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The effects of implementing the Extractive Industries Transparency Initiative (EITI) on domestic revenue mobilization in developing countries

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RÉSUMÉ

This paper assesses the 'treatment effect' of EITI on domestic tax revenue mobilization through two main channels. The first channel is direct and it works through optimal and transparent resource tax regime. The second channel is the indirect effect that EITI has on non-resource revenue once transparency enhances accountability and thus the task of resource allocation to productive expenditures. We use a variety of propensity score matching (PSM) methods developed in the treatment effect literature to address the self-selection problem associated with EITI membership. Our treatment variables are based on the three main steps of the EITI implementation process: the dates of countries' commitment, candidacy and compliance. The empirical analysis, conducted on a sample of 83 resource-rich developing countries (44 EITI and 39 non-EITI) for the period from 1995 to 2017. Our findings show that on average EITI implementation has had a large and significant positive effect on domestic revenue collection (around 1.1 to 1.12 percentage points). Even more important is that the magnitude of ATTs is greater if we control governance quality. Our results are robust to non-resource and income tax revenues. The influence of heterogeneity factors on ATT effect are more or less important depending on the stage of EITI implementation and the type of tax revenue. This study therefore provides empirical evidence that implementing the EITI standard improves domestic revenue mobilization of countries that have adopted this transparency policy. And clearly, compliance with the rules and virtuous governance are a plus.

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