

Transparency as a cure for the 'resource curse': global consensus and tasks pending for Spain

FRIDE Democracy Backgrounders

Democracy Backgrounders provide factual information relevant to topical international challenges related to democratisation, and analyse policy implications for the international community.

About FRIDE

FRIDE is an independent think-tank based in Madrid, focused on issues related to democracy and human rights; peace and security; and humanitarian action and development. FRIDE attempts to influence policy-making and inform public opinion, through its research in these areas.

The contradictory relationship between natural resource wealth and poverty in human development and governance, especially pronounced among the hydrocarbon-rich African countries, represents a complex challenge for industrialised nations highly dependent on these energy supplies. In response to the 'resource curse' suffered by so many countries of the South, with its accompanying corruption and violence, a regime for transparency in the payments made by extractive multinationals has been created. Representing an agreement between parties who in other circumstances would not readily collaborate, these new rules offer great potential for global governance. While Spain has a notable interest in energy security, it has not yet shown a great deal of commitment to this new initiative, in spite of the significant potential it offers for achieving greater coherency in Spain's Development Aid policy.

The curse of opaque revenues: the countries of the South trapped between corruption and governance

The enormous mineral and oil wealth that lies beneath the ground in many poor countries not only has a dubious connection with human development but it also appears to foster a perverted political and institutional culture, based on corruption and instability. Despite high market prices for these resources, and the growing energy hunger of industrialised and emerging countries, resource-rich developing countries are still struggling to find successful means of converting their revenues into effective progress in the fight against poverty.

There are numerous examples of countries, especially within the African context, that are rich in natural resources but poor in terms of socio-economic development, human rights and good governance. Angola, Congo-Brazzaville, Equatorial Guinea and Sudan are cases in point of the enormous difficulties that some countries have in effectively channelling their substantial earnings from minerals and hydrocarbons into the future of the state and society.

In recent years, the seemingly paradoxical relationship between hydrocarbon wealth on the one hand, and socio-economic poverty and political fragility on the other, has been the subject of intense scrutiny. This so-called 'resource curse' seems to go hand in hand with syndromes such as corruption and clientelism, rising levels of poverty, an unstable investment climate, the destruction of the environment, political instability and violent domestic conflicts.¹ An underlying cause is the

¹ For a brief summary on the current discussion and analysis of the resource curse, see Andrew Roser: *The Political Economy of the Resource Curse: A Literature Survey* (IDS Working Paper 268, April 2006)

almost total opacity in the management of public revenues from resource exploitation, most of which are used to support corrupt, clientelist and repressive political systems. Extractive multinational companies are often implicated in this epidemic as collaborators – and on occasion they are more than just passive spectators – in serious political misdeeds, which are financed by opaque payments poorly concealed by the confidentiality clauses in their contracts.²

As energy security becomes more pressing for governments of industrialised nations, and especially for members of the European Union³, a new consensus is emerging on the need to improve the political, economic and social characteristics of oil-producing countries. In particular, this means greater emphasis placed on the redistribution of resource revenues in national budgets towards social, productive and infrastructure investment.

In response to the historical lack of transparency in payments from multinational companies to national governments, an international initiative, with an accompanying civil society campaign, has been launched to promote transparency in financial transfers to States. Through greater disclosure, the initiative hopes to create the conditions for improved revenue accountability in the governments of the South.

² Payments include Royalty Payments (a percentage of the production value); Bonus Payments on signing contracts, assignment of fields or deposits and for production levels; and Dividend Payments in the case of public companies and capital gains taxes (VAT, customs, property, etc.)

³ Recently, the European Commission and the German Presidency of the European Council published a report on the relationship between energy security and development, with especial significance for the upcoming EU-Africa Summit in which a Joint Strategy will be agreed. See *Joint Background Paper on Energy Cooperation between Africa and Europe* (April 2007). For a brief analysis of European policies on this matter and their importance in terms of democratisation, see Richard Youngs: *Europe's energy policy: economics, ethics and geopolitics*, FRIDE comment January 2007. Also, Paul Collier: *Natural Resources, Development and Conflict: Channels of Causation and Policy Interventions* (2003) for a summary of possible channels of causation.

A voluntary system: Extractive Industries Transparency Initiative (EITI)

Launched in 2002 at the World Summit for Sustainable Development in Johannesburg, the Extractive Industries Transparency Initiative (EITI) was created as a voluntary framework to support the international community's call for information and accounting transparency.⁴ EITI is comprised of a series of voluntary mechanisms which support the full disclosure and dissemination of payments and revenues of extractive companies and the governments of hydrocarbon-rich countries. The role

of the British Government, especially that of outgoing Prime Minister Tony Blair and the Department for International Development (DFID)⁵, as the main promoter of EITI is crucial in understanding the importance of this initiative for the African continent.

