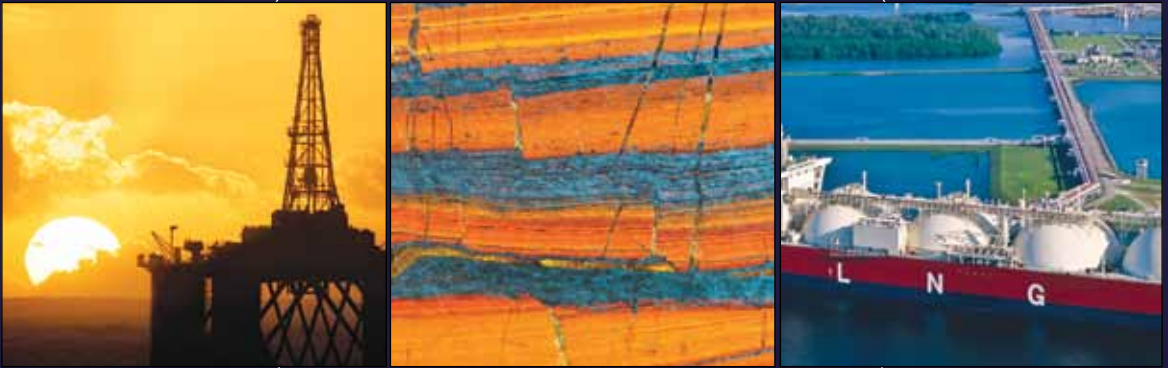


Toward Strengthened EITI Reporting: Summary Report and Recommendations



Policy recommendations for
the EITI Board based on a
broad consultative process

*Anwar Ravat
Andre Ufer*



**World Bank Group's Oil, Gas, and Mining Policy Division
Oil, Gas, Mining, and Chemicals Department**

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The Oil, Gas, and Mining Policy Division series publishes reviews and analyses of sector experience from around the world as well as new findings from analytical work. It places particular emphasis on how the experience and knowledge gained relates to developing country policy makers, communities affected by extractive industries, extractive industry enterprises, and civil society organizations. We hope to see this series inform a wide range of interested parties on the opportunities as well as the risks presented by the sector.

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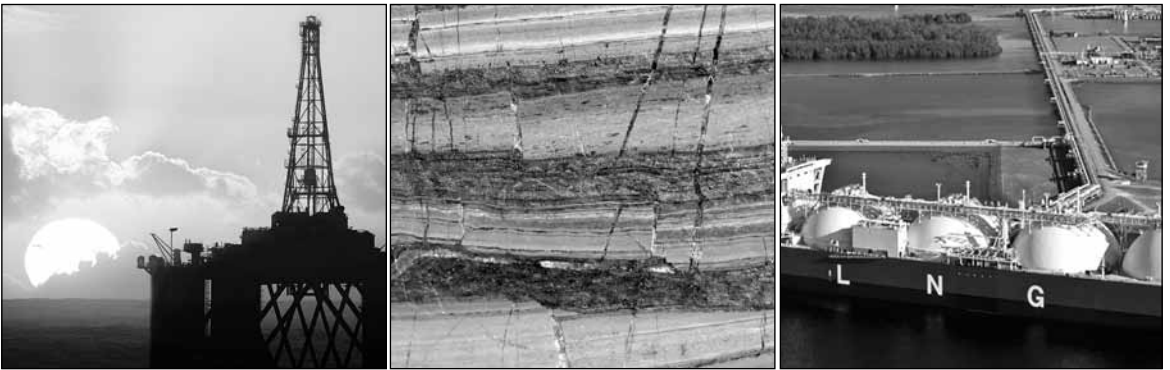
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Abbreviations and Acronyms

AER	Audit Evaluation Report
EI	Extractive Industries
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
IFAC	International Federation of Accountants
IMF	International Monetary Fund
JV	Joint Venture
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institutions
MDTF	Multi-Donor Trust Fund
PEFA	Public Expenditure and Financial Accountability
SAI	Supreme Audit Institutions
WBG	World Bank Group

Introduction

This document draws on Extractive Industries Transparency Initiative (EITI) country implementation experience and contains the summary report and recommendations of a consultation process. The goal of the consultation process was to examine and recommend ways to strengthen EITI reporting by building on existing EITI policy guidance, while streamlining the reports and promoting qualitative improvements in disclosure within them. Accordingly, the recommendations in this document are addressed to the EITI International Secretariat and through it, to the EITI Board, as well as stakeholders in EITI-implementing countries.

Annex II sets out the context and the Terms of Reference for this exercise, that was led by the World Bank Group Oil, Gas, and Mining Policy Division (COCPD) working in concert with the EITI International Secretariat and key stakeholders, in particular from EITI-implementing countries and International Monetary Fund (IMF) staff.

The findings in this document draw in part on experience in EITI reporting issues gained by the World Bank Group (WBG) team via the Multi-Donor Trust Fund (MDTF)-supported program of technical assistance to EITI-implementing countries, in particular the 12 countries that have published one or more EITI reports to date.

However most input for this document was drawn from two consultative workshops, held in Paris, France on April 1, 2009 and Washington D.C., on May 13, 2009. These workshops brought together EITI stakeholders in a structured discussion of the key issues affecting EITI reporting and the quality of the reports. The meetings prioritized the emerging issues and recommendations on how EITI reports and underlying data could be improved. The workshops brought together a wide range of stakeholders from both implementing and supporting countries, civil society, industry, audit firms, and industry/financial specialists experienced in EITI reports, as well as the EITI International Secretariat and staff from the African Development Bank, IMF, and the World Bank Group.

Quality of EITI Reporting – Key Prioritized Issues

From these consultation workshops, six sets of issues emerged as core areas for review. These are summarized below in approximate prioritized order:

- **Detailed reporting** of revenues/payments data (versus aggregated reporting)
- **The detail to be published regarding** revenue streams (for example, value of profit oil or gas)
- **The need to reconcile government reporting in** EITI reports with official public finance information
- **Accuracy** – underlying (audit) reliability of revenues and payments data
- **Completeness** – share of sector revenues actually reported in EITI reports
- **Comprehensiveness** – inclusion of all benefit streams in EITI reports

Accordingly, this document focuses on these six key issues and defines recommended actions. However, stakeholders contributed other suggestions and concerns regarding EITI reporting, as well as processes for producing EITI reports, which are summarized in Annex I.

