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A safer bet? Evaluating the effects of the Extractive Industries Transparency Initiative on mineral investment climate attractiveness

Alexander Malden*

SNL Metals & Mining, London, UK

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ABSTRACT

The Extractives Industries Transparency Initiative (EITI) is a governmental initiative focused on improving transparency and accountability within resource-rich countries. Given EITI implementation is entirely voluntary, and time and resource intensive in nature, demonstrating the benefits of implementation for participating countries is important to the initiatives long term success. Using panel data for 167 countries from 2003 to 2014, this article analyses the impact of EITI implementation on a country's mineral investment attractiveness, represented here by the amount of grassroots corporate mineral exploration expenditure within a country. The results suggest that EITI implementation does have a statistically significant positive impact on a country's ability to attract mining company investment.

1. Introduction

The Extractive Industries Transparency Initiative (EITI) is an entirely voluntary governmental transparency initiative. EITI implementation is a time and resource intensive exercise for a prospective country, and successful graduation to compliance is not guaranteed. As a voluntary initiative, the EITI's success is dependent on its reputation for enforcing its principles within implementing countries. The EITI Secretariat has previously resorted to denying candidate status to countries, including Chad and Trinidad and Tobago, for showing no progress (Pitlik et al., 2010). The burden of implementation is especially acute for countries for which the EITI is most relevant. The majority of countries that have signaled an intention to become EITI compliant have high levels of corruption and low governance scores (David-Barrett and Okamura, 2015). The difficulty of implementation combined with a lack of capacity in the typical implementing country, and the potential risk to illicit revenue streams that corrupt governmental officials face by welcoming external scrutiny, raises the question of why a country would join the EITI?

Various studies have sought to analyze the impact of EITI implementation on a country, looking at its effect on corruption (Hilson and Maconachie, 2009), quality of governance (Sovacool and Andrews, 2015), economic development (Corrigan, 2014) and FDI inflows (Schmaljohann, 2016).

This article focuses on one potential benefit of implementation, highlighted by the EITI International Secretariat, that of improving the countries investment climate (EITI, 2016a). In particular, it examines whether becoming an EITI implementing country has had any tangible positive impact on a country's mineral investment climate attractiveness.

Using reported budgets for grassroots corporate mineral exploration expenditure[1] as a proxy for a country's mineral investment climate, this article empirically analyses whether EITI implementation has a positive impact on a country's mineral investment climate attractiveness.

To address the effect of EITI implementation on a country's mineral investment climate, this article will first set out a brief history of the EITI, examine why countries have voluntarily chosen to participate, and explore the key outcomes of EITI implementation set out in previous studies. The next section will outline the key factors affecting a country's mineral investment climate and the strengths and limitations of different measures of a country's mineral investment climate. Following on from this, this article shall set out an argument, and deduced hypothesis, for why participating in the EITI may have a positive impact on a country's mineral investment climate.

* Correspondence to: SNL Metals & Mining, 20 Canada Square, Canary Wharf, London, UK.
E-mail address: Alexander.Malden@spglobal.com (A. Malden).

[1] Grassroots corporate mineral exploration expenditure is taken from SNL Metals and Mining's Corporate Exploration Strategies database.

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The remainder of this paper will empirically test this deduced hypothesis, that EITI implementation will improve a country's mineral investment climate attractiveness, using panel data from 167 countries[2] for the years 2003 to 2014. The results suggest that EITI participation is associated with a statistically significant increase in the level of budgeted grassroots exploration expenditure in that country. The final section concludes that while the EITI has had mixed results in regards to certain governance and developmental aims, the initiative has been successful in achieving buy-in from both participating governments and corporations, and as such has been able to improve the mineral investment climate of participating countries.

2. Brief history and evolution of the EITI

The EITI was first proposed in 2002 by UK Prime Minister Tony Blair at the World Summit for Sustainable Development in Johannesburg. As Moberg and Rich (2013) note, the EITI has its roots in the Global Witness (1999) report ‘A Crude Awakening’, which brought international attention to the corrupt mismanagement of the Angolan oil sector, and concluded by calling for greater transparency and government accountability in resource rich countries.

