**Extractive Industries Transparency Initiative** **(EITI): Expanding the Boundaries of Informational Openness of Companies**

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**Summary**

Growing revenues from the extraction of natural resources and problems of poverty formed the basis of the proposals for the expansion of the borders of transparency. This will facilitate the implementation of the so-called extractive industries transparency initiative (EITI).

For developing economies, the nurturing of the initiative for now is more of a prospect. The lack of developed institutions will not allow controlling the credibility of the changes, and the expansion of the boundaries of information transparency will come across the undesirable international legal consequences of participation in the EITI.

**Keywords**

Mining companies. Boundaries of openness. The Extractive Industries Transparency Initiative (EITI). Struggle for resources. Investment attractiveness.

**Introduction**

Information support is an important component of management activity: data on business is formed in accordance with the requirements of national or international standards, full disclosure of information by competitors is taken for the sample.

Awareness of the existence of unequal levels of information on the state of the economy led to the emergence of initiatives and transparency ratings. In 1993, the Transprency International movement was founded, which aims to fight corruption around the world. No less known is the “Publish What You Pay” movement, whose members publish information about their costs and revenues. The Natural Resource Charter website provides recommendations to government agencies on the distribution of mineral revenues. There are also other initiatives. For example, the EU's accounting directive obliges companies to disclose information on payments to the governments of the countries in which they operate. It is believed that this can help people from poor countries and contributes to the growth of investment attractiveness.

In the global community, information disclosure standards such as the Global Reporting Initiative (GRI) and the international platform <IR> are recognized, and the World Intellectual Capital Initiative (WICI) indicators are being developed. In 2002, the initiative of transparency in the extractive industries (Executive Industry Transparency Initiative, EITI) was launched. Its goal is to achieve greater transparency by publishing company reports on the amount of taxes paid and information received from governments on payments received, as well as data analysis by independent experts.

For the Russian economy, whose main income is concentrated in commodity sector and in trade, such initiatives are important and supported. In 2017, Russia approved the concept of developing public non-financial reporting. To implement it, the law on regulating the disclosure of information on the activities and results of companies in the field of social responsibility and sustainable development has been developed. International ratings show that transparency in the raw materials sector of the Russian Federation is gradually increasing and it is mainly caused by the emergence of Russian companies in foreign markets. The rating agency Standard & Poor's in conjunction with the MICEX published an index of information transparency of Russian companies indicating the positive impact of information transparency on the company's capitalization. The Agency for Political and Economic Communications (APEC) is developing a monthly rating of the openness of Russian energy companies. It is built on the basis of expert assessments: the average ratings of 25 analysts, who expose an estimate from 1 to 10, are calculated. According to APEC, in 2016 the highest level of openness was shown by Gazprom, and Rosneft, which was the best in the S&P version, took the fifth position. The calculation of information transparency ratings demonstrates interest in transparency initiatives among Russian companies. But what are the risks of their implementation for business? Most of the reforms do not reach their goals in practice or end with inadequate costs, and often the implementation of advanced tools does not satisfy technological, resource, cultural, political or institutional constraints. Experience shows that the introduction of proposals should take into account the risks of their implementation.

**Main part**

Incompleteness of the information of generalizing criteria forces to move towards greater openness, investors are urged to search for additional data: the expansion of the transparency limits reduces the information asymmetry [1]. For companies, the increase in information openness is associated with vulnerability and certain problems in the market, as competing companies can use open data to their advantage. In practice, Russian companies (Gazprom, Lukoil, Norilsk Nickel, etc.) enter into confidential agreements that require the disclosure of additional information to the investor.

Until recently, the formation of data was based primarily on the requirements of national or international financial reporting standards. Now, the degree of information disclosure by competitors is recognized as a model for imitation [2], [3]. To this end, a large number of financial and business models are being developed in companies. The ability to collect, process and disclose information becomes an important factor in competition, examples of best practices are immediately taken up by everyone. Many world raw materials companies inform the public about environmental, health and safety issues. For example, most Canadian and Australian companies published separate reports on social responsibility, including confirmation of the reliability of information by external auditors.