Overarching consensus on EITI criteria and principles and existing guidance

Before expanding on these issues, an important preliminary point to highlight is that there is almost complete consensus that the EITI Criteria and Principles and the related guidance literature (EITI Source book and Validation Guide) *have served EITI well*, in particular the notion of the EITI as a “global standard applied locally” by national multi-stakeholder EITI steering groups. The EITI is thus applied flexibly at the country level and tailored to specific individual country circumstances and practice, yet meets a minimum global standard—enforced by the validation process.

The strong momentum of the EITI globally and in countries is seen as testament to the robustness of the EITI policy framework, and of the basic consensus among different EITI stakeholders on EITI Criteria and Principles. The EITI managed to open the debate on management of resource revenues and strengthen civil society in many countries. Yet many stakeholders share the perception that the variable quality of EITI reports, or concerns on data reliability, could be damaging to the EITI over the medium term and detract from EITI's value as a meaningful and credible reporting standard. In short, a good *participative process for the EITI* is not enough—good-quality *reporting of extractive industries (EI) data* is also necessary.

With this in mind, the recommendations in this document attempt to maintain continuity with the broad policy framework for the EITI, while defining options for incremental refinements and clarifications to EITI policy guidance, to promote concrete improvements in EITI reporting.

Issue #1: Detailed reporting of revenues and payments versus aggregated reporting

This particular issue—the extent to which reporting must be detailed or disaggregated—has been discussed since the very beginning of the EITI process.¹ The issue centers around the question of: (i) publishing aggregate-level but readily understood figures for revenues and payments (for example, the total revenues received from companies in the extractive industries sector, perhaps itemized by type of revenue but not by payer); or (ii) publishing such data in detail, showing type of revenue (royalties, bonus payments, corporate taxes, and so forth), as well as the paying company.

Global practice in EITI reporting has historically shown that both forms are used equally; however more recent EITI country reports have tended toward detailed reporting.

Some stakeholders—mainly, but not exclusively civil society groups—voiced strong opinions at the consultation workshops. They stated that more detailed disclosure, as opposed to summary-level, leads to greater public good. In this view, best practice requires detailed methods of reporting, thus allowing citizens to better monitor EI sectors and address

¹ The issue is not of course whether the “reporting” should be disaggregated by company (it has to be), but whether that information is subsequently aggregated before publication.

residual suspicions of opacity. Beyond civil society, companies may also welcome that detailed reporting highlights and publicizes the company's contribution to a particular country's EI sector and economy.

Alternatively, industry (as well as others at the consultation workshops) expressed concerns about the utility and cost/benefit of overly detailed reporting, citing undue infringement of commercial and competitive considerations. This view stressed that national multi-stakeholder steering groups should determine EITI disclosures. Considerations for country tax codes (which did not permit detailed tax reporting) and "social license" issues were cited (that is, the potential adverse impact of possible misinterpretation of EITI data, such as higher-than-normal or windfall profits, even though such volatility is a normal feature of the commodities price cycle or tax incentives for investors given economic, geologic, and political risks unique to each case).

From an objective and disinterested standpoint, the WBG/MDTF's exposure to countries' EITI implementation experience over the past few years does not suggest that detailed reporting *in and of itself* harms commercial interests in the oil, gas, and mining sectors. Equally, there is some validity to the questions about whether detailed reporting in all circumstances *in and of itself* is always positive. Yet overall there is recognition that reducing the variability of countries' EITI reports (on the degree of disclosure) *is a concrete step that global EITI can take* to promote strengthened EITI reporting globally.

The discussions during the consultation workshops converged on two possible ways forward. One was for national multi-stakeholder steering groups to invest the needed time and effort, and have the capacity right *at the start of a country's EITI process* to debate what the national EITI report format should be—especially the extent of detailed reporting of revenues and payments. For countries that already have selected aggregated forms of reporting, ongoing debate on this would be useful, particularly a discussion on which channels should disclose more detailed information outside of formal EITI reports.

The second was for the EITI Board to *agree and enunciate a clear stance in favor of detailed reporting* in EITI reports. However, in those rare situations where commercial or competitive considerations do not allow detailed reporting, there should be an "opt-out" mechanism which countries can invoke. This mechanism should be accompanied by a formal statement in the EITI report from the multi-stakeholder steering group that clearly explains the reasons for such an opt-out and an indication of how long it may last.

Box 1.1: Example in Practice – Liberia and Mongolia EITI Reports

The Liberian EITI Report includes a detailed table about each company featuring a line-by-line statement on each payment type that has been made between the companies and the government, discrepancies, adjustments, and the final balances. In addition to this, the Mongolian EITI Report provides one or two pages for each company with comments on certain payment data (that is, if there were major differences, and if so, the root causes of them), other important issues that are noteworthy (like donations to communities, inadequate filling of the templates, and so forth) and a summary on how these issues were handled and/or recommendations for the future.

Source: Mongolia EITI Report, issued 2008
Liberia EITI Report, issued 2009

Recommendations for the International EITI Secretariat and EITI Board:

Accordingly, this document recommends the following (within the spirit of EITI Principle #10 on workable approaches to EITI disclosure that are “simple to undertake and to use”):

- The EITI Board should issue new policy guidance that sets out a clear position in favor of publishing disaggregated company reporting—and establish it as a requirement for future EITI reports. The policy should permit countries to “opt-out” of this requirement, but in that case require the national multi-stakeholder steering group concerned to clearly explain in the report the reasons for such opt-out and provide an indication of how long it may last. This change should be done as a refinement to the EITI Source book and Validation Guide if needed, or done simply as supplemental EITI policy guidance.
- A further option for the new policy guidance (where countries do opt-out of detailed reporting) may be to encourage relevant, reasonable supplemental information to be identified and made available by the government or companies *elsewhere*, outside of EITI reports (for example, on related Web sites, company reports, and so forth).
- Finally, EITI guidance should reiterate the “*get it right from the start*” message—so that national multi-stakeholder groups invest the time and effort to build knowledge and debate the major decisions on the

scope and depth of EITI reports. This will ensure they meet national goals and that expectations gaps on the EITI are minimized. For countries which have already selected aggregated forms of reporting, EITI guidance should encourage periodic review of, and debate on, formats of EITI reports.

Issue #2: The detail to be published on specific revenue streams

Somewhat analogous to the question about aggregated/disaggregated publication of company data is the question regarding the extent of detail to be published on revenue streams. It is generally accepted that EITI Criterion #1 implies that all material revenue streams should be reported individually. By and large that has been the practice in reports so far, but some issues have emerged. For instance, profit oil received by the state as owner of the resources has been lumped together with the profit oil it receives as equity partner.

