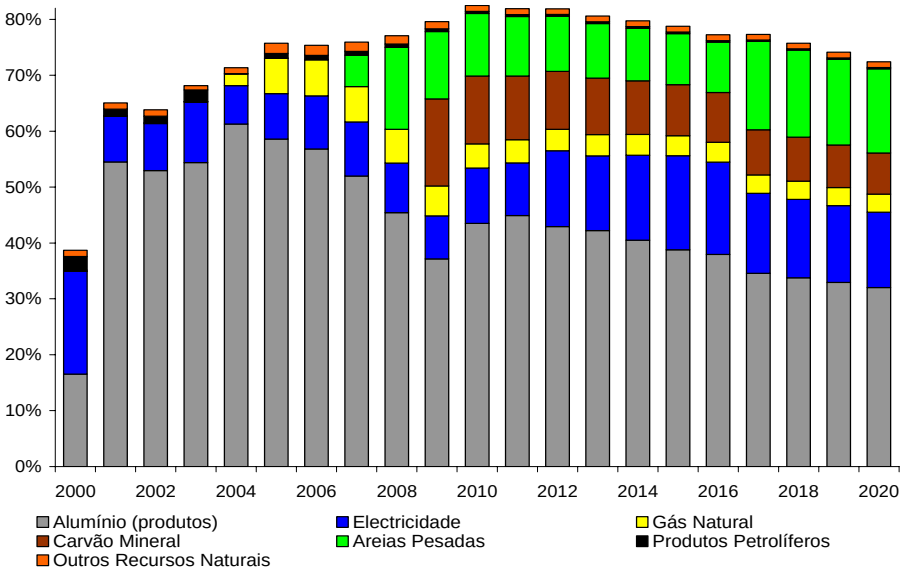


Figure 6.2. Natural resources as percentage of projected exports



As noted before, no data yet exists on the potential oil reserves of Mozambique because investigation of potential reserves is still in its initial phase. However, we decided instead to do a kind of thought experiment to see what happens to natural resource exports if Mozambique becomes an oil producing country like one of the existing oil producing nations. We investigate three different scenarios, assuming a constant oil price of 50US$/barrel. In addition, we assume oil production to start at full-scale in 2015.[17]

[17] Note that the investigation period started in 2007 with a maximum of 6 years, to be followed by exploration.

First, if Mozambique becomes a small oil producer like Chad or Gabon, producing around 200,000 barrels/day, exports may increase to circa 10 billion US$ in 2020 as compared to 6.5 billion US$ without oil. Second, if oil production will reach 1,500,000 barrels/day, as in Brazil or Libya, Mozambique's export in 2020 would reach 30 billion US$. Third, if Mozambique manages to produce oil as Norway at around 3,000,000 barrels/day, export will reach 60 billion US$ in 2020.

7. The present institutional system for handling oil, gas and mineral revenues

7.1 Financial Governance in Mozambique

The main objective of the government's policy is the reduction of absolute poverty through a sustainable process of economical growth, where special attention is given to districts through decentralization. Good financial governance is an important component of this process and in 2001 the government launched the Public Sector Reform Strategy. This ten-year strategy includes the adoption of measures that can help to improve the management of public finances and to fight corruption.

The institutional framework for good financial governance in Mozambique comprises the following actors:

- The Ministry of Finance is responsible for the co-ordination of the State Financial Administration Integrated System (SISTAFE) that is a public management expenditure system with components such as budget, treasury management, public accounts and public resources. The most important instruments are the national budget and the national accounts.
- The Ministry for Planning and Development is responsible for the co-ordination of planning activities and the development of policy instruments as the Action Plan for the Reduction of Absolute Poverty (PARPA), the Economic and Social Plan (PES) and the Medium Term Expenditure Framework (MTEF).
- The Parliament approves the government's program, the Economic and Social Plans (PES), the national budget and deliberates about the national accounts.
- The Auditor General (Tribunal Administrativo) audits government activities and national accounts.

7.2 Strengthening of the Tax System

The need to strengthen public finance management became increasingly apparent after the introduction of economic reforms in 1987. The scope for improvements increased after the end of the armed struggle in 1992. Peace and political stability brought about opportunities for modernization of the system, aiming at increasing fiscal revenues, especially in the customs field by facilitating legal trade and discouraging tax evasion. The government has, in line with the objective of good governance, been looking for inspiration from the best international practices. As a result, the transparency of the system and the credibility of the budget have increased.

The public finance management reforms include three important stages. First, the value added tax (VAT) was introduced in 1999. The VAT substitutes the turnover tax, which proved to be inflationary due to its cascade nature. The VAT is today the most important component of revenues. Second, the SISTAFE was introduced in order to modernize the public expenditure management system in 2002. The implementation of the SISTAFE is ongoing. The new system includes the establishment of a single treasury account, enabling the government to broaden the budgeting by including all off-budget donor projects. SISTAFE also includes reclassification of expenditures and expenditure ceilings, improving account quality and reducing gaps between actual and budgeted expenditures. Third, the Mozambican Revenue Authority (ATM) was established in 2006 as the central authority for revenue collection to strengthen revenue mobilization. The authority is a semi-autonomous institution handling both tax and customs administration.

