

# Extractive Industries Transparency Initiative (EITI)

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PREM Week 2008

Joint Event on Extractive Industries (EI): Legal / Fiscal Systems,  
Revenue Management and Good Governance

## Improving EI: Emerging Lessons and Results from EITI implementation in the “GAC” context

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Anwar Ravat, Program Manager, EITI  
Oil, Gas, Mining and Chemicals Department  
Policy and Operations unit (COCP)



# Extractive Industries Transparency Initiative

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*EITI: Verification and full publication of company payments and government revenues from oil, gas, and mining*

## THE CONTEXT: A RECAP OF .....

- The EITI architecture globally
- The momentum of EITI process - globally and at country level
- The EITI process and criteria

## Strong momentum on EITI since launch (1/2)

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..... Globally:

- Now established as the standard on transparency in resource areas with consensus on EITI principles, objectives, criteria
- International EITI architecture now in place (EITI Secretariat, Oslo)

.... In World Bank:

- Strong support of donors, WBG, AfDB and IMF – and ADB, EIB etc.
  - WBG manages Multi-donor TF to support EITI (10 donors / \$16m +)
- But ..... Multi-stakeholder structures like EITI are complex and “high-maintenance” to operate in

## Momentum: EITI take-up by countries (2/2)

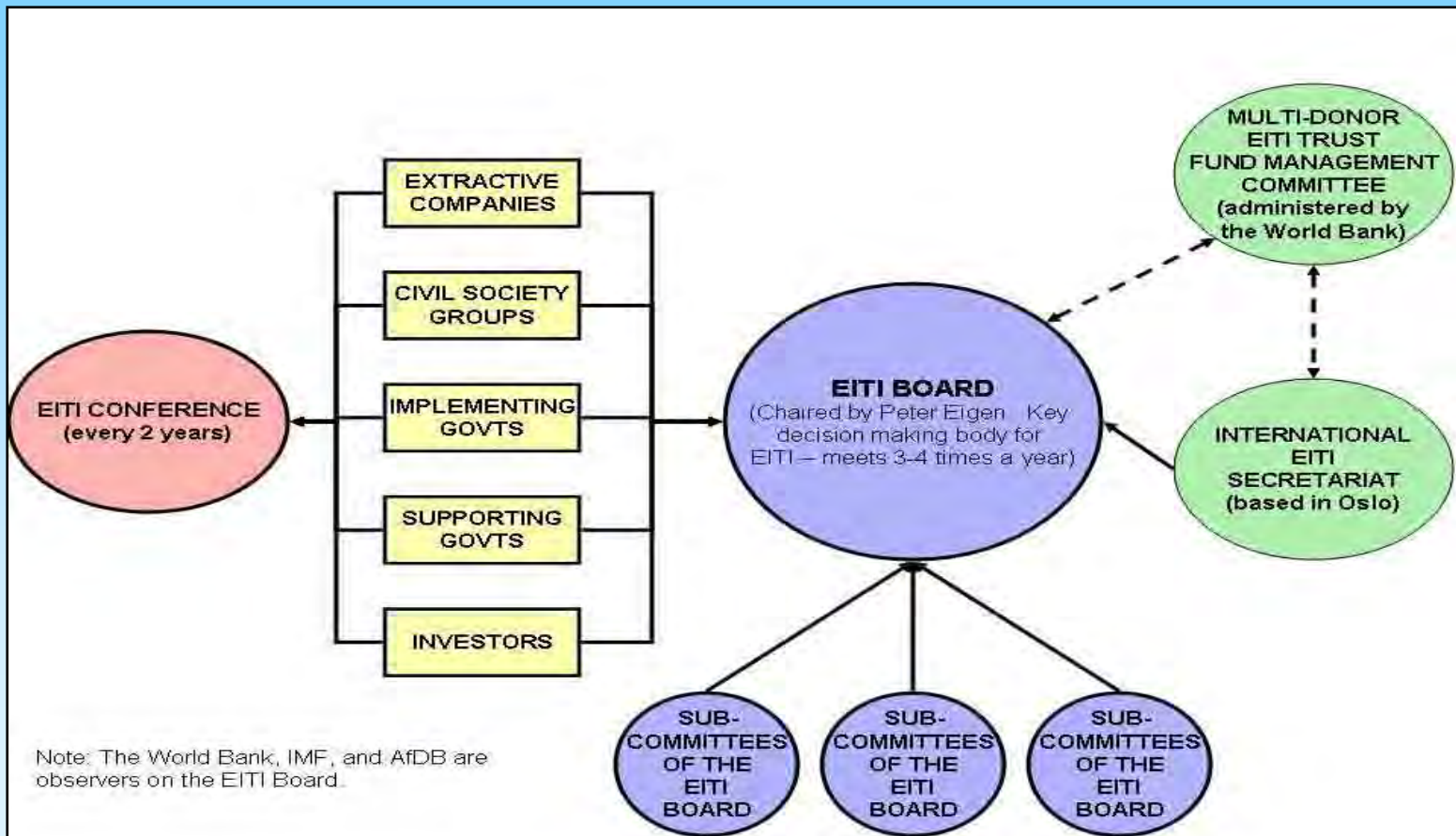
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- 28 countries now publicly adopted EITI – over half in Africa
- EITI Board has approved 22 countries as “EITI candidate” (first set of countries to soon seek “EITI compliant” status)
- 10 have published one or more EITI Reports (at April 2008)  
(Azerbaijan, Cameroon, Gabon, Ghana, Guinea, Mauritania, Mongolia, Nigeria, Kazakhstan, Kyrkyz Republic)
- Norway is among countries to announce EITI adoption
- Efforts by many (WBG; EITI Board; G8) to engage with new investor countries in EI (China and India, Brazil etc) on EITI