One of the most appealing aspects of EITI is its multi-stakeholder approach, which enables it to serve as a flexible and practical platform for actors with varying characteristics. At the beginning of 2007, the initiative was supported by seven industrialised nations,⁶ six international organisms,⁷ seven international NGOs,⁸ three industry associations, 70 international investment firms and 27 extractive companies. Its most immediate participants are currently the following twenty-two energy- and mineral-supplying countries, some of which suffer from low human development and critical political instability:

Region	Resource-rich countries participating in EITI	2006 Human Development Index ⁹		Failed States Index 2006 ¹⁰			Total
		Low	Medium	Critical	In Danger	Not evaluated	
Africa	Cameroon, Chad, Democratic Republic of Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Mali, Mauritania, Niger, Nigeria, Sao Tome and Principe, Sierra Leone	8	6	6	6	2	14
Latin America and the Caribbean	Bolivia, Peru, Trinidad & Tobago	–	3	–	2	1	3
East Asia and Pacific	Mongolia, Timor Leste	–	2	–	1	1	2
Europe and Central Asia	Azerbaijan, Kazakhstan, Kyrgyz Republic	–	3	–	3	–	3
Total		8	14	6	12	4	22

⁴ The World Bank (WB) and the International Monetary Fund (IMF) in particular have supported the fight against corruption through different mechanisms. Of special note are the IMF's 2001 *Code of Good Practices on Fiscal Transparency*, and the WB's *Governance Indicators 2003 and 2006*. The Group of Eight (G8) articulated their position on transparency in the Evian Declaration Fighting Corruption and Improving Transparency (2003) and Sea Island Declaration Fighting Corruption and Improving Transparency (2004).

⁵ DFID manages the EITI Secretariat in close collaboration with the WB and the IMF. In 2007, however, an independent EITI Secretariat will be created in Oslo, with an additional office in Berlin. From that point, EITI will be staffed by its own personnel, who are now in the process of being selected.

⁶ Germany, Australia, Canada, France, Great Britain, Norway and Netherlands.

⁷ Africa Development Bank (AfDB), European Bank of Reconstruction and Development (EBRD), WB, IMF, G8 y Organisation for Economic Co-operation (OECD).

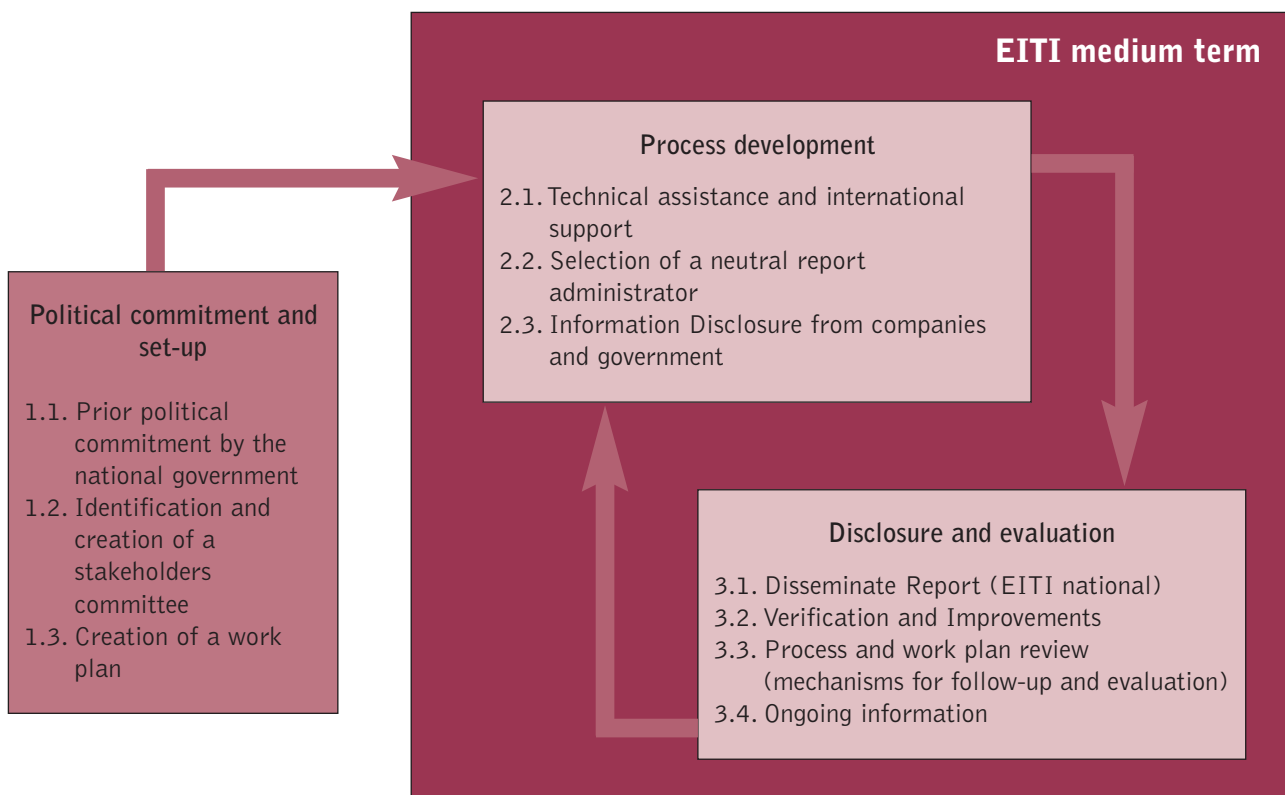
⁸ Catholic Agency for Overseas Development (CAFOD), Georgia Revenue Watch and NGO Coalition "For Transparency of Public Finance", Global Witness, Open Society Institute, Publish What You Pay, Revenue Watch Institute and Transparency International.

