Extractive Industries Transparency Initiative (EITI)

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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Extractive Industries Transparency Initiative

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)

……. 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)

- 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

Note: The World Bank, IMF, and AIDB are observers on the EITI Board.
Similar momentum in WB country operations

• 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)

**Sign up**
- Issue government announcement
- Commit to work with all stakeholders
- Appoint implementation leader
- Compose and publish workplan

**Preparation**
- Establish multi-stakeholder committee
- Engage industry and civil society
- Remove obstacles to implementation
- Agree reporting templates
- Select and approve neutral EITI administrator
- Ensure full industry participation
- Ensure company and government accounts are properly audited

**Disclosure**
- Disclose payments and revenues to administrator
- Receive report from administrator
- Identify and explain discrepancies
- Recommend improvements

**Dissemination**
- Disseminate EITI report
- Review lessons learned and repeat

**Country undertakes external validation**
Framework for EITI Implementation
The EITI Criteria - the “minimum” standard

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?

<table>
<thead>
<tr>
<th>EITI CRITERIA</th>
<th>BUT WHAT ABOUT:</th>
</tr>
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<tbody>
<tr>
<td>• Independent reconciliation / audit of payments made and revenues received.</td>
<td>• Transparency of licensing?</td>
</tr>
<tr>
<td>• Publication and widespread dissemination of results.</td>
<td>• Were “fair” terms and conditions negotiated?</td>
</tr>
<tr>
<td>• Comprehensive coverage, i.e. all companies including state-owned and local</td>
<td>• Are long-term revenue and benefits for country optimal?</td>
</tr>
<tr>
<td>companies.</td>
<td>• What companies pay vs. what they <em>should</em> pay? -- KEY</td>
</tr>
<tr>
<td>• Full engagement of civil society in the process.</td>
<td>• Revenue allocation e.g. to sub-national level and communities</td>
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<tr>
<td>• Public, financially sustainable, time-bound plan of implementation.</td>
<td>• Environment / social linkages?</td>
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<td></td>
<td>• … and the whole of the “expenditure side” (not in EITI)</td>
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</tbody>
</table>
Extractive Industries Transparency Initiative

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

- Companies
- Reconciler / Auditor
- Govt agencies

Govt agencies provide data

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

National Stakeholder Group (Govt, COs, NGOs)

EITI Report to public

THE WORLD BANK

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

- 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 1/)

**As of February 22 2008**

<table>
<thead>
<tr>
<th>Countries which have adopted EITI publicly 2/ …… of which:</th>
<th>Other countries: Not yet adopted EITI – but in dialogue</th>
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<tbody>
<tr>
<td>EITI “candidate” countries per EITI Board</td>
<td>Not yet candidate</td>
</tr>
<tr>
<td>Have issued one or more EITI Reports (10 countries)</td>
<td>EITI implementation at varying stages of progress (12 countries)</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Liberia *</td>
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<tr>
<td>Cameroon *</td>
<td>Mali *</td>
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<tr>
<td>Gabon</td>
<td>Niger *</td>
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<tr>
<td>Ghana *</td>
<td>Peru *</td>
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<tr>
<td>Guinea *</td>
<td>Yemen *</td>
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<tr>
<td>Kyrgyz Republic +</td>
<td></td>
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<tr>
<td>Mauritania *</td>
<td></td>
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<tr>
<td>Nigeria *</td>
<td>Per EITI Board 2/22/08: DR Congo *</td>
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<tr>
<td>Issued Reports in 2008:</td>
<td>Madagascar</td>
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<tr>
<td>Kazakhstan *</td>
<td>Rep. of Congo</td>
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<tr>
<td>Mongolia *</td>
<td>Sao Tome e Principe</td>
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<td></td>
<td>Sierra Leone</td>
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<td></td>
<td>Timor Leste</td>
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<td>By WBG Region:</td>
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<tr>
<td>AFR - 6 countries</td>
<td>AFR - 9 countries</td>
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<tr>
<td>ECA - 3</td>
<td>LAC - 1</td>
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<tr>
<td>EAP - 1</td>
<td>EAP - 1</td>
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<td>MNA - 1</td>
<td></td>
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</table>

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)
Extractive Industries Transparency Initiative

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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

• “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)

- 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)

- 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

- 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

- 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

- 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)

• 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 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
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