Examples include reports on social responsibility and sustainable development on company websites: Rio Tinto (www.riotinto.com); Inco (www.inco.com); WMC Ltd. (www.wmc.com); Falconbridge Ltd. (www.falconbridge.com). Comparison of the information disclosed by the Australian-British concern Rio Tinto and the Russian company Norilsk Nickel shows that they disclose information in accordance with various regulations. According to the securities legislation of the Russian Federation, Norilsk Nickel provides investors with financial statements, a quarterly report, reports on material facts, lists of affiliated persons, internal and issue documents. Similar documents can be found on the Rio Tinto website. Both companies, following the principle of corporate social responsibility, publish reports on expenditures for environmental protection, production mortality, etc. Rio Tinto discloses information on tax payments and premiums to top management. Norilsk Nickel publishes information on payments to the budget and extra-budgetary funds in less detailed form than does Rio Tinto.

The reason for the growth of openness, going beyond the prescriptions of laws is the increased role of information transparency as a competitive advantage. Demonstrating openness, we can count on a greater interest of investors, which could not but affect Russian raw materials companies, as the major players of this market. On the territory of Russia, thousands of fields have been identified and explored, including almost all types of minerals. These are coal, oil, natural gas, uranium, iron ore, copper, lead, zinc, nickel, tin, tungsten, molybdenum, antimony, mercury, titanium, zirconium, strontium, apatite, phosphorite, fluorite, talc, magnesium, graphite, barite, piezo-optical raw materials, etc. The share of exports of energy resources and metals is consistently and substantially higher than half of the total volume of Russian exports, which implies a high dependence of the formation of federal and regional budgets, and the solution of social issues on the external economic situation. Similar problems are faced by most developing countries with an export-oriented development model [4], [5].

Mineral resources are attributable to non-reproducible resources, so there is the problem of managing this potential to meet the needs of society not only "now". In the world community it is believed that the extraction of natural resources should contribute to the improvement of the social position of the entire population [6], [7]. One cannot but agree that in order to use the income from natural resources, the whole society needs to ensure a sufficient level of openness: increased transparency of interaction between the state and raw materials companies can contribute to reduction of poverty and systemic corruption [8].

The Movement for Greater Information Openness in the Extractive Industries (Extractive Industries Transparency Initiative - EITI) was launched in Johannesburg. EITI was registered in Norway as a non-profit organization [9], [10]. When extractive industries operate in accordance with the principles of the EITI, all participants should receive benefits (Table 1).

Table 1

Benefits of EITI participants.

|  |  |  |
| --- | --- | --- |
| **For countries** | **For companies** | **For society** |
| Improvement of investment environment | Political risks reduction | The availability of reliable information on the revenues administered by state structures on behalf of citizens, which thereby increases responsibility of the state |
| Ensuring greater economic and political stability | Reducing risks to reputation |

The number of countries adhering to the EITI principles is constantly increasing [11], [12], [13]: dozens of governments, large extractive companies, and international institutional investors are officially participating. The initiative was transformed into a new international organization with its secretariat and board, and principles - into the EITI standard. Currently, more than 100 reports have been published, covering revenues of hundreds of billions of US dollars [14], [15]. There are participating countries that do not comply with EITI standards, conceal revenues from mining and are subject to temporary exclusion. The EITI assumes a reduction in corruption, but is delayed, as corruption appears already at the stages of announcement of competitions and tenders, conclusion of contracts.

Organizational weakness of the initiative should be noted - participation in it is carried out on a voluntary basis, the enforcement and punishment norms are weak. Responsibility for a country that has ceased to follow the EITI standards is deprivation of its status. An obstacle to the promotion of the initiative is resistance of shareholders of companies to disclosure of information, as well as the absence of a strong civil society (Table 2).