⁹ See United Nations Development Program (UNDP): *Human Development Report – Beyond scarcity: Power, poverty and global water crisis* (2006).

¹⁰ See Foreign Policy / The Fund for Peace: *Failed States Index* (2006). A detailed conceptual discussion of the concept of fragile States can be found in: Stefan Meyer: *Fragile States*, background paper for the OAD Forum, FRIDE, January 2007, and in: Susan Woodward: *Fragile States: Exploring the Concept*, FRIDE comment December 2005.

Based on the principles and criteria¹¹ agreed upon in its 2003 and 2005 conferences, the EITI regime aims to improve governance in these countries through the creation of a voluntary system on a national level that results in the disclosure and verification of company payments and government oil, gas and mining revenues in a country report. The implementation process is simple while at the same time sensitive to the interests of all its stakeholders. It is also effective in creating the appropriate conditions for transparency. The stakeholders committee plays a vital role, and is comprised of members from the public, private and third sectors, both from the North and the South. The following diagram outlines the steps to be taken at national level:¹²

As it concerns a process carried out on an individual country basis, the levels of implementation of this road map vary considerably and are testament to the difficulty in introducing new game rules that must be specified and agreed upon in each country. As of March 2007, only three of the 22 endorsing countries (Azerbaijan, Mauritania and Nigeria) had managed to reach the stage of presenting the country report. Of the remaining countries, roughly ten had not yet created a stakeholders committee, one of the first steps in the EITI country process. Although the diversity of countries and regional contexts has created a wealth of experiences and tailored solutions, progress in EITI implementation has been unquestionably slow and uneven.¹³



¹¹ The principles explain the justification for a favourable relationship between the transparent management of natural resources and economic development and good governance. The criteria introduce specific working mechanisms for the disclosure and verification of data on payments and revenues in the extractive sector, including the participation of civil society and the leadership of the national government. For further details, see EITI principles and criteria (2003 and 2005)

¹² Diagram created for the EITI sourcebook 2005.

¹³ In October 2006, an in depth review of the progress made in different countries was published based on the information provided by civil society in hydrocarbon-rich countries, see Publish What You Pay (PWYP) / Revenue Watch Institute: Eye on EITI – Civil Society Perspectives and Recommendations on the Extractive Industries Transparency Initiative (2006).

There are a number of factors that limit effectiveness in implementing the various EITI steps. The first of these is the presence of unfavourable conditions within the political context (for example, blatant corruption and political violence in Equatorial Guinea, political oppression in Congo Brazzaville, and conflict in Chad). The introduction of a voluntary system of shared rules and regulations in situations such as these, where basic freedoms are often not respected, is a difficult challenge to overcome. Secondly, the creation of this system of transparency incentives requires the presence of supervisors, especially from civil society, and they are often repressed or ignored. Other times, they do not have the experience, resources or capacity to closely monitor the process in a satisfactory way. Hence there are still problems to be overcome with regard to finding effective supervisory and evaluation mechanisms for national EITIs. Finally, although EITI has achieved a high level of support among extractive companies based in OECD countries, the commitment of new actors, as in companies from China, Russia and India, for example, is still unclear.¹⁴ If EITI is not applied to all the multinational companies within an individual country, it could cause lead to a loss of competitiveness for those who publish their payments. The growing number of new players who encourage opaque payments and who are unwilling to promote the involvement of civil society poses a serious risk to EITI's transparency initiatives.