→ Note: Chinese companies (Mauritania, Nigeria, KZ) are in EITI



# EITI as a global voluntary initiative - yet “mandatory” on the ground



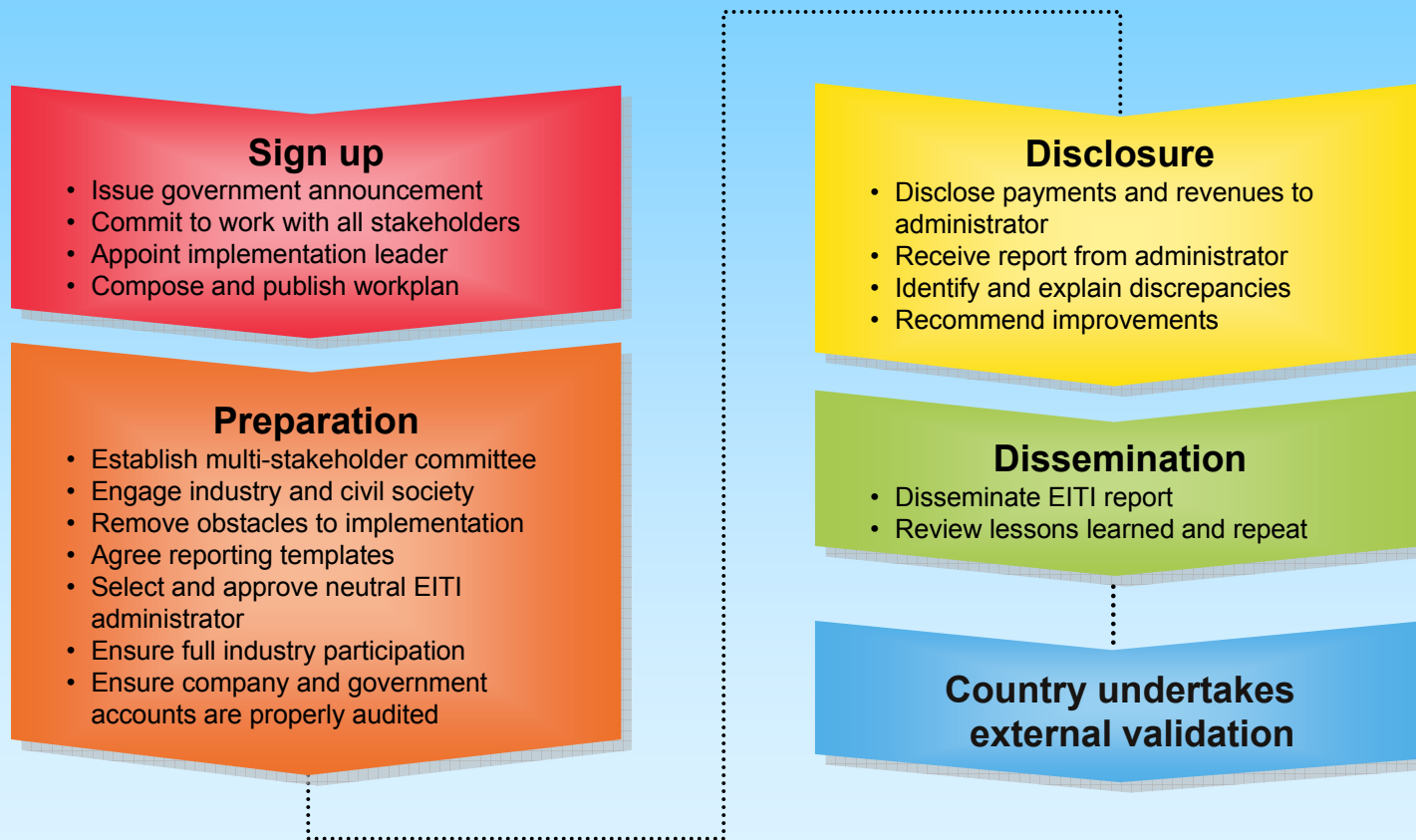
# Similar momentum in WB country operations