Table 2

Advantages and disadvantages of the EITI.

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| --- | --- |
| **Advantages of the EITI** | **Disadvantages of the EITI** |
| 1. Improving the image of a company or country | 1. Focusing only on financial flows between the state and the extractive industry |
| 2. Reducing the cost of risk insurance | 2. Lack of authority |
| 3. Increasing the inflow of foreign direct investment | 3. The need for developed social institutions to work effectively |
| 4. Improving the investment climate |
| 4. Concealment of information on violation of environmental requirements and environmental damage |
| 5. The problem of balancing the benefits of the EITI and the shortcomings of open reporting |

The EITI contributes to a steady demand for institutional transformation, which increases the investment attractiveness of the extractive industries and the national economy as a whole (Table 3).

Table 3

EITI and improved management efficiency

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| **Destination of natural resources** | **Resource management** |
| Natural resources of the country, such as oil, gas, metals and minerals, belong not to the state, but to its citizens | Information from EITI reports helps governments and citizens monitor and forecast revenues from the extractive sector |
| The extraction of these resources contributes to economic growth and social development | It is proposed to bring the EITI reports to a new level: to indicate information on how the revenues are distributed at the national level, including budgets and national welfare funds |
| Ineffective management of natural resources leads to corruption and conflict | EITI reports are an instrument for highlighting weaknesses in public systems, aimed at improving governance of the sector, which makes an important contribution to the development of economies of extracting countries |
| In order for natural resources to be used for the common good, it is necessary to ensure a sufficient level of transparency in the extractive industries |

**Conclusion**

The difficult situation with transparency in the commodity sector is confirmed by the estimates of various analysts. The New York-based Revenue Watch Institute publishes the Resource Governance Index in four dimensions: institutional conditions and legislation, openness and practice of public records, safety and quality control, and environmental impact. Only one in five countries is called an economy with an acceptable level of management of natural resources.

EITI can be considered as a factor of economic behavior, influence through information openness to the value of business, investment attractiveness. At the same time, the information should be corrected on the basis of a methodical device recognized in the world business community, e.g. the attractiveness of Russian raw materials on the world market is increased when assessing reserves and resources according to international standards [16].

The considered transparency initiative is introduced into business practice as an international standard of openness in the management of revenues from natural resources. Two mechanisms became the key for the participants. The first one is regular publication of reports with an independent assessment of payments by commodity companies to the state budget and the disclosure by government authorities of data on revenues from extractive companies. The second mechanism is a system for monitoring compliance with the EITI principles and stimulating discussions in the areas of spending income from field development. The declared objectives of the EITI are goals of development, combatting corruption, helping public control over financial flows, etc. And they attract more and more supporters. But in practice companies face obstacles in the implementation of EITI. Weaknesses of the organization are:

• lack of consensus among stakeholders at the initial stages of EITI implementation: the levels of awareness in multi-staged transactions in extractive industries vary;

• focusing on a narrow sector of financial flows from extractive companies;

• formation of the organization on a voluntary basis and thereby lack of effective mechanisms to influence violators;

• lack of strong social institutions in the country to ensure effective work in the formative stage.

Implementation of the initiative to expand the borders of openness in Russia is more connected with the long-term perspective: organizational unpreparedness, lack of developed social institutions will not allow to verify the reliability of institutional reforms, and expansion of the boundaries of information transparency will come across undesirable international legal consequences of participation in the EITI, the positive results of participation in conditions of anti-Russian sanctions will be postponed.

Emphasis on strong social institutions dictates the need to take into account the international legal consequences of participation in the EITI. The experience of a number of countries in attracting investors to economy and reducing the cost of credits points to other opportunities for increasing information transparency. Assessing the results of EITI entry as well as their isolation from the overall outcomes of development requires great effort, and at times this process makes it possible to interpret the results differently.

Recognizing the importance of acting and conforming to the general principles of management inherent in market institutions, joining the EITI requires a comprehensive analysis of all risks of extractive companies.

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