Despite these formidable challenges, there is strong political commitment to EITI, especially on a multilateral level. In addition to the current involvement of the World Bank and the International Monetary Fund, the G8 has been a preferred platform for promoting transparency and advancing the fight against corruption in extractive industries. Finally, the clear support that the government of Germany, country presiding the G8 in 2007,¹⁵ has shown for EITI would

¹⁴ EITI has opened an internal dialogue on the possibility of incorporating the Bric countries (Brazil, Russia, India and China) in its process, see EITI and the role of the emerging economies (March 2006). See also Financial Times: Germans demand China signs oil pact (12 April 2007).

¹⁵ See Nils-Sjard Schulz: Germany's Double Presidency: Any Novelty for the International Development Agenda? , FRIDE comment January 2007.

appear to ensure a long-term future for this process of creating new rules for the global governance of energy and mineral resources.¹⁶

A bid for compulsory transparency: Publish What You Pay (PWYP)

In contrast to the voluntary nature of EITI, the international coalition Publish What You Pay (PWYP) promotes reform of international accounting and stock market regulations as a means of obliging extractive companies to publish a regular and detailed account of their payments in each country of operation. PWYP evolved out of a 1999 Global Witness report¹⁷ on the link between petroleum companies, corruption, poverty and civil war in Angola, and it was formally launched in June 2002 by George Soros in collaboration with six founding British NGOs.

PWYP's relationship with EITI is of special interest in that it supports and monitors the EITI process as a collaborating body while internally adopting a constructive criticism towards the voluntary nature of the system. PWYP plays a prominent role in representing international civil society, with a current membership of more than 300 NGOs and lobby groups from 56 countries, ten of which boast national platforms.¹⁸

¹⁶ See the position of the Federal Ministry for Economic Cooperation and Development: Using developing countries' natural wealth to combat poverty: EITI – an alliance of governments, civil society and businesses for transparency in the extractive industries (March 2007); written response of the German Government (22 November 2006) to a request for information on contents of the G8 presidency by the Alianza 90 / German Green Party; and the intervention of the Minister for Economic Cooperation and Development on 9 November 2006.

¹⁷ The report introduced the concept of the 'full transparency' of multinational companies, which consisted of the publication of all payments made to the Angolan government. This mechanism represents the base for current international transparency initiatives in the extractive industries sector. For further details, see Global Witness: A Crude Awakening The Role of the Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets

¹⁸ See current list of PWYP coalition members. Among those international NGOs with headquarters in Spain are Amnesty International, Action Aid, Caritas, Oxfam, Save The Children and

The coalition is undoubtedly an interesting example of the vitality of global civil society alliances in both the North and the South. Within PWYP, NGOs have clearly identified not only the advantages of collaboration but also in sharing workloads. Hence, organisations from OECD member countries tend to focus on extractive companies, rules for international accounting and payment transparency, while NGOs from oil-producing countries work to promote transparency and accountability on the part of their governments through monitoring revenues and expenditures in the state budget.¹⁹ As such, there are two closely linked yet clearly distinct mechanisms (global and local) at work. To sum up, PWYP's strong institutional network today has significant weight among the contributions and influences of EITI's many collaborators.

PWYP is currently actively involved in both EITI national initiatives and in its global process, and is a strong advocate for improving implementation levels. To this end, this international coalition of NGOs has presented EITI with a list of 14 recommendations.²⁰ In addition to those focussing on building capacity and leadership among governments and civil society in the South, and recommendations for achieving greater transparency (for example, in contracts and at sub-national level), PWYP's list addresses three key areas that are currently relatively neglected under EITI:

- Greater disaggregation of the payments published in country reports (by company and contract signed)
- Institutionalisation of the EITI process in statutory laws (at national level in both the North and South),

Transparency International, but the only current Spanish PWYP members are Intermón Oxfam and la Fundación Ecología y Desarrollo. There are national platforms in Azerbaijan, Congo Brazzaville, the United States, France, Georgia, Kazakhstan, Kyrgyz Republic, Nigeria, Norway and the Netherlands.