In the process of implementing the reforms, inspiration was looked for in the best international practices. As a result, Mozambique abides by the International Monetary Fund Code of Good Practices on Fiscal Transparency, comprising the following main elements:

- The government's responsibilities should be made public;
- Detailed reliable information about the fiscal activities should be made public;
- The process of preparation, execution and preparation of reports should be open and disseminated; and
- The need for mechanisms and procedures to confirm the correctness of the information that was published.

Mozambique has participated in the annual meetings of the African Collaboration for Budget Reforms Initiative (CABRI), an initiative that aims at improving the processes of budget preparation and formulation, introduction of new theoretical and practical approaches of budget management and at making the budget process more participatory. The initiative under consideration is based on a network where the African management includes budgetary sector officers from the entire African continent, which hold regular meetings in order to debate discuss and share ideas about a multitude of questions of financial nature that affect the African continent. The members of CABRI are: South Africa, Angola, Botswana, Ethiopia, Ghana, Guinea, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Sierra Leon, Swaziland, Tanzania, Uganda, Zambia e Zimbabwe. All African countries are eligible for CABRI membership.

7. 3. Establishment of transparent and far reaching budget procedures

In Mozambique there has been a significant progress towards adopting a more transparent and reliable State Budget. The State Budget is an instrument of public finance, which is produced on an annual basis and is based on the data contained in the Economic and Social Plan (PES). The PES is, in its turn, an operational instrument of two medium term plans: the Government's Plan and the PARPA; where the first one comprises policy undertakings to be implemented during the Government's mandate – in Mozambique the Government's mandate coincides with the five years parliament's mandate — and the latter comprises an implementation priority matrix of the public expenditure to attain the objectives that were defined in the Government's Program.

In order to make the process more transparent, the following instruments — the Government's Program, the PARPA, the Economic and Social Plan and the Budget — are published, even on the internet. As from 1990, the Government has been producing the State General Account, which besides being sent to the Parliament and to the Auditor General, is published. As from year 2000, the Government has published quarterly reports on budget performance.

The introduction of the SISTAFE caused the Budget to become more far reaching and reliable to the extent that all financing of the Government's activities is included in the Budget; and the elaboration of the State budget respects the limits that were defined in the Medium Term Fiscal Scenario, which is updated every year.

Through the National Directorate for Budget (DNO), Mozambique has participated in the Collaborative Africa Budget Reform Initiative (CABRI) seminars. CABRI has already organized three annual seminars about budget reform; the first one took place in Pretoria, South Africa, in 2004, and the second one, in Maputo, Mozambique, in 2005 and the third one, in Addis Ababa, Ethiopia in 2006.

7. 4. Accountability and Transparency

Three institutions have a fundamental role in securing compliance with good financial governance principles in Mozambique: the Parliament, the Auditor General and the Finance General Inspection.

The Parliament approves the State Budget, deliberates about the State General Account and supervises the execution of the State Budget. The Auditor General audits the State General Account, producing reports that will form the basis for the deliberations of the Parliament. The Finance General Inspection (IGF) is an internal auditing authority with the Country's public sector roles.

The IGF has interacted with the Auditor General, as far as the external auditing is concerned, in producing opinions about the municipal, which enables the respective court to judge the accounts. There are also Auditing Committees at central and provincial levels. These Committees are already operating in four Ministries and two provinces, contributing for the evaluation of the level of implementation of auditing in the sector.

In order to improve the quality of the public sector auditors, IGF has been implementing a new auditing basis with international standards, pursuant the International Organization of Supreme Audit Institutions (INTONSAI) and the Institute of Internal Auditors — IIA).

In 2006 the Government launched the Anti-corruption Strategy for the 2006-2010 period. The main objectives of this Strategy, inspired by, among others, Global Strategy for the Reform of the Public Sector and the United Nations Convention against Corruption (UNCAC), are:

- To encourage transparency culture, integrity and responsibility in the public sector;
- To improve quality and efficiency of the legal system services;

- To improve the mechanisms for the participation of local communities in the governance and monitoring in order to promote transparency and responsibility; and
- To improve the management system of public finance, thus improving transparency, efficiency and efficacy in respect the usage of public resources.

7.5. Accountability in Extractive Industries Revenues

The Mozambican Government is not a member of EITI, but follows its principles, when it comes to analyses and approving contracts of concession. The government has also elaborated the following decrees which were approved by the Parliament:

- Decree nº 11/2007 which updates the tax legislation, especially the related to the mineral activity;
- Decree nº 12/2007 which updates the tax legislation, especially the related to the petroleum activity
- Decree nº 13/2007 concerning revision of the fiscal incentives regime in the mineral and petroleum areas.