Some guidance on the value of reporting distinct revenue streams is useful.

Two other issues would benefit from further guidance:

1. *Profit oil or gas*: since these are received “in kind,” the EITI Source book prescribed that they be reported “in kind” by companies and government.

In addition, the Source book suggests adding a valuation for greater transparency. This is not always done. Some countries report only a valuation but no volume information, others only the latter. Guidance should point out that both are necessary: volume information to be reconciled between companies and government, and value information to be reconciled with the budget. Such detailed reporting could add transparency to related-party oil or gas trading arrangements involving a national petroleum company and/or trading company (see Box 1.2).

2. *Subnational payments and revenues*:² where capacity allowed, detailed disclosure of significant revenues and payments (for instance, surface fees or other taxes) occurring at subnational levels of government such

² There are two issues for reporting here: Some payment types in some countries are made directly to subnational entities, but this can be handled differently in other cases (that is, payments would be made to the central government, which then redistributes). The reporting / reconciliation concept would have to adapt accordingly.

Box 1.2: Example in Practice – Nigeria’s EITI Report

In Nigeria’s EITI Report, the featured revenue streams include all physical and financial aspects of oil production and trade:

- Reports physical flows of crude oil and associated financial flows
- Reconciles Nigeria’s net financial flows, including crude sales, gas sales, taxes, and cash calls
- Identifies potential sources of revenue loss, including unrecorded company payments

Source: Nigeria EITI Report, issued 2006

as municipalities, districts and/or regional development funds) is considered desirable, so that affected communities and stakeholders could be better informed and respond to their interests accordingly.

Box 1.3: Example in Practice – Ghana’s EITI Report

In Ghana, both the disbursements to subnational governments as well as their utilization were taken into account of the report. Since some difficulties were encountered, the reconciler recommends to:

- Provide a clear set of information to the districts and traditional councils, including the annual quarter to which the payments relate to and the name of the paying companies. This is to enable the recipients to assess the correctness of the benefits received.
- Encourage the mining companies themselves to send details of payments to the district assemblies.
- Make available (or develop in the first place) a formula for the distribution of mineral benefits in areas where there are more than one traditional council or district assembly.
- In order to make utilization more effective, develop clear and transparent guidelines for the use of mineral benefits. It might in this regard be necessary to target expenditures to provide sustainable economic development within communities.

Source: Ghana EITI Report, issued February 2007

Recommendations for the International EITI Secretariat:

Accordingly, this document recommends that:

- Specific EITI guidance be provided (via existing EITI literature) to country multi-stakeholder steering groups to consider and agree on opportunities to strengthen EITI reporting by supplemental disclosures in situations such as reporting the value of profit oil or gas, or significant revenues and payments at subnational levels (the latter subject to cost-benefit considerations and capacity to implement).
- Such guidance could include the possibility of “one-way” supplemental disclosures by companies or governments where full inclusion of such data in EITI reports and their reconciliation / audit is not feasible.

Issue #3: The need to reconcile government reporting to the EITI with official government finance information

The requirement that governments report what they receive implies a consistency between the government reporting to the EITI and the official public finance information. To establish this consistency, and at the same time enhance the transparency of the EITI process, government reporting to the EITI should be reconciled with official information on revenue outcome reviewed by the government auditor and submitted to parliament. This process may uncover substantial revenues spent off budget, such as the free transfer of profit oil or profit gas to the national refinery or national oil company (compare to Issue #2). More generally, it would also bring out differences in coverage (companies and/or revenue streams) between the EITI report and the budget.

Box 1.4: Example in Practice – Ghana’s EITI Report

Avoiding discrepancies between data made available to the EITI report and to the relevant government institutions:

- In Ghana, the reconciler scrutinized the returns submitted by the mining companies to the Internal Revenue Service (for royalties) for any inconsistencies to those declarations that were made to the reconciler
- Figures provided by the mines were compared to those stated in the financial statements to assess comparability

Source: Ghana EITI Report, issued February 2007

Recommendations for International EITI Secretariat:

Accordingly, this document recommends that:

- Specific EITI guidance be provided (via existing EITI literature) to country multi-stakeholder steering groups on ensuring that government-provided data in EITI reports match (or is reconciled to) related revenue outcome information presented to parliaments or external agencies (such as the IMF).
- Such guidance should also suggest a central role for the national Offices of Auditor-Generals in ensuring that “baseline” government EI revenue data is reviewed to eliminate inconsistencies (and thus help build comprehensive public financial management of EI revenues over the medium-term including “off-budget” items). Also, see the related recommendation at Issue #4 below.
- In addition, the sample reporting templates in EITI guidance material could be updated to reflect the need for EITI-reported data to match other government-reported EI data.

Issue #4: Accuracy – underlying (audit) reliability of revenues and payments data

One of the core principles of the EITI process (EITI Criterion #2) is that payments and revenue data that are reconciled and presented by administrators in EITI reports be subject to credible audits. The EITI Source book (2005) also provides clear guidance on the topic (Suggested Action #18). Nonetheless a significant view tabled during the consultation workshops stated that, in practice, this Criterion is applied unevenly, and not enough attention is paid to assure the (audit) reliability of underlying EI data reported by governments and companies to EITI administrators. One view was that no EITI country has fully applied the latter Source book standard, whether for government-reported or company-reported EITI data.

Implementation experience so far indicates that the audit certification concepts of the EITI Source book (and Validation Guide #12) are quite feasible for companies. This includes the implied guidance that where no audits (to international audit standards) exist for companies, alternative methods be found such as additional audit-type work by EITI Administrators (although such extra audit-type work would entail additional cost).

However, governments’ experience indicates that audit-certification guidance of the EITI Source book (and of the Validation Guide #13) has

Box 1.5: Example in Practice – Ghana’s EITI Report

Making data more tangible and including wider forms of review by the reconciler: an example from Ghana’s EITI Report:

1. Operating Issues

- Inspection of ore grades and saleable aluminum components of manganese and bauxite respectively to verify statements of companies
- Comparison of shipment records at air- and seaports with company data
- Metallurgical accounting of gold extraction for the gold mining companies

2. Financial and Tax Issues

- Analysis if tax deductions claimed by the companies in order to identify any improper claims
- Review of financial statement for both companies and authorities for consistency. The aggregator reviewed specifically company capital investment and operating costs
- Review of capital investments in order to assess the actual amount of investment and determine if the declared amortization and depreciation are correct, and do not constitute an improper tax evasion by the companies

Source: Ghana EITI Report, issued February 2007

not been applied generally. This is perhaps due to either capacity and staffing constraints in the national Offices of Auditor-Generals, to time constraints of the EITI reports which causes processes to fall outside the normal workflows of their Offices, or (in the case of Validation Guide #13) due to an inherent inability³ to meet the “based on government accounts audited to international standards” test.

