

Extractive Industries Transparency Initiative

International Conference: “Transparency in the Extractive Sector”

Workshop 1: EITI - Putting Transparency Into Practice

Implementing EITI: Applying Early Lessons from the Field

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Extractive Industries Transparency Initiative

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

Part 1

Recap of EITI accomplishments globally since launch

The EITI process at work - at the country level

Supporting EITI-implementing countries

Growing momentum of EITI globally (1/2)

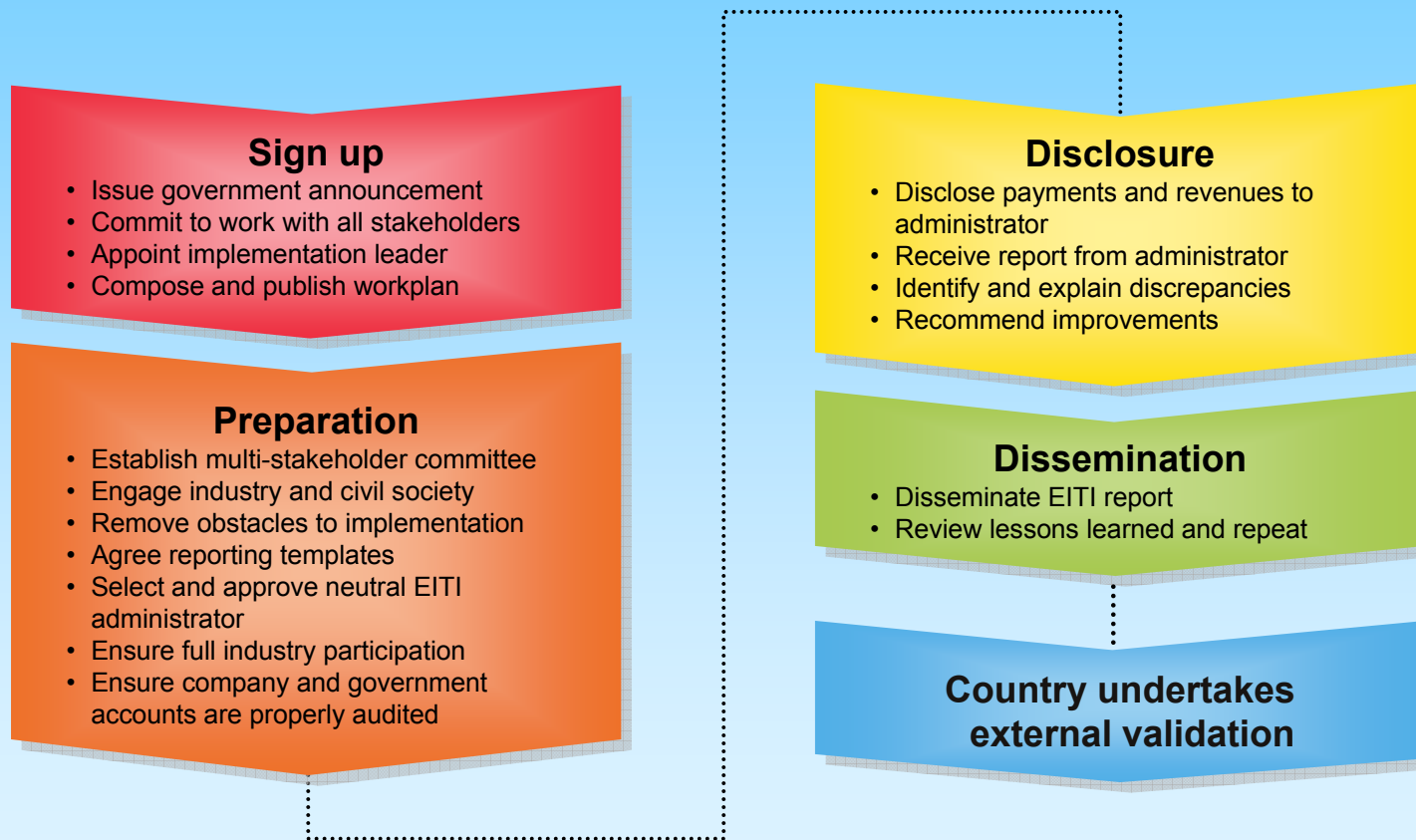
- Since its launch now established as the standard on transparency in resource areas
- Clear consensus on EITI principles, objectives, criteria
- International EITI architecture now in place (EITI Secretariat, Oslo)
- Strong support of stakeholders and donors/agencies WBG, AfDB and IMF (multi-donor TF to support EITI has 8 donors / \$13m +)
- Many countries have now publicly adopted EITI – half in Africa
→ Norway is the latest country to announce EITI adoption – but more among developed/OECD countries?
- EITI Board pre-validated 15 countries (awaiting data for 9 more)