¹⁹ Consequently, slogans representing the coalition's demands have been updated to include "Publish What You Receive" and "Publish How You Spend It", see Henry Parham (PWYP): International Financial Transparency Regimes (February 2007) and Global Witness: Oil revenue transparency: a strategic component of U.S. energy security and anti-corruption policy (March 2007).

²⁰ See the complete review of EITI and its national processes in EITI/Revenue Watch Institute: Eye on EITI – Civil Society Perspectives and Recommendations on the Extractive Industries Transparency Initiative (2006).

in international accounting standards²¹ and as a condition for bilateral and multilateral development aid.

- Transparency not only in national government revenues but also in the drawing up of state budgets and their subsequent implementation to promote more transparent and responsible expenditure management.

As doubts have arisen over the progress being achieved in certain resource-rich countries and the true commitment of elites mired in corruption and clientelism, PWYP has become more ambitious in its drive for an institutionalised operational framework on all levels based on laws and regulations. This measure would not only foster a transparent financial system and a more secure investment climate but would also lead to a much more efficient conversion of natural wealth into human development and governance, as transparent revenues and expenditures can be more effectively channelled towards social and productive investment.

A shared process between North and South: Creating new game rules for global governance

Both EITI and PWYP advocate the regulation of payments and revenues between companies from the North and the governments of hydrocarbon-rich countries in the South as a means of combating corruption in the extractive industries. Although it is a delicate situation, owing to the sensitivity of the

²¹ Since 2006, PWYP has been negotiating with the International Accounting Standards Board (IASB), a private institution with the backing of numerous international auditing companies and banks, which designs and creates accounting standards and financial reports, see Charities attack standards body over 'failure to consult' (September 2006).

interests of all the actors involved, there is no doubt that both initiatives have given rise to a global consensus on the need to fight the 'resource curse' through increased transparency and regulation. This consensus has managed, firstly, to isolate corrupt and irresponsible political and economic elites who are now faced with a system of incentives focused on transparency. Secondly, EITI is one of the few international mechanisms today that manages to successfully combine government commitment with business interests and civil society demands on many levels while maintaining a shared approach. Thirdly, and this is related to the second point, the simplicity of the proposal and its message has meant that all the actors involved, while representing a variety of backgrounds and interests, see their respective goals within it. Western countries want secure access to resources and need viable and stable governments to deal with; multinational companies are concerned about their image and view corruption as a potentially risky market failure; aid donors would prefer not to have to cover needs that have been neglected or even caused by corrupt regimes; international financial institutions want to ensure the viability of their projects; civil society in the South want to create conditions that support the investment of revenues in development; and private investors are interested in a safer business climate. Lastly, the active presence of PWYP fuels the global drive to deepen and regulate transaction transparency in the extractive industries. Consequently, EITI can bank on a permanent input which ensures its future survival and also its continuing improvement and institutional consolidation.

In short, transparency in the extractive industries and its significance in the development of oil-rich countries have come to occupy a priority position in the global governance agenda. The dynamic between EITI's voluntary system and PWYP's campaign for complete regulation creates a favourable environment for institutionalising the process in both the mid and long term, while ensuring that it does not lose its appeal for collaborators.

Nevertheless, this consensus is still facing serious

challenges, and stakeholders must at least address the following key issues:

– Expand EITI's global scope

Without the active involvement of emerging countries, in particular China, Russia and India, EITI cannot ensure its successful operation given that the presence of governments and companies outside the process pose a serious threat to the credibility of EITI rules. In order to bring non-OECD actors on board, it is likely that EITI will need a higher degree of institutionalisation particularly with regards to international relations. Secondly, and as requested by civil society representatives, international accounting standards must form part of EITI requirements, which until now have been voluntary.

– Strengthen implementation of EITI's road map

Two years after the formalisation of the principles and criteria, the level of implementation of EITI national processes is still low. In some cases, no other step beyond the government's initial declaration of commitment has been taken. While there is a need for technical assistance in some countries, it would be useful to analyse and evaluate the true commitment of others. In order to ensure the validity of the global consensus, EITI must develop expulsion mechanisms for countries with governments that do not respect certain time limits for moving beyond the preliminary declaration of commitment.

– Incorporate mechanisms for evaluation and feedback

EITI's current design does not yet shed enough light on national processes in the mid and long term. A cycle ends after the publication of the first report that requires new input to create a continuous dynamic between information gathering and the drafting and dissemination of reports (see graph page four). There are still not any indicators in place to measure progress in transparency quality and reliability after the first report nor are there any feedback models that give collaborators the opportunity to identify weaknesses or new strengths.