³ This issue—the practicality of meeting the EITI Validation Indicator #13 for government / public sector accounts and their audits to international auditing standards—has been explicitly raised in a Validation Report of an EITI country. The matter is being addressed by the EITI International Secretariat including seeking advice and inputs from specialists including staff in the IMF.

Recommendations for International EITI Secretariat and EITI stakeholders:

Accordingly, this document recommends that:

- The EITI International Secretariat should specifically draw the attention of country multi-stakeholder steering groups to the fundamental importance of EITI Criterion #2 in assuring credible EITI reporting, and the need to assure (audit) reliability of data submitted to EITI administrators by governments and companies.
- Multi-stakeholder steering groups responsible for EITI implementation in countries should adopt “best-effort” ways of applying the existing Source book guidance. For government-reported data, this implies that the national auditor-general office review and provide an opinion on the EITI data. For company-reported data, the companies’ own auditors should issue separate confirmations that the EITI data submitted is consistent with the company’s audited financial statements and records (and/or issue a signed certification of such by a senior company official). The effort could include issuing comprehensive instructions on the data submission process with supporting workshops to explain the process fully and how the audit requirements for EI data reported to administrators is to be met.
- That EITI implementing countries, recognizing the potential for the EITI to leverage and contribute to strengthened public financial management of EI revenues and reporting (see recommendation at Issue #3 above) should develop strong internal linkages between national offices of auditor-general and the EITI process, so that the latter (or private-sector audit firms working under their supervision) can fulfill the role of certifying the accuracy and completeness of government-reported EITI data.

Issue # 5: Completeness – Share of sector revenues actually reported in EITI reports

The final set of issues covered in the consultation workshops related to completeness—ways to ensure that all (or the most significant parts) of the extractive sector revenues flows are covered in an EITI report. Again, this is a core part of the EITI Criteria (Criterion #1) but in practice has been uneven. It is well acknowledged that a nascent national EITI process (meeting various difficulties at the start) may choose to cover only a certain portion of the oil, gas, or mining sectors or revenue flows, and systematically expand coverage in subsequent EITI reports as process

constraints are overcome. In a number of countries such an expansion of coverage is noticeable over successive EITI reports.

Nonetheless, disclosure of how much of total sector revenues are covered in a given EITI report remains patchy. So far only one country specifically states the share of their EI sector actually covered by its EITI report. Overall the utility of the revenue and payments data presented would be increased if it were clear what (even if approximate) share of EI sectors was being covered in a given EITI Report.

Recommendations for the International EITI Secretariat and EITI Stakeholders:

Accordingly, this document recommends that:

- Specific EITI guidance be provided (via existing EITI literature) to country multi-stakeholder steering groups so that they can indicate the extent of EI sector revenues being reported, relative to the approximate total sector revenues. This should be done by reporting government or third-party data such as national GDP share of EI revenue and similar information as context. If whole coverage is not possible or feasible from the beginning, a tangible number of the extent covered should be seen as a minimum standard.
- In situations where certain companies have not reported EITI data, multi-stakeholder steering groups responsible for EITI implementation should consider presenting “one-way” supplemental data in the EITI reports, so that there is disclosure of the government revenues from those non-reporting companies (and readers can gain an indication of the overall EI revenues and payments). In these cases, a table should indicate the non-EITI covered revenues.

Issue #6: Comprehensiveness – Inclusion of all Material Benefit Streams

Analysis of EITI reports also shows uneven practice on reporting of all material EI revenue streams in EITI reports. Such non-reporting could include, for instance, in-kind oil or gas allocated domestically or certain minerals extraction-related fees revenues left off the scope of EITI reports.

The reasons for the non-reporting can be speculated (lack of overall knowledge of all revenue streams; planned omission of particular revenues streams by multi-stakeholder steering groups or by the government for lack of internal consensus, and so forth), but the overall effect

is to detract from the overall utility of the EITI reports concerned. In the consultations workshops, one option mentioned to help assure full inclusion of all material benefit streams in EITI reports was for the national finance ministry to have a clear voice on decisions of EITI scope (as the likely agency to possess the information on all extractive industry-related revenue streams and national budget implications).

Recommendations for International EITI Secretariat and EITI stakeholders:

Accordingly, this Paper recommends that:

- The EITI International Secretariat should specifically draw the attention of country multi-stakeholder steering groups to the fundamental importance of EITI Criterion #1 in assuring credible EITI reporting—that is the inclusion of all material revenue streams.⁴ It should be pointed out clearly that missing revenue streams are significant omissions which could possibly endanger a successful validation process.
- Multi-stakeholder steering groups responsible for EITI implementation in countries should consider ways, where feasible, to report “one-way” supplemental information on significant revenue streams not part of the reconciled EITI reports—including, where applicable, enhanced roles for ministries of finance in decisions of scope and content of EITI reports (and in reporting such supplemental data).

Conclusion

In a relatively short time since its inception, the EITI has established itself as *the* standard for transparency of revenues and payments. The current EITI policy framework and guidance material has served its role well: many consider that better adherence with *existing* EITI Source book and other policy guidance will itself ensure higher-quality EITI reports, which meet stakeholder and user expectations.

However, the WBG / MDTF experience with many EITI-implementing countries shows that there are concrete steps that can be taken—that is, more-specific EITI policy guidance and adherence to existing guidance—to help ensure high-quality and consistent EITI reporting. These steps

⁴Since ‘materiality’ can be effectively valued only ex-post, all revenue flows should be initially reported; it should be then left to the EITI Administrator to address the issue in their Report

also ensure that the EITI remains a credible standard over the long haul. The recommendations in this Paper are presented with this in mind.

In closing, note that just one recommendation in this document entails *new EITI policy* from the EITI Board (that on detailed reporting). The remaining issues are to do with *effective execution of existing EITI guidance by EITI-implementing countries* (albeit where additional policy clarification by EITI International Secretariat can help).