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- In resource-rich countries, EITI / transparency is integral to:
  - ✓ sector strategies in oil gas and mining countries
  - ✓ governance and anti-corruption strategy (GAC)
- is what underpins COCPO strategy for EITI - and donor liaison
- Uptake by Bank country directors/country teams in:
  - ✓ EITI linkages in Bank projects and initiatives (anti-corruption; institutional reforms; fiscal flows to sub-national levels etc.)
  - ✓ EITI linkages to other sectors (forestry in Liberia); HIPC etc
- Moving beyond EITI as platform for stepped-up, holistic work in all aspects of the resource cycle (EITI++)
  - ✓ licensing / contract award – through revenue management - to
  - ✓ environment and social issues

# Framework for EITI Implementation

## The EITI Process (typically 12-18 months)



# Framework for EITI Implementation

## The EITI Criteria - the “minimum” standard

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1. Regular publication of payments and revenues received by governments from oil, gas, and mining companies
2. Payments and revenues are the subject of a credible, independent audit
3. Payments and revenues are reconciled by a credible, independent “administrator”
4. Approach is extended to all companies, including state-owned enterprises
5. Civil society is actively engaged
6. A public, financially sustainable work plan

# Framework for EITI Implementation

## What does EITI not cover?

### EITI CRITERIA

- Independent reconciliation / audit of payments made and revenues received.
- Publication and widespread dissemination of results.
- Comprehensive coverage, i.e. all companies including state-owned and local companies.
- Full engagement of civil society in the process.
- Public, financially sustainable, time-bound plan of implementation.

### BUT WHAT ABOUT:

- Transparency of licensing?
- Were “fair” terms and conditions negotiated?
- Are long-term revenue and benefits for country optimal?
- What companies pay vs. what they *should* pay? -- KEY
- Revenue allocation e.g. to sub-national level and communities
- Environment / social linkages?
- ... and the whole of the “expenditure side” (not in EITI)