– Create structures that promote expenditure transparency

The translation of regulated revenues into transparent and responsible government investment is still poor as EITI does not promote models that foster or monitor this process. Transparency in public expenditure that is financed by natural resources may have to be introduced within another context. The linking of revenues with the new architecture of aid (especially general budget support, SWAPs and Public Financial Management Reform) may give rise to beneficial synergies and help confront the paradoxes between aid and oil revenues.²² These new models of aid have been developed based on experience in the design and implementation of state budgets in the countries of the South, which could be co-financed with revenues from resource exploitation²³ and guarantees of supervisory assistance.²⁴

– Reduce the potential for the conflict between collaborators over final goals

Although the actors involved are united in their support for EITI as a means of achieving greater transparency, they have not been able to agree on a common final goal. By way of example, the interest

²² A discussion of 'oil revenues are not aid without agencies' can be found in Paul Collier: *Is Aid Oil? An analysis of whether Africa can absorb more aid* (June 2005). Recently, the effect of oil exploitation revenues on the relationship between citizens and their government, aside from tax revenues, has been addressed, see Mick Moore: *How does taxation affect the quality of governance?* IDS Working Paper 280 (2007). For an optimistic view of the capacity of resource-rich countries in sub-Saharan Africa to co-finance the achievement of their Millennium Development Goals through investment in regional productive infrastructure, see Michael Warner: *Does the Sustained Global Demand for Oil, Gas and Minerals mean that Africa can now fund its Own MDG Financing Gap?*, ODI Briefing Note 6 (September 2005).

²³ Accountability is a concern shared by PWYP and the current discussion on the new aid instruments. Regarding the relationship between the new types of aid and accountability, see Paolo de Renzio: *Aid, budgets and accountability – A survey article* (2006).

²⁴ An interesting focus on the possible evaluation of expenditure management can be found in the Performance Measurement Framework of the Public Expenditure Financial Accountability programme in which 8 donors participate, including the WB, the IMF, and the European Commission. The participation and role of civil society in budget policy and accountability have been analysed by Mark Robinson: *Budget Analysis and Policy Advocacy – The Role of Non-Governmental Public Action*, IDS Working Paper 279 (September 2006) and compared with case studies in Paolo de Renzio and Warren Krafchik: *The Impact of Civil Society Budget Analysis and Advocacy in Six Countries* (2007).

of investment companies in a more secure economic environment differs from the goals of civil society, which may be better social redistribution or even a change in current energy policies. In this sense, the range of views that are currently represented by EITI could lead to significant contradictions that can only be resolved through incorporating an ambitious but realistic model of the political economy of corporate social responsibility. Actors must adopt a wider vision of the appropriate roles within an alliance between the State, its citizens and the private sector.

Towards more coherence in Spanish foreign policy: Understanding the challenges and undertaking international commitments

The involvement of Spanish actors in the system and regulation of energy and mineral resource exploitation in developing countries is still quite limited. The current government does not collaborate in EITI, and only two Spanish NGOs participate in the PWYP campaign.²⁵ In addition, of the extractive companies based in Spain, only Repsol YPF is an official EITI collaborator.

The limited involvement of Spain in this international process gives rise to a number of doubts concerning the

²⁵ A work group consisting of several Spanish NGOs was launched in May 2007 after a seminar held in Barcelona on energy and mineral resources and demands for transparency. Although the group is devoted to 'Rights in the Extractive Industries', it is not a participant in the international PWYP campaign nor does it work to promote EITI in Spain.

coherency of its policies, especially regarding development aid. At the strategic planning level, the Master Plan for Spanish Development Aid 2005-2008 does not refer to transparency in the extractive industries nor does it mention EITI. The Africa Plan 2006-2008 makes a brief mention of support for EITI national processes but this is more in the context of an action plan for energy security than the promotion of transparency as a foundation for governance. Consequently, it does not involve Spanish players in the process, in particular the energy companies, nor does it suggest improvements in policy coherence such as adjusting the requirements of export credit agencies like the Official Credit Institute (ICO) or the Spanish Company for Export Credit (CESCE). Furthermore, far from embracing the global consensus led by EITI, the Africa Plan, which has caused some controversy among Spanish actors,²⁶ overlooks the importance of EITI in governance, peace and the fight against poverty.