These instruments also take into consideration the local conditions when determining what percentage of the revenues from the activity should be channeled to the communities of those areas where the projects are located. It is the Council of Ministers' responsibility to calculate and publish on periodical basis the revenues from petroleum operations.

Mozambique has participated in workshops and seminaries where the EITI principles are evaluated and discussed and plans to organize a seminar in Mozambique.

7.6. Supporting the Decentralization of the Fiscal Policy

The legal framework of the decentralization process in Mozambique is created by the following legislation:

- Decree nº 8/2003, dated 19th of May, the decree on Local State (LOLE), concerning districts and provinces; and
- Decree nº 13/2005, dated 10th of June, the LOLE. Regulation

Within the scope of decentralization there have been achievements in 2006: (i) establishment of a structure for district governments with four integrated services; (ii) decentralization of competences in the management of human resources; (iii) implantation of the consultation councils; (iv) establishment of an investment budget of local initiative.

In order to give impetus to the reforms, the Public Sector National Authority was established. This authority is directly accountable to the State President. It will be its responsibility to conduct the Phase II of the Public Sector Reform Program for the 2006-11 period. This second phase comprises three cornerstones: (i) human resources management, including payroll systems (ii) evaluation of performance and remuneration policy, and (iii) decentralization policy.

7.7. Concluding Remarks

Mozambique is aiming for good financial governance; therefore they have implemented a range of reforms within the framework of the Public Sector Reform Strategy, including transparency and reliability.

In 2004 the Country adopted the independent evaluation system of public finance, using the criteria of the Public Expenditure and Financial Accountability (PEFA). Within this context, there has already been an evaluation for the 2004/05 period. The other evaluation is expected to take place by the end of 2007. Besides this evaluation, the Government conducts a joint evaluation with the partners.

Mozambique considers it important to establish the mechanisms that allow a harmonization and comparison of the public finance quality. It is within this context that Mozambique actively participates in the international mechanisms, such as the NEPAD, the CABRI and the AFROSAI.

8. Concluding remarks – benefits from joining and barriers to implementation

This study investigates possible costs and benefits for Mozambique if implementing the EITI to guarantee an effective and transparent handling of oil and mineral revenues in the future. Since Mozambique is becoming increasingly dependent on natural resource extraction this is an important issue in itself, but the features of the EITI are equally important as a tool for deepening the democratic process in the aid dependent country.

Recent research on the bad performance of resource rich countries suggests that there is a clear relationship between weak institutions and the occurrence of the resource curse. To put it simply, countries with good institutions have no resource curse. Thus, Mozambique needs to create a good governance system with an effective public sector resource management. The government is already moving towards a good fiscal governance system and the EITI could clearly contribute to such a system.

Effective public spending is crucial for long-term growth. This includes both the allocation of resources to the right activities as well as an effective use of the resources. The process of scrutiny is important and this can be strengthened by the EITI. Equally important for long term growth especially when is comes to extractive industries are foreign investments. The EITI is endorsed by industrial associations, global investment companies as well as individual companies. The EITI leads to lower business risks for existing operators as well as expanded investment opportunities.

Domestic accountability is important in a functional democracy. Since the budget process should reflect the aims and aspirations of the people, it has to be transparent, making the government accountable for priorities and spending. The citizens need to practice surveillance and scrutiny of the use of revenues in the public sector.

Today the government of Mozambique is not fully accountable to its people. First, the high aid dependence and donor interventions in central policy processes has led to distortions in domestic accountability. Second, the civil service actors in Mozambique lack adequate involvement and capacity (World Bank, 2007). The EITI provides an

opportunity for Mozambique to improve democracy by shifting powers from foreign donors to domestic agents as civil society and citizens. Experiences from Nigeria and Ghana show that an early involvement of the civil society together with capacity building and training is important components in a successful EITI implementation.

The government of Mozambique is already implementing measures to enhance fiscal transparency. All important fiscal documents are available for the public. For example, the Auditor General publishes their audits of the state accounts on their website (www.ta.gov.mz). There is also the Portal de Concursos Publicos (www.concursopublicos.gov.mz) for public works tenders by Unidade Funcional de Supervisao das Aquisicoes integrada na Direccao National de Patrimonio do Estado no Ministerio das Financas. The newly established anti-corruption forum (Forum Nacional de Anti-Corrupção) is presented at www.forumanticorrupcao.gov.mz. The National Petroleum Institute (www.inp.gov.mz) is also publishing important information on their website. They publish bidders and bid results, but not details of bids and reasons for awarding bids.

The government is committed to following international best practices in the tax and transparency regime related to mining and petroleum resources. An EITI implementation seems to be a natural step in improving the governance system. New fiscal laws for mining and petroleum have recently been approved by the Council of ministers.

The main extractive industry operators have also committed themselves to the EITI principles. Companies like BHP Billiton, Eni and Hydro have endorsed the international EITI. CVRD is a member of the International Council of Mining and Metals (ICMM), that have endorsed the EITI and also introduced revenue transparency.

Let us conclude by briefly outlining the main features of an EITI in Mozambique.
To be continued.

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