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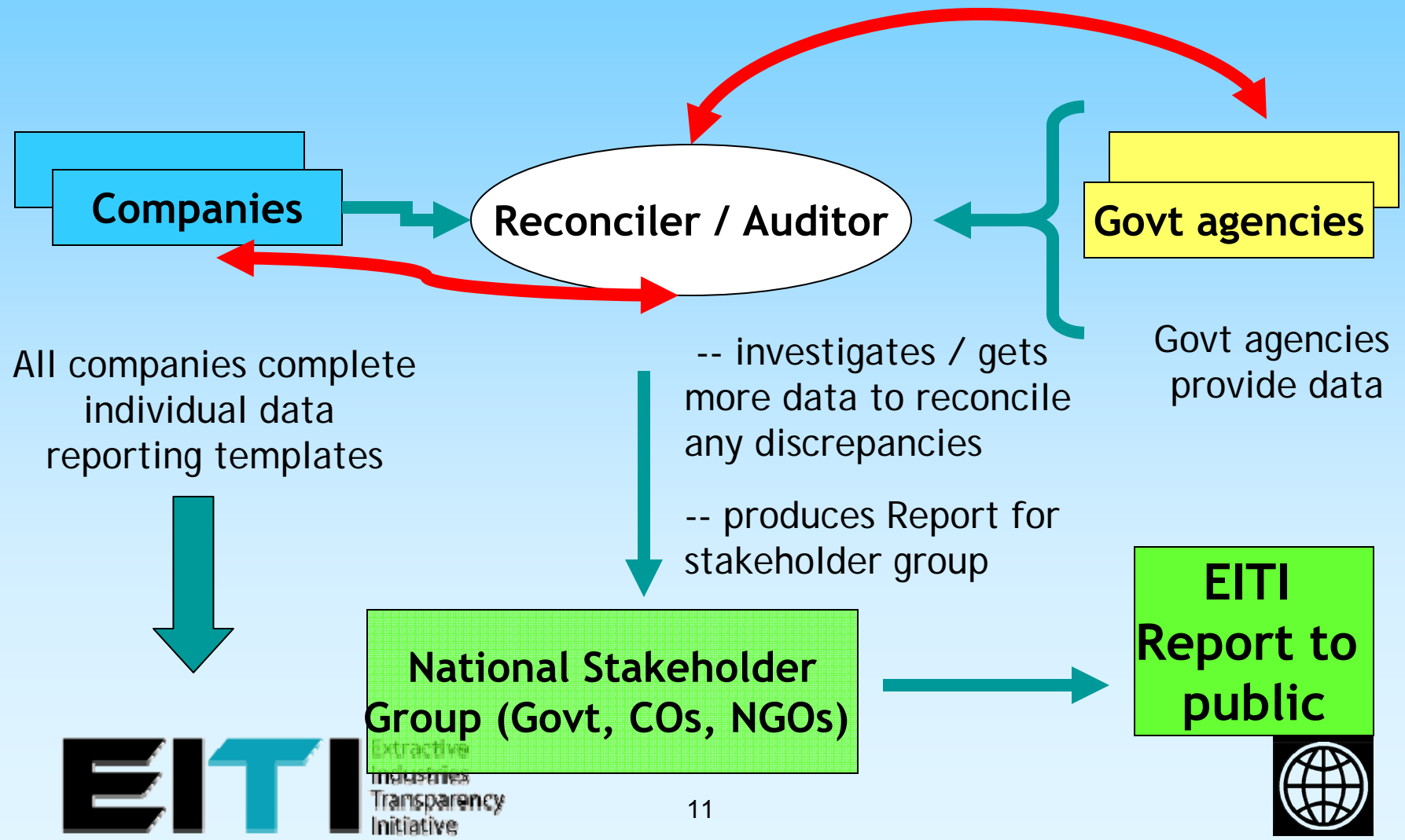
*EITI: Verification and full publication of company payments and government revenues from oil, gas, and mining*

## EITI IN PRACTICE: A RECAP OF .....

- Typical EITI implementation process
- The WBG and donor role in supporting EITI countries

# Framework for EITI Implementation

## The detailed EITI data reporting process



All companies complete individual data reporting templates

-- investigates / gets more data to reconcile any discrepancies  
 -- produces Report for stakeholder group