This is a surprisingly detached attitude given that in December 2005 Parliament unanimously approved a non-binding law (PNL)²⁷ put forward by the Catalan party *Convergència i Unió*, which urges the Spanish government to support EITI through the following mechanisms:

- Provide financial aid for EITI operation (EITI Multi-Donor Trust Fund)
- Promote the initiative among Spanish companies
- Modify Stock Market Law to oblige listed extractive companies to publish their payments
- Include information transparency as a condition for those resource-rich countries receiving Spanish Development Aid

On another front, the British NGO Global Witness, founder of the PWYP campaign, has been lobbying the Spanish Government since 2005 to support EITI with

very similar requests to those stated in the PNL.²⁸ The organisation has also requested that a new European Parliament and Council directive on compulsory transparency of information, which obliges EU Member States to promote the publication of all payments that are made between extractive companies and governments, be transposed into national law.²⁹

The parliamentary mandate, Global Witness' lobbying and the European directive have yet to secure Spain's commitment to EITI. According to a letter from the Economic Office of the President of the Government to the British NGO, the Spanish government considers that the Unified Code on the Good Governance of Listed Companies³⁰ contains adequate recommendations to ensure the transparency of Spanish companies operating in developing countries.³¹ Nonetheless, this voluntary code does not provide any mechanism for those companies operating in politically and institutionally fragile countries nor does it specify procedures for the publication, monitoring and review of payments made to governments. In other words, despite the sometimes conflictive presence of Spanish extractive companies in countries such as Equatorial Guinea³² and Bolivia,³³

²⁸ Global Witness: *Spain and the global promotion of information transparency in natural resource exploitation revenues*, not available on line.

²⁹ The directive establishes in point 14 that "The home Member State should encourage issuers whose shares are admitted to trading on a regulated market and whose principal activities lie in the extractive industry to disclose payments to governments in their annual financial report." For further details, see Directive 2004/109/EC of the European Parliament and of the Council, 15 December 2004 on harmonisation of transparency requirements in relation to about issuers whose securities are admitted to trading on a regulated market.

³⁰ Código Unificado de Buen Gobierno de las Sociedades Cotizadas, approved by the Spanish National Stock Market Commission, May 2006.

³¹ Written response of the Director of the Department of Economic Policy of the Economic Office of the President of the Government, 19 April 2007 (not available on line).

³² After Teodoro Obiang, the President of Equatorial Guinea, made a controversial visit to Spain in November 2006, a debate on foreign policy with the country was initiated that is increasingly heated. See FRIDE: *La política exterior y de cooperación de España en Guinea Ecuatorial: Relevancia de los principios democráticos y el papel de la sociedad civil*, Activity Brief (December 2006) and Mario Esteban: *Vías de acción de España ante la penetración internacional en Guinea Ecuatorial*, Opex Memorandum 33/2007 from the Fundación Alternativas (February 2007).

³³ As an example, see the recent Intermón Oxfam report on Repsol YPF operations: *La industria extractiva: pozos negros para los Pueblos Indígenas - Recomendaciones a Repsol YPF para la elaboración de una política y procedimiento de relación con Pueblos Indígenas* (April 2007)

²⁶ Ministry of Foreign Affairs and Development (MAEC): *Plan África 2006-2008*, for a more in depth analysis of this strategic plan, see articles available in the Sub-Saharan Africa section of FRIDE's ODA Forum.

²⁷ *Proposición No de Ley* passed by the Congress of Deputies, 27 December 2005.

the Spanish government has not made the slightest move towards the discussion or promotion of EITI among the actors concerned. This disinterest on the part of the government conflicts with its active commitment to establishing secure oil and gas access, an aim that seems to dominate foreign policy on all levels.³⁴ As such, the position of the Spanish government is still quite far from that of European proposals on energy security and development, as set forth in the joint background paper of EU Presidency and Commission released recently for the EU-Africa Summit that will be held in November 2007 in Lisbon.³⁵

Given the importance of the extractive sector and the Spanish economy's high level of energy dependence, Spain's absence from EITI would appear to be a missed opportunity to form part of a pragmatic system and to become a pillar of global governance. There are no obstacles currently preventing Spanish support for EITI and yet there are a number of political incentives, for example, improved coherency in Spain's relations with resource-rich countries. Yet another advantage is the possibility of resolving contradictions that arise in relations with fragile states such as Angola and Equatorial Guinea, in particular that between Spanish Aid's fight against poverty and the promotion of Spanish investment in sensitive areas.