Growing momentum of EITI globally (2/2)

- 8 countries have published one or more EITI Reports (at 11/07) (Azerbaijan, Cameroon, Gabon, Ghana, Guinea, Mauritania, Nigeria, Kyrkyz Republic)
- First set of countries about to launch validation process
- Efforts at EITI Board level (and G8) to engage with new investor countries
- For EITI countries and stakeholders:
 - ✓ closer collaboration through EITI Board structures
 - ✓ clear evidence of growing country interest and demand in EITI
 - ✓ growing interest in regional approaches / best practice

Reminder on the EITI Criteria and Process (typically 12-18 months)



Role of supporting agencies in EITI implementation at country-level

- EITI Secretariat provides overall guidance to governments
- Donors, World Bank and AfDB support is via technical assistance and funding from trust fund (WB-managed but country executed)
- Trust fund grants to countries (typically \$1/4m - \$1/2m) help support
 - ✓ stakeholder structures and meetings
 - ✓ supporting cost of reconciliation / audit company work
 - ✓ government and civil society capacity building and training
 - ✓ EITI communications and public outreach
- Government funding also needed
- Latter is crucial for medium-term sustainability

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Part 2

What is in it for EITI implementing countries?

- benefits
- costs

Incentives to adopt EITI - and emerging issues and results

The development opportunity - path to sustainable EITI ?

What prompts the decision to adopt EITI

- “The reformers” – who see EITI as a logical part of sector governance or anti-corruption reform
 - ✓ civil society groups and companies demand for transparency
 - ✓ aligned with donor engagement
- “Clean slate” – countries with historically poor record on governance seeking a clear break with the past - via EITI
- “Internal demand” –
- “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

Countries do gain from being in EITI (1/2)

- Demonstrating a national commitment to transparency - a clear signal to all stakeholders and investors
- 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 by making data public - although EITI is not a direct anti-corruption instrument

Countries do gain from being in EITI (2/2)

- Platform for embarking on governance reforms
 - Valuable diagnostic for effectiveness of revenue collection processes
 - In some cases, actual additional revenues from extractive industry
 - Possibility for improving sovereign and corporate ratings, and hence foreign and domestic investment through lower risks
- 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

Companies also gain - a stylized view

- Increased transparency reduces operational and country risks
- Improved relationship with institutional investors
- Important element of corporate “CSR” programs - leadership
- Level playing field for all companies operating in a country
- Reduces reputational risks which in turn means:
 - ✓ Show fiscal benefits of company operations in countries
 - ✓ Helps companies to maintain ongoing social license to operate

Emerging results : Nigeria example

- 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
- Donors are beginning to support remediation action plan (e.g. oil metering)

Emerging results : Ghana example

- Two EITI Reports produced so far by Ghana - by national audit firm
- Mining-related - but likely to be extended to new oil discoveries 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

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

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

- Early indications of positive results in countries
 - ✓ revenue transparency matters everywhere - especially in mining
 - ✓ important to make a start - not over-analyze
 - ✓ stakeholders want to see more – better sector governance
- Political commitment and ownership is key to EITI success
- Civil society engagement of – as participants not just observers
- Sound legal basis for EITI can help in EITI sustainability over time
- Countries are bringing in EITI into their program discussions with donors, World Bank, AfDB and IMF on a broader scale

→ BUT what is the end-game for EITI as a process / initiative?