Govt agencies provide data



# Role of the World Bank and donors in supporting EITI implementation - Overview

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- World Bank and other donors help to:
  - ✓ build 3-way consensus for EITI
  - ✓ bring about 3-way stakeholder structures to manage EITI
  - ✓ provide technical and financial support for EITI implementation
  - ✓ ensure EITI process lead to EITI “compliant” status (validation)
- Support is via:
  - ✓ TA by COCPO team and in-country staff; and
  - ✓ funding from EITI multi-donor trust fund (recipient executed)
- EITI TF grants from COCPO (typically \$1/2m) typically cover:
  - ✓ Set-up of and functioning of multi-stakeholder structures
  - ✓ cost of EITI reconciliation / audit of revenues / payments → **KEY**
  - ✓ capacity building and training for government and civil society
  - ✓ communications and public outreach on EITI data

# The EITI “portfolio”: World Bank and/or donors are working with these countries

## EITI work program - country portfolio summary

(Showing World Bank MDTF FY08 work program approved by donors inc. pipeline countries. **EITI Board status shown in shaded column** <sup>1/</sup>)

**As of February 22 2008**

<b>Countries which have adopted EITI publicly <sup>2/</sup> ..... of which:</b>		<b>Other countries: Not yet adopted EITI – but in dialogue</b>		
<b>EITI “candidate” countries per EITI Board</b>		<b>Not yet candidate</b>		
<b>Have issued one or more EITI Reports</b>	<b>EITI implementation at varying stages of progress</b>	<b>Have made EITI adoption announcements</b>	<b>Non-EITI countries in current MDTF work program pipeline</b>	<b>Other countries that WBG or donors are in contact with</b>
(10 countries)	(12 countries)	(6 countries)	(7 countries)	(8 countries)
<i>Azerbaijan</i>	Liberia *	<i>Botswana</i>	Angola	Burkina Faso
Cameroon *	Mali +	Chad	Mozambique	Senegal
<i>Gabon</i>	Niger +	Central African Rep	Uganda	Sudan
Ghana *	Peru *	Colombia	Zambia	Tanzania
Guinea *	Yemen *	Cote d’Ivoire		
Kyrgyz Republic +		Trinidad and Tobago	Cambodia	Philippines
Mauritania *	Per EITI Board 2/22/08:		Indonesia	Lao PDR
Nigeria *	DR Congo +		Papua New Guinea	Vietnam
	Equatorial Guinea			
Issued Reports in 2008:	Madagascar +			Egypt
Kazakhstan *	Rep. of Congo			
Mongolia *	Sao Tome e Principe			
	Sierra Leone			
	Timor Leste			
<b>By WBG Region:</b>				
AFR - 6 countries	AFR – 9 countries	AFR - 4 countries	AFR - 4 countries	AFR - 4 countries
ECA - 3	LAC – 1	LAC - 2	EAP - 3	EAP - 3
EAP - 1	EAP – 1			MNA - 1
	MNA - 1			

Countries in italics are those with minimal or no active World Bank contact on EITI.

1/ = shows EITI candidate status per EITI Board meetings of Sept 27, 2007 and Feb 22 2008. No country yet started validation steps to attain “compliant” status.

2/ = Among developed resource-rich countries (not within scope of MDTF), Norway has also announced its intention to adopt EITI

\* = EITI MDTF trust fund grant in place and under execution (country-executed in each case except Kazakhstan)

+ = EITI MDTF pipeline - grant proposal (program of activities) under negotiation with country and/or trust fund grant agreement in progress (expected next 3-6 months)



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**What is in it for EITI implementing countries?**

- incentives
- benefits and costs

**The emerging results and lessons of EITI so far?**

**The development opportunity: beyond EITI ?**

## How countries come to join EITI

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- “The reformers” – who see EITI as a logical part of sector governance or anti-corruption reform – with donor engagement
- “Clean slate” – countries with historically poor record on governance seeking a clear break with the past - via EITI
- “Internal demand” – local civil society groups and companies demanding more transparency
- “The investors” – countries which are keen to signal a higher standard to attract global investors to develop EI resources
- “Peer pressure” – other countries in the region have adopted EITI, raising competitiveness pressure on a country to sign up
- “Get it right from the start” – countries with newly-found EI resources determined not to suffer the resource curse