Annex I:

Additional Comments and Feedback from Consultation Workshop Participants

This Annex provides a high-level overview of other comments and concerns about EITI reports (and the process for their production) received during the consultation workshops held in preparing this document, and at an earlier event (April 2008) that convened EITI administrators and reconciliation / audit firms to exchange perspectives and to share experiences.

Underlying many of the issues discussed below is a basic reality that may not have a satisfactory solution, namely the tension between a broad EITI policy framework designed to be flexible to suit EITI country circumstances—versus—the precise guidance that professional service (audit) firms feel they need to be able discharge their EITI responsibilities efficiently.

1. Design issues regarding the scope of the EITI and EITI reports

Administrator / Reconciler's role and scope of work:

It is amply clear that the scope of EITI reports (and thus the terms of reference and contract for the reconciliation / audit firm) creates expectations gaps among stakeholders in many countries—whether the primary objective of the administrator / reconciler is just to reconcile and report on data submitted or carry out procedures to audit or verify data submitted. Lack of precise definition of the administrator's role does create difficulties for reconciliation firms, who have to make their own interpretations locally, contributing to variations in the scope of EITI reports.

Imprecise use of terms like “audit” may create misperceptions among stakeholders on what the administrator's role is—and is not. It thus falls to the multi-stakeholder steering groups to be precise in their

understanding of the administrator's role and in their terms of reference (contract under which an administrator / reconciler is hired), taking into account the cost of the chosen approach.

Reconciliation – or – audits of EITI reports:

There was common agreement that the payment and revenue reconciliation process envisaged by EITI Criteria is *not* an audit according to international auditing standards. This is simply due to the fact that a full audit, given the complexities of the sectors involved, would likely be beyond the intent and the scope of the EITI, both in its cost and in its complexity.

Again, given stakeholders' expectations of the administrator (who are frequently also better known for their audit work); this is best made clear early in implementation process to manage expectations.

It was agreed that the follow-up on discrepancies by the administrator / reconciler would in practice involve limited audit procedures, for example, verifying receipts from government departments for payments made, though even there, it was an open question as to how far the administrator should go in following up items that do not reconcile. But where an EITI country chooses to go beyond what is required under EITI guidance, the view was that they should be treated as such and not be treated as a form of comparison benchmark for all EITI reports.

In any event, regardless of whether an EITI country adheres to the core EITI requirement or goes beyond, it is important that the purpose of the EITI report be agreed and clearly understood and communicated. This is not only important from both a data collection perspective but also to ensure all stakeholders understand the expanded scope of the EITI process and the specific type and depth of reconciliation/audit work to be done.

The Box below provides brief, abridged highlights of feedback on these points received from KPMG France, Africa desk.

Standardized EITI Report formats

It was agreed that overly-prescriptive formats for EITI reports were not feasible if flexibility of the EITI framework was to be maintained, to be adapted in line with country circumstances.

Nonetheless it was clear that this very flexibility and the absence of precise definitions in EITI guidelines also meant that individual countries deal with the issues differently, sometimes entailing inefficiency, and also resulting in greater variability in EITI reports. Thus, any steps

Box A.1: EITI Reconciliations versus Audits – A Suggested Overview (in relation to EITI Criteria and Professional Standards)

- Where company as well as government EITI data is audited to international audit standards—the reconciliation work by an EITI administrator and a Compilation Report (ISRS 4410) should be adequate to meet EITI Criteria
- Where company EITI data is audited to international audit standards, but government data is not, then reconciliation AND additional work by an EITI administrator (including representations from Government) is needed—to issue a Compilation Report (ISRS 4410) and thus meet EITI Criteria
- Where neither company nor government EITI data is audited to international audit standards, nor is the data otherwise attested to, then audit testing by the EITI administrator / auditor is needed on the submitted data, to issue an Agreed-upon Procedures Report (ISRS 4400) and thus meet EITI Criteria
- For the last two cases above, Representation Letters from companies and governments are important, in order for attestations on completeness, accuracy, and veracity to be received.

Source: KPMG presentation made at WBG consultation workshop April 1 2009.

that promoted greater consistency of EITI reports were to be welcomed including:

- **Real-time interpretation advice** – devising a central “real-time” means for addressing—and proving consistent guidance on—common auditing and reporting issues that emerge during EITI implementation such as foreign exchange conversion issues; percentages for materiality thresholds for payments and revenues (albeit taking into account the possibility that a payment may be material because of its nature rather than its amount, e.g. a facilitation fee to a related-party); issues by cash accounting by governments vs. accruals accounting by companies.
- **Core minimum outputs** – considering whether a set of minimum EITI report contents could be identified and specified, common to all EITI reports, in order to increase analytical utility and comparability, and thus strengthen the overall EITI brand for reliable EI reporting.

2. EITI implementation issues

Disclosure and presentation of “one-sided” information in EITI reports

An emerging question, with no precise policy answer as yet, is whether administrators could present one-sided (i.e. not reconciled) data in EITI reports to maximize transparent reporting, in situations say governments have the revenue information available but the paying companies have not reported at all, or vice versa, where companies have reported a payment but is not so reported by government (or is reported by government but is not feasible to reconcile).

Access to EI data by administrators and quality of data submitted

A systemic issue facing reconciliation/audit firms is the cited delay and difficulty in obtaining data and/or explanations necessary for EITI reconciliations on a timely basis—from both companies and governments.

Companies sometimes view EITI reporting as secondary to other operational or bottom line-related work, and may not invest the effort needed (especially in smaller exploration companies). Staff responsible for extracting and submitting the revenues and payments data have competing priorities and may not necessarily fully appreciate the time constraints the reconciler/auditor is operating under.

Governments’ ability to actively support the EITI and provide reconciliation data on a timely basis has also been an issue; given government data can be relatively time-consuming and extracted from dated or manual government accounting systems.

No quick or easy solutions were suggested for this issue, but good planning; comprehensive detailed instructions on the data collection process (reporting templates); holding workshops to explain these processes in-depth; and hands-on advice by the administrator / reconciler during the data submission phase were noted as feasible action steps for improvements.

Timing of issuance of EITI reports

There is significant variation in the timing aspects of EITI reports and when they are issued. There was agreement that reconciliation work is most-efficiently carried out within a reasonable time frame after the end of the fiscal / tax year when the data is still current and fresh in the

minds of governments agencies and companies which submit the data (there being little value in producing EITI reports on out-of-date historical data).