The renewed spirit of Spanish Aid has placed it in a position to support the global agreement on transparency as a cure for the 'resource curse'. However, in light of the feeble progress made towards involvement in EITI, Spain must first deal with the following pending tasks:

– Expand and deepen the capacity for the analysis and understanding of the relationship between governance, natural resources and human

³⁴ For a complete analysis of energy dependency and security in the Spanish context, see Gonzalo Escribano: *Seguridad Energética: concepto, escenarios e implicaciones para España y la UE*, Working Paper Real Instituto Elcano (December 2006)

³⁵ EU Presidency and Commission: *Joint Background Paper on Energy Cooperation between Africa and Europe* (April 2007)

development, especially in Sub-Saharan Africa. Increased Spanish presence in resource-rich African companies should be accompanied by a specific assessment of the complex dynamic between the extractive industries and development. This calls for a clear focus anchored in comprehensive analysis.

– Review proposals on policy coherence to include mechanisms concerning investment in politically and institutionally weak environments. The Council for Development Aid's 2006 report on policy coherence³⁶ does not specify the actions of the different Spanish Ministries in fragile or failed states, but it is a good base for designing new complementary projects and synergies. Given the competence of the work group currently operating in the Council, the 2007 report may provide the first evaluation of this specific problem.

– Identify and strengthen the leadership capacity of the Secretary of State for International Development Aid (SECI) regarding external policy coherence, with particular reference to politically sensitive actions that other Ministries are either advocating or supporting in fragile States. At the institutional level, there is still much room for improvement in analysis, assessment, negotiation capacity and accountability as part of the efficient coordination of policy coherency. In particular, the role of the General Directorate for Planning Development Policy (DGPOLDE), as the consulting and assessment body for Spanish Development Aid, needs to be strengthened. Along with greater visibility for the Development Aid Council, DGPOLDE should encourage more horizontal coordination that, for example, takes into account the collateral damages to human development and governance caused by the actions of other Spanish Ministries.

– Use existing multiparty forums to discuss and analyse EITI with the concerned parties. In this

³⁶ Council for Development Aid: *El cumplimiento del principio de coherencia de las políticas* (July 2006). FRIDE's OAD Forum's has a section on coherency which includes several key papers dealing with the debate on coherence as an element in more effective development aid.

regard, there are a series of initiatives in corporate social responsibility, such as the Foro de Expertos de Responsabilidad Social de la Empresa (Forum for Experts in the Social Responsibility of Companies), which is coordinated by the Ministry of Labour and Social Affairs, and the Mesa de Diálogo Social (Round-Table for Social Dialogue). Although the current drive for good practice is nationally focused, these platforms represent a suitable framework for discussing EITI and the future collaboration of the Spanish government.

- Open a dialogue between SECI and other European agencies involved in EITI. Given that Spanish Development Aid is becoming increasingly important on an international level, the significant role it can play in policy coherence should be acknowledged. The accumulated experience of other organisms, such as the British DFID and the Norwegian NORAD,³⁷

should be used to create integral and integrated mechanisms for promoting transparency in the extractive industries that succeed in overcoming the resistance of actors who are not used to collaborating in multiparty forums.

- Incorporate transparency as a key element in governance and its relationship with human development in the strategic plan for the next period. These complex issues must receive closer scrutiny, especially with regards to governance (social and institutional capacity) and the fight against poverty. The new Master Plan 2009-2012 could not only include the fight against corruption but also link it with greater policy coherence. Given its relevance for that region, the new Africa Plan should focus more specifically on EITI's proposals, and reflect more clearly the current Euro-African dynamic in energy resources and development.

³⁷ Working on the basis of its position as a petroleum-producing country, Norway is currently cooperating in matters related to resource management, the treatment of revenues and environmental protection with more than 20 developing and oil-producing countries within the framework of its programme Oil for Development, which was established in September 2005. An evaluation of this project has been published recently, see Danish Energy Authority: Evaluation of the Norwegian Petroleum-Related Assistance: Case Studies Regarding Mozambique, Bangladesh, East Timor and Angola, NORAD Evaluation Report 1/2007. The experience of Norwegian actors in Angola has been analysed in depth in Arne Wiig and Madalena Ramalho: Corporate social responsibility in the Angolan oil industry, CMI Working Paper 8 (2005).

Nils-Sjard Schulz, Associate researcher and independent consultant for development cooperation

© Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE) 2007. All FRIDE publications are available at the FRIDE website: www.fride.org

This document is the property of FRIDE. If you would like to copy, reprint or in any way reproduce all or any part, you must request permission. The views expressed by the author do not necessarily reflect the opinion of FRIDE. If you have any comments on this document or any other suggestions, please email us at comments@fride.org

www.fride.org

Goya, 5-7, Pasaje 2º. 28001 Madrid — SPAIN. Tel.: +34 912 44 47 40 — Fax: +34 912 44 47 41. Email: fride@fride.org