## Demonstrating benefits for EITI countries (1/2)

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- Clear signal to all stakeholders and investors on national commitment to transparency
- Membership of a well-established global standard
- Systematic framework for collaboration – and understanding – among government, companies, and civil society
- Brings together sector financial flow information in one place
- Possibility of an anti-corruption focus in oil gas and mining – although EITI is not a direct anti-corruption instrument

## Demonstrating benefits for EITI countries (2/2)

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- In some cases, actual additional revenues from extractive industry (from revisiting past corporate tax payments)
  - Possibility for improving sovereign and corporate ratings, and hence foreign and domestic investment through lower risks
  - Diagnostic for effectiveness of revenue collection processes
  - Platform for embarking on governance reforms (EITI++)
- BUT ... EITI is not cost-free to governments. Needs:
- ✓ clear and sustained political commitment
  - ✓ assigned staff to the EITI effort
  - ✓ funding to manage EITI process – especially EITI audits

## Oil, gas & mining companies also see clear benefits - often advocate EITI themselves

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- Important part of corporate “CSR” programs - as leader
- “Level playing field” for all companies operating in a country
- Improved stance towards with own shareholders and institutional investors
- Increased transparency reduces operational and country risks
- Reduces reputational risks which in turn means:
  - ✓ Show fiscal benefits to countries / public of extractive benefits
  - ✓ Helps companies to maintain ongoing social license to operate

## Example of results achieved to date: Ghana

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- Two EITI Reports produced so far by Ghana - by national audit firm
- Mining related but with oil discoveries likely to be extended to oil too
- Report findings were positive - no differences in payments/ revenues
- But other key EITI Report findings
  - ✓ Strong focus on sub-national distribution in EITI scope
  - ✓ Many weaknesses identified – especially delays in redistribution of revenues to district councils (in one case 11 months gap)
  - ✓ Funds redistributed to district councils not always used for sustainable development activities in mining communities
  - ✓ Revenue administration weak: lack capacity to assess company costs and tax statements – with over-reliance on self-assessment

## Example of results achieved to date: Nigeria

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- An in-depth EITI process chosen by Nigeria beyond normal EITI - also covered review of oil flow and sector processes and financial payments
- Comprehensive audit reports and findings were publicized April 2006
  - ✓ initial US \$250m unexplained difference in payment and receipts
  - ✓ many areas for improving payments processes identified
  - ✓ other far-reaching recommendations on oil production/flows
- Wide publicity in media - better understanding by public of EI financial flows
  - ✓ EITI differences were investigated further - and largely resolved
- detailed “remediation action plan” to tackle other recommendations
- Incremental revenue collections reported (\$1 bn) from revised tax returns
- On-going follow-up by civil society and media
- NEITI Act enshrines EITI principles in law
- Donors support for NEITI – and remediation action plan (e.g. oil metering)

## But what does all this mean: emerging lessons from EITI (1/2)

- A working example of a global voluntary initiative – yet with teeth
  - ✓ rapid take-up by governments to gain transparency
  - ✓ companies are engaging willingly – to manage political risk and develop a “social licence to operate” – and mitigate pressure
  - ✓ active participation by civil society in countries
- Momentum on EITI is underpinned by key concerns
  - ✓ that corruption is a major problem
  - ✓ that the commodities boom is being / could be squandered
  - ✓ that developing countries do not want to waste this chance
- EITI has provided a means to respond to these concerns - via
  - ✓ EITI disclosure (providing more data on EI revenues)
  - ✓ a multi-stakeholder approach that works - building trust
  - ✓ membership in a established brand - EITI methodology/standard
  - ✓ platform for more accountability and governance reforms