Responsibility for reporting among project consortium or joint ventures (JV):

The issue of responsibility for providing financial information to the administrator in situations where there is a consortium or JV involved (managed by a lead operator) was discussed. This has proved an issue in some countries but a useful good practice that has emerged in such cases is that “*the payment-maker provides the reporting*”, the lead operator of the JV/consortium provides the EITI data to the administrator for almost all payments made by that lead operator while each individual JV member reports on payments they make directly, like corporate tax.

3. Issues regarding dissemination of EITI reports and follow-up

Broad outreach to the public

It was agreed that broad and effective dissemination of EITI reports is key to achieving EITI transparency goals and thus maintaining the momentum of the EITI as a whole. Great variation existed in how successful EITI countries have been in ensuring a broad audience for EITI reports, in terms of different languages; presenting financial data in innovative, graphic forms to make EITI reports easy to read and understandable for lay readers; and public education and explanation of the EITI data so that EITI reports remain comprehensible to a broad constituency.

Thus, proper dissemination of EITI reports does require active distribution to targeted stakeholders, and an integrated communications plan rather than a passive approach of web publication and some distributing of EITI reports to closely interested parties involved in the EITI.

Progress on follow-up of EITI recommendations made in previous EITI report:

There is agreement that follow-up actions on recommendations made in previous EITI reports by administrators regarding EITI processes or revenue/payments data do not get adequate attention in subsequent EITI reports. For stakeholders to gain optimal return from the investment they make in EITI processes in a country, accountability for follow-up actions

needs to be assigned within the multi-stakeholder steering groups and the results of the follow-up actions or remediation steps (as applicable) should be included in subsequent EITI reports for the process improvements to take hold.

Terms of Reference and Approach (Abridged)

Introduction

1. The EITI has come a long way since its inception in 2003, with 11 countries now having issued one or more EITI reports by now (Liberia EITI Report being the most recent). It is generally accepted that these EITI reports have, in themselves, begun to have an impact in these EITI countries, in that the EITI reports (i) helped to put revenue data in a public domain or one place for the first time; (ii) have generated debate among citizens, NGOs, and media, adding to availability of information to citizens, and (iii) most importantly, have shown that collaborative EITI processes can and do work in these countries—especially in building consensus on the scope and depth of EITI reports in the countries concerned.
2. However, the experience of this number of published reports from EITI-reporting countries has also made clear that the reports do vary considerably in scope of coverage and nature/degree of disclosures, depending on the country and the scope of EITI adopted. Similarly there is a growing view among stakeholders for the need of greater specificity on how the EITI Criteria is applied in the form and content of EITI reports, as a way of promoting greater consistency and quality of EITI reports, and so that stakeholder expectations are met.
3. Although at its heart this diversity highlights a core strength of the EITI movement (namely a country-owned process which applies locally what is an agreed global standard established by the EITI Board), the long-term strength of the EITI brand does depend on maintaining *consistently high-quality, credible and comparable* EITI reports. Therefore, the following issues if addressed could considerably improve the quality of reports:

- Mandatory reporting of all companies that are involved in the extractive sector, and/or the reporting of firms that did not report;
- Disaggregation of payment data by type and by firm, i.e. each company is required to list the exact payments of taxes, royalties, lease payments etc.;
- The inclusion of subnational payments when applicable, i.e. when companies forward payments to provincial and local governments;
- Certification by auditors or CFOs that the numbers that have been sent in for reconciliation are certified by an officially accredited auditor

Objectives of the consultative process

4. In this light, there is agreement among a broad range of stakeholders to examine and recommend ways in which strengthened EITI reporting can be promoted that incrementally builds on existing EITI Criteria and literature, yet can concretely help to reduce variability of EITI reports and promotes quality improvements in the EITI reports.
5. Accordingly, the World Bank team (supported by MDTF) will lead an exercise together with the EITI International Secretariat toward
 - *Background analysis*: prepare a *preliminary* analysis of the recurrent issues to aid the debate on this topic. The analysis will be prepared by the World Bank team, based on country implementation experience and feedback ahead of the consultation workshops below.
 - *Consultation*: convene an inclusive and open consultative process, with two workshops open to all interested stakeholders to be held in Europe and in USA in April–May 2009, to discuss and debate the issues and identify areas for improvement.
 - *Recommendations*: based on the inputs from the consultation process, finalize a report which sets out the key issues and making concrete yet practical recommendations for policy refinements and guidance notes that collectively help to strengthen EITI reporting quality.

Methodology and approach

6. The World Bank MDTF team will facilitate the process, working with the EITI International Secretariat (to whom the final recommendations will be addressed) with work steps including:

- *Desk review and feedback*: a review of the EITI reports and feedback reports / critiques from stakeholders in various countries, covering all of the current EITI-reporting countries. Travel to EITI countries for this purpose is not expected.
 - *Convene EITI stakeholders*: bring together, in two workshops / working sessions as described earlier, a wide range of stakeholders (implementing countries, civil society, industry, investor groups, donor agencies, international financial institutions like the IMF and entities with direct interest in and experience of EITI reporting issues, in particular consulting/specialist firms or public accounting firms).
 - *Finalize prioritized recommendations for improvements*: addressed to EITI International Secretariat / EITI Board to action further (via policy refinements and guidance notes)
7. As noted, an important operating principle of this exercise will be to approach potential improvements in a way that builds incrementally on existing EITI Criteria and literature.
 8. For this reason, it is understood that stakeholder groups can/will, if they choose, provide their own views directly and separately to the EITI International Secretariat.

Annex III:

EITI and Auditing of Company and Government Information – Note for EITI Secretariat from the IMF Staff, May 2009

EITI Criterion 2 calls for information on payments and revenues supplied by companies and governments to be “the subject of a credible, independent audit, applying international audit standards” but only “where such audits do not already exist”. The purpose of these financial audits is to add credibility to the data submitted for the EITI reports. Auditors will either express an unqualified opinion, explain their reservations, or deny an opinion. The audit requirement is formulated symmetrically for companies and governments, and consequently there are merits in also formulating implementation guidance symmetrically. But in many countries the state of public finance auditing is such that Criterion 2 presents far greater challenges to governments than to EI companies, and the auditing of government may not be able to achieve standard equivalent to company auditing. The proposal below for operational guidance on implementing Criterion 2 tries to reflect that reality.

