African graft is a global responsibility

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A new oil frontier is opening on Africa's western coastline, which is now producing around 5m barrels of oil per day, rising fast. Last year oil exports were worth over $110 bn - nearly four times the OECD countries' total aid to sub-Saharan Africa.

Yet the producer countries' citizens are typically poorer and more badly governed than their African peers. Despite $400 bn in oil earnings since 1970, Nigeria's income per capita is 25 per cent lower than the sub-Saharan African average. Angola's $31bn budget this year is roughly equivalent to all OECD countries' aid to sub-Saharan Africa, yet it suffers the world's second worst mortality for children under five, according to the UN. Equatorial Guinea's infant mortality has risen sharply since it found oil. And so on.

More transparency should help mitigate this "resource curse" by helping citizens hold their rulers to account. The big push in this respect is the Extractive Industries Transparency Initiative (EITI), which was launched in 2002 and is backed by the World Bank, among others. It encourages mineral-rich governments to disclose data about their natural resources, voluntarily.

EITI is a fine idea. But it is full of holes. Two recent examples from Africa: Ghana and Gabon - which recently completed EITI reports - illustrate why. First, an accounting weakness. Ghana's EITI report was executed on a cash basis: it asked what companies paid, what government received, then checked if anything went missing in between. It not only failed to check this properly, but, more importantly, it did not check on an accruals basis whether the cash paid was the right amount in the first place, according to the contracts. Gabon's EITI auditors pointed out (among other flaws) the same weakness: no accruals accounting.

Gabon is intriguing because its oil industry was central to the "Elf Affair" -- Europe's biggest fraud scandal since the second world war, which ended with jail sentences in 2003 for top officials of the former French state oil company Elf. Magistrates in Paris discovered that money from Elf's African operations financed French political parties and officials, and supplied bribes to support French commercial, military and diplomatic goals around the world. In return, French troops protected compliant, oil-rich African rulers.

Today the "Elf system" has been entirely dismantled, they say. Could we use EITI to check this? The answer, unfortunately, is no. Under the Elf System, African oil corroded French democracy via rich-world tax havens: it was transnational to the core. EITI's fragmentary approach, treating Gabonese corruption separately from French corruption, would have missed the story. Like Transparency International's Corruption Perceptions Index, EITI rests on a misconception. By splitting the analysis between countries - thus missing the transnational element and failing to scrutinise rich countries' roles - one too easily reaches the conclusion that they (in Africa) are corrupt, while we (in the west) are clean. But a recent IMF paper identifying Britain as an offshore

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financial centre - a central repository for dictators' dirty money - helped reveal an old truth: we in the west are horribly implicated too.

Numerous examples exist of cross-border hydrocarbon liaisons with some or all of the Elf Affair's characteristics: deep political roots, military links, tax havens, and oil money corrupting politics in both producing and consuming countries. Think America, Britain and Saudi Arabia, for example.

EITI, a voluntary initiative, could never be accepted in a meaningful way when such relationships are so central to the exercise of power. In oil-rich countries, foreign probing is generally accepted where it does not ruffle too many feathers, and rejected where it does. Stronger medicine is needed.

There is more. Consider the three-way split of oil money between host country, oil companies, and costs (oil rigs, catering, etc.) Loïk le Floch-Prigent, the former head of Elf, admitted that secret "commissions" were routinely sourced from the cost base. Crooks can hide much, if not most, of their mischief in black box of costs by, for example, mispricing goods, then routing the paper trails offshore. While EITI's Source Book (its general guidelines) insist that EITI reports "must" include all government benefit streams, it only says costs "could" be independently audited. This is another voluntary opt-out, where it matters most. Nigeria is thankfully moving beyond core EITI principles towards cost audits. But Nigeria is the exception, not the rule.

EITI is a good thing, and it should continue. It has improved transparency, and it has got people thinking seriously about it. But it is fundamentally flawed. Its audits ought to check not just what is paid, but what should have been paid, and they should delve into industry costs. We need mandatory transparency too, and, crucially, a cross-border perspective. We must open up tax havens to scrutiny, which will help citizens and democrats everywhere, not just in mineral-rich or poor countries. When three US senators recently said that tax havens have "declared economic war on honest US taxpayers," they were right.

Eva Joly, the magistrate in Paris who broke open the Elf affair, said she felt like a sheriff in a spaghetti western, watching bandits celebrate across the Rio Grande. "They taunt us - and there is nothing we can do." In March, she said that tackling tax havens should be "phase two" in the global corruption debate. She is also right.

Nobody claims the next steps will be easy. There is a focused goal to aim for right now: when the G8 countries meet in the next few days, they should agree to reform International Financial Reporting Standards so that companies' data is unpicked on a country-by-country basis. That alone would lead to a healthy explosion of transparency, and not just in Africa's oil zones.

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