The initiative was officially launched in 2003 with the establishment of 12 EITI principles that aimed to bring together governments, corporations and civil society stakeholders to address the corruption and governance issues which have afflicted many resource rich countries (Haufler, 2010) (Table 1). Following the establishment of these principles, the EITI was initially piloted by four countries; Azerbaijan, Ghana, Kyrgyz Republic and Nigeria. The early adoption demonstrated the need for clarification and defined criteria for implementation and led the EITI board to establish a set of six EITI Criteria in 2005. The central motivation behind these criteria was to help resolve disputes that had emerged between governments and companies on how best to implement the EITI Principles and to alleviate any fears that the EITI could be used as a window-dressing exercise by governments looking to improve the perceived levels of corruption within the country (Eigen, 2007; Pitlik et al., 2010). The need to prevent window-dressing has been of vital importance to the long term success of the EITI. The reputational benefits of being an EITI implementing country are nullified if external stakeholders, including corporations and financial institutions, do not believe that being an EITI compliant country is a legitimate signal of a country's commitment to reform and transparency.

As the EITI has developed, it has evolved to address a greater range of issues in the extractive industries than simply the development of a ‘workable approach to the disclosure of payments and revenues’, set out in the original EITI Principles (EITI, 2016b:11). Most recently, the EITI released the ‘EITI Standard 2016’, the fifth version of the implementation guidelines since the EITI Principles were established in 2003. The 2016 Standard sets out specific disclosure as well as data access requirements on a wide range of areas across the extractive industries, including in areas that remain highly contentious such as beneficial ownership (EITI, 2016b).

This evolution of the EITI has been met with some resistance by those concerned by the ability of implementing countries to meet these increasing demands. EITI implementation is a time and resource intensive activity for participating governments and, as

Table 1
EITI Implementing Countries (2003–2014).

Country	Commitment	Candidate	Compliant
Afghanistan	2009	2010	
Albania	2009	2009	2013
Azerbaijan	2003	2007	2009
Burkina Faso	2007	2009	2013
Cameroon	2005	2007	2013
Central African Republic	2007	2008	2011
Chad	2007	2009	2014
Colombia	2013	2014	
Congo	2004	2007	2013
Democratic Republic of the Congo	2005	2007	2014
Ethiopia	2009	2014	
Ghana	2003	2007	2010
Guatemala	2010	2011	2014
Guinea	2005	2007	2014
Honduras	2012	2013	
Indonesia	2008	2010	2014
Iraq	2008	2010	2012
Ivory Coast	2007	2008	2013
Kazakhstan	2005	2007	2013
Kyrgyzstan	2004	2007	2011
Liberia	2007	2008	2009
Madagascar	2007	2008	
Malawi	2014	2015	
Mali	2006	2007	2011
Mauritania	2004	2005	2010
Mongolia	2006	2007	2010
Mozambique	2008	2009	2012
Myanmar	2012	2014	
Niger	2005	2007	2011
Nigeria	2003	2007	2011
Norway	2007	2009	2011
Papua New Guinea	2013	2014	
Peru	2005	2007	2012
Philippines	2012	2013	
Sao Tome and Principe	2004	2008	
Senegal	2012	2013	
Seychelles	2013	2014	
Sierra Leone	2007	2008	2014
Solomon Islands	2011	2012	
Tajikistan	2012	2013	
Tanzania	2008	2009	2012
Timor-Leste	2007	2008	2010
Togo	2010	2010	2013
Trinidad and Tobago	2010	2011	
Ukraine	2009	2013	
United Kingdom	2013	2014	
United States	2011	2014	
Yemen	2007	2007	2011
Zambia	2008	2009	2012

Note: Status for 2011 EITI Rules.

Bickham (2015) states in a recent review of in country experience of EITI implementation, many implementing countries ‘operate (at best) on the edge of compliance with a frequent need to apply for extensions or to spend a period in suspension’ (Bickham, 2015:12).

3. Why do countries voluntarily join the EITI?

Given the ever increasing demands of implementing the EITI, there has understandably been much discussion about why it is that a country would choose to involve itself in this voluntary initiative. As David-Barrett and Okamura (2013) found, the majority of EITI countries score as ‘highly corrupt’ on Transparency International's Corruption Perception Index. They examine why it is that corrupt government officials, who stand to lose illicit revenue generation opportunities if their corrupt activities are uncovered, would voluntarily expose themselves to external scrutiny. This is especially pertinent given that the threat of having corrupt activities exposed has already been demonstrated to be legitimate. Nigeria was one of the first countries to

[2] The number of countries used in the actual analysis is reduced by the adoption of a propensity score matching method which creates a sample containing EITI countries and a matching sample country, matched based on pre-selected variables set out in the methodology section of this article.

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