Auditing company reporting to the EITI

As for EI companies, most are required, by law or regulation, to request an opinion on their financial statements by an external auditor who is “independent” from management and reports to stockholders. Since the companies typically operate internationally, these audits will generally comply with the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC).⁵ If a company’s financial accounts have already been audited to international standards, there

⁵ See <http://www.ifac.org> and <http://www.ifac.org/IAASB/>.

would be no need for a separate audit of the EITI reporting. It would suffice for the company to ask from its external auditor a **Certification** that the payments to government it reported to the EITI are consistent with the audited financial statements and truthful.

Questions to be addressed by the Validator on individual EI companies reporting to the EITI include:

- Have the financial statements on which the company reporting to the EITI was based been the subject of an independent, external financial audit by an internationally reputable audit firm?
- Does this audit comply with ISA? If not, how does it depart from ISA?
- If the auditors expressed reservations, or denied an opinion, what are the implications for the EITI reporting?

The Validator's task would be much easier if the answers to these questions were provided by the auditors as part of the Certification. Standardized language for the Certification might be useful in this regard. The Validator should have access to the results of all independent audits and to all Certifications. If questions arise on reservations expressed by an auditor, the Validator should be able to request a copy of the Management Letter. He should also be able to draw on any assessment by the Independent Administrator of the coverage, quality and findings of the audits.

The credibility of the EITI process would be enhanced if the results of the independent audits were publicly available, as well as the Certifications submitted to the EITI.

In the end, the Validator must decide, based on all the evidence and together with the EITI stakeholder group, whether for the reporting companies the international-standard audit requirement of Criterion 2 has been substantially met.

Auditing government reporting to the EITI

In all countries public finances are routinely submitted to an external “regularity” audit by a national audit body or supreme audit institution (SAI). These SAIs usually enjoy a degree of independence from the government, and report to parliament on their audit of the execution of the budget. Included in the government revenues audited by the SAI will be the receipts of payments made by the EI companies.⁶ Most SAIs

⁶ See *Pillars of Integrity: The Importance of Supreme Audit Institutions in Curbing Corruption*, by Kenneth M. Dye and Rick Staphenurst, Working Paper, World Bank Institute, 1998 (<http://go.worldbank.org/7XXH3F2LB0>).

belong to the International Organization of Supreme Audit Institutions (INTOSAI)—189 countries are full members—which has promulgated the International Standards of Supreme Audit Institutions (ISSAI).⁷ The IMF and World Bank are among the international institutions active in advising on public finances that recommend the use of INTOSAI auditing standards.⁸

To maintain symmetry with companies having their reporting certified by their external auditors, government should request an independent agency to conduct an Audit Evaluation Report (AER) on the consistency of their reporting to the EITI with EITI Criterion 2. The national SAI, given its continuous audit activities, should in most countries be well placed to prepare such a report. Alternatively, its preparation could be added to the terms of reference of the Independent Administrator. While, in principle, public finances everywhere should be regularly examined by the national SAI, in practice, the auditing by SAIs may be irregular, seriously delayed, incomplete in coverage, and/or not up to INTOSAI standards.

A critical component of such an AER should be a detailed reconciliation of the revenues reported to EITI with those shown in the budget execution documents, including any financial statements, submitted to parliament. Such reconciliation would cover receipts into extra-budgetary accounts held by the government, subnational governments, and public corporations. The result would be to link the government's reporting to the EITI to the official public finance accounts which are, in principle, subject to an audit by the SAI, are in the public domain, and can therefore be matched with the expenditures figures also in the public domain.

Questions to be addressed by the Validator on government reporting to the EITI include:

- Have the government and other public sector accounts on which the reporting to the EITI was based been the subject of audits by the SAI?
- Do these audits comply with ISSAI standards? If not, how do they depart from ISSAI standards? What alternative standards were used?

⁷ For the INTOSAI see <http://www.intosai.org> and for the ISSAI <http://www.issai.org/composite-347.htm>.

⁸ See the *Manual on Fiscal Transparency* accompanying the IMF's *Code of Good Practices on Fiscal Transparency* (page 117 of <http://www.imf.org/external/pubs/cat/longres.cfm?sk=20556.0>). The World Bank also promotes INTOSAI standards as part of its strategy to support and strengthen SAIs (see <http://go.worldbank.org/GB079L98P0>).

- If the SAI expressed a qualified audit opinion or reservations, what are the implications for the EITI reporting?

As in the case of the companies, the Validator's task of assessing compliance with the EITI audit requirement by the government would be much facilitated if answers to the questions above were provided in AER. A standardized list of questions to be covered by the AER would be helpful. The Validator should have at his disposal the AER and should also have access to the SAI reports on budget execution. Where available, the Validator should consult as background documentation the evaluation of government audit practices in the IMF country reports on fiscal transparency⁹ and in the assessment reports of the Public Expenditure and Financial Accountability (PEFA) initiative.¹⁰

In the end, the Validator, based on all the evidence and together with the stakeholders group, must come to an assessment on the degree of compliance of government reporting with Criterion 2. In many cases this is not going to be a clean pass, but if certain minimum conditions are met, a decision to accept this particular indicator could nonetheless be justified. These minimum conditions could be:

- Government explicit and comprehensive reporting of EI revenues to parliament
- Reconciliation of revenues reported to the EITI with those reported to parliament
- Production by the SAI or another independent agency of an Audit Evaluation Report on the consistency of the government's EITI reporting with EITI Criterion 2.

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⁹ For a dozen of the EITI candidate countries, the IMF has produced so called ROSC reports on fiscal transparency (see <http://www.imf.org/external/np/rosc/rosc.asp>) of which the more recent ones use as a benchmark the IMF's *Guide on Resource Revenue Transparency* (see <http://www.imf.org/external/np/ext/facts/fiscal.htm>).

¹⁰ For a dozen EITI candidate countries PEFA assessment reports are available (see <http://www.pefa.org/>).