As noted, early indications of positive results in EITI countries

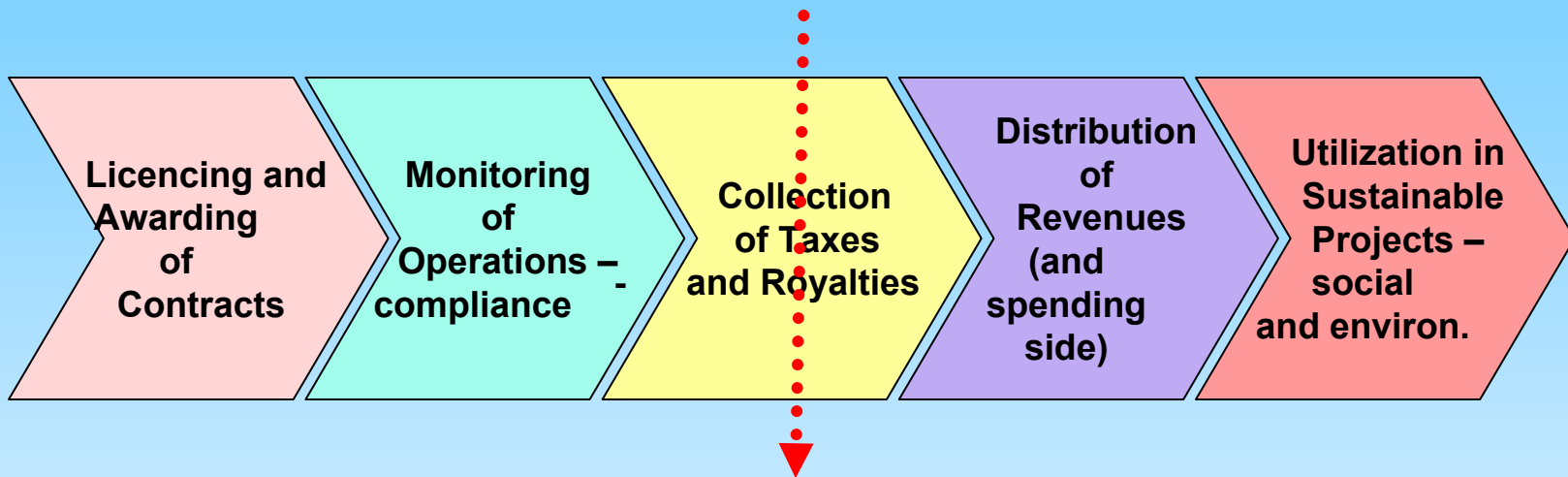


## But what does all this mean: emerging lessons from EITI (2/2)

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- EITI now part of program dialogue with WB/IMF, donors, AfDB etc
  - EITI applies equally to oil and gas – and mining
  - Key success factors include:
    - ✓ Political commitment and ownership is the key to EITI success
    - ✓ Political economy factors are therefore key
    - ✓ make a start - not over-analyze
    - ✓ civil society engagement of – as participants not just observers
    - ✓ legal basis for EITI can help in EITI sustainability over time
- BUT what is the end-game for EITI as a process / initiative?
- ✓ stakeholders want to see more – better sector governance overall
  - ✓ EITI must become embedded into national systems at some point

## Beyond EITI: EITI is narrowly-focused but but is not in a vacuum



### EITI intervention

- EITI and financial transparency as a first step towards a broader extractive industry (EI) governance reform and sound EI management
- EITI is now expanding across other parts of “resource cycle” from end-to-end -- including social and environment linkages

# Beyond EITI: a national platform to ....

## Core EITI:

- Reconciliation of payments and revenues - disclose
- Capacity building in govt. and civil society

## “EITI + ”:

- Audits of payments and revenue against contracts - verify and disclose
- Capacity building in govt. and civil society
- Audits of industry processes

## “EITI++” - Sector governance reforms for oil/gas + mining:

- Institutional reforms linked to macro and environ / social issues
- Strengthening of licensing systems
- Revenue mngmt.
- Sub-national revenue distribution
- Benefits streams

# **Extractive Industries Transparency Initiative**

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**Thank you!**

**See COCPO publication :  
“Implementing EITI - Applying early lessons from the field”**

**For further information contact EITI Team at:  
Oil Gas and Mining Department,  
Policy and Operations Unit (COCPO)  
World Bank Group**

**For information on EITI globally visit the website:**

**[www.eitransparency.org](http://www.eitransparency.org)**