Annex IV:

An Analysis of Published EITI Reports, as of July 2009

				Level of Aggregation	
	Period covered by EITI Report	Reconciliation or Audit Firm	Who paid	Disaggregated by Company	Disaggregated by Payment Type
Azerbaijan	CY 2004+	Deloitte	Gov/Comp.	No	Yes
	CY 2005+	Deloitte	Gov/Comp.	No	Yes
	CY 2006	Moore Stephens	Gov/Comp	No	Yes
	CY 2007	Moore Stephens	Gov/Comp	No	Yes
Cameroon	CYs 2001–2004	Mazars; Hart Group	Gov	No	Yes
	CY 2005	Mazars; Hart Group	Gov	No	Yes
Central African Republic	CY 2006	Valentin Nzapaoko	World Bank	No	Yes
Gabon	CY 2004	Ernst & Young	Gov	No	Yes
	CY 2005	Ernst & Young	Gov	No	Yes
	CY 2006	Ernst & Young	Gov	No	Yes
Ghana	01/2004–06/2004	Boas & Associates	Gov	Yes	Yes
	07/2004–12/2004	Boas & Associates	Gov	Yes	Yes
	2005	Boas & Associates	Gov	Yes	Yes
Guinea	CY 2005	Richard Michel and Ismael Nabe	Gov	Yes	No
Kazakhstan	CY 2005	Deloitte	Gov	No	Yes
	CY 2006	Inaudit	Gov	No	Yes
Kyrgyzstan	CY 2004		Gov	No	Yes

Type of Report						
Reconciliation only	Reconciliation with some Testing	Full Audit	Number of Companies stated in Report	All companies have reported, by Decree?	All companies have reported, voluntarily?	Number of Companies that have not reported
X			21	No	No	5
X			22	No	No	3
X			25		as above	
X			25	No	Yes	
X			5	No	No	7
X			13	No	No	
X			14 (mostly consolidating Buying Offices collecting diamonds and gold from ASM-mining)		No	
X				No	No	
X			13 oil, 4 mining	No	No	8 oil, 19 mining
X			20 oil, 10 mining	No	No	6 oil, 13 mining
	X		8 (makes up 99% of royalty payment)	Yes		Small-scale only
	X		8 (makes up 99% of royalty payment)	Yes		Small-scale only
	X		8	Yes		Small-scale only
	X	By KPMG	6			(small-scale not included)
X			40	Yes, except one		1
X			110	Yes, except six		6
X, but see comment			2 initially, later 6	Mandatory for SOE	Recommended for private comp.	

(continued)

(continued)

	Period covered by EITI Report	Reconciliation or Audit Firm	Who paid	Level of Aggregation	
				Disaggregated by Company	Disaggregated by Payment Type
Liberia	FY 08	Crane White & Assoc.	Gov	Yes	Yes
Mauritania	CY 2005	Ernest&Young	Gov	No	Yes
	CY 2006	Ernest&Young	Gov	No	Yes
Mongolia	FY 2006	Crane White & Assoc.	MDTF	Yes	Yes
Nigeria	CYs 1999–2004	Hart Group and CMA Ltd.	Gov	Yes	Yes
	CY 2005	Hart Group and S.S. Afemikhe	Gov		

Type of Report			Number of Companies stated in Report	All companies have reported, by Decree?	All companies have reported, voluntarily?	Number of Companies that have not reported
Reconciliation only	Reconciliation with some Testing	Full Audit				
Reconciliation, but full audit may be applied if required (i.e. numbers remain unclear)			30, Including, oil (3), mining(25), and logging (2)	No	No	
X			7 mining, 7 oil	No	No	12 mining, 8 oil
X			17 mining, 10 oil	No	No	4 mining, 7 oil
	X		25, but make up 8/9 of the sector	Only the 25 largest	No	100+ small and very small, but will be reconciliated by domestic auditor
		X	15			Mining, and independent companies
		X	20			Onshore operations

Extractive Industries for Development Series

- #13 The Aluminum Industry in West and Central Africa: Lessons Learned and Prospects for the Future
- #12 Engagement with Civil Society: An EITI Implementation Case Study
- #11 CO₂ Emissions; Household Energy Use; and Oil Price Transmission
- #10 Government Response to Oil Price Volatility: Experience of 49 Developing Countries
- #9 Mainstreaming Gender into Extractive Industries Projects: Guidance Note for Task Team Leaders
- #8 Gender Dimensions of the Extractive Industries: Mining for Equity
- #6 Changing Patterns of Household Expenditures on Energy: A Case Study of Indonesia and Pakistan
- #5 Emerging Players in Global Mining
- #4 Mining Cadastres: Promoting Transparent Access to Mineral Resources
- #3 Extractive Industries Value Chain: A Comprehensive Integrated Approach to #Developing Extractive Industries
- #2 Changes in End-User Petroleum Product Prices: A Comparison of 48 Countries
- #1 Vulnerability to Oil Price Increases: A Decomposition Analysis of 161 Countries

The World Bank Oil, Gas, and Mining Policy Division

The World Bank Group's role in the oil, gas, and mining sectors focuses on ensuring that its current interventions facilitate the extractive industries' contribution to poverty alleviation and economic growth through the promotion of good governance and sustainable development.

The Oil, Gas, and Mining Policy Division serves as the Bank's global sector management unit on extractive industries and related issues for all the regions of the world. It is part of the Oil, Gas, Mining, and Chemicals Department, a joint World Bank/International Finance Corporation department.

Through loans/credits/grants, technical assistance, policy dialogue, and analytical work, the Division leads a work program with multiple activities in more than 70 countries, of which almost half are in Sub-Saharan Africa. More specifically, the Division:

- Advises governments on legal, fiscal, and regulatory issues and on institutional arrangements as they relate to natural resources, as well as on good governance practices.
- Assists governments in setting up environmental and social safeguards in projects in order to promote the sustainable development of extractive industries.
- Helps governments formulate policies that promote private sector growth and foreign direct and domestic private sector investments.
- Advises governments on how to increase the access of the poor to clean commercial energy and to assess options for protecting the poor from high fuel prices.

The Oil, Gas, and Mining Policy Division serves as a global technical advisor that supports sustainable development by building capacity and providing extractive industry sector-related advisory services to resource-rich developing country governments. The Division also carries out an advocacy role through its management of the following global programs:

- The Extractive Industries Transparency Initiative (EITI) Multi-Donor Trust Fund, which supports countries in implementing EITI programs.
- The Global Gas Flaring Reduction (GGFR) Public-Private Partnership, which brings governments and oil companies together to reduce gas flaring.
- The Communities and Small-Scale Mining (CASM) Partnership, which promotes an integrated approach to addressing issues faced by artisanal and small-scale miners.
- The Gender and Extractive Industries Program, which addresses gender issues in extractive industries.
- The Petroleum Governance Initiative (PGI), which promotes petroleum governance frameworks, including linkages to environmental and community issues.
- The Extractive Industries Technical Advisory Facility (EI-TAF), which facilitates “rapid-response” advisory services on a demand-driven basis to build capacity for extractive industry resource policy frameworks and transactions.



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