The momentum on EITI brings new questions

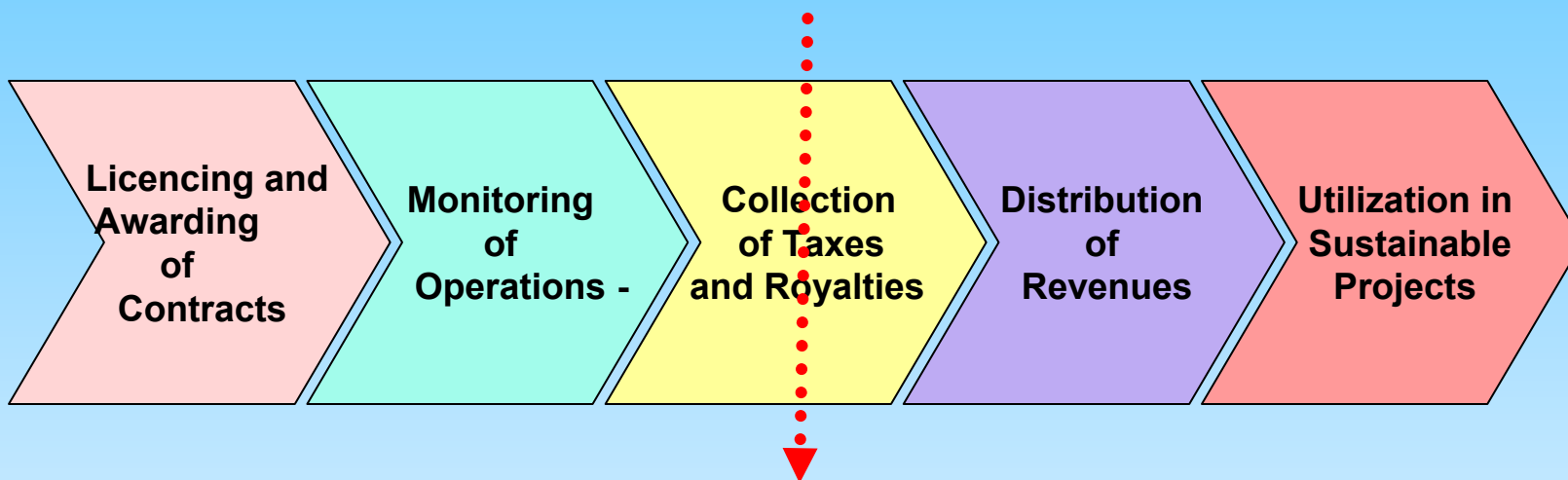
EITI CRITERIA:

- 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 did pay vs. what they *should* have paid?
- What companies said was produced vs what actually was?
- Environment / social linkages?
- Revenue allocation e.g. to sub-national level and communities
- ... and the “expenditure side”

What of beyond EITI? EITI is not in a vacuum



EITI intervention

EITI as a key end - but also as first step towards broader extractive industry governance reform and sound sector management

(note that EITI in 1-2 countries is beginning to expand across certain other parts of extractive sector governance spectrum)

Building on EITI: national platform for ..

Core EITI:

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

EITI “Plus”:

- Capacity building
- Financial audits of companies /govt
- Process audits
- Public information campaigns

Ongoing sector governance reforms for oil/gas + mining:

- Embedded EITI
- Institutional / regulatory reform
- Strengthening of licensing systems
- Revenue mngmt.
- Sub-national revenue distribution
- Benefits streams

Finally ... can EITI help defeat the resource curse?



- EITI addresses one key aspect – transparency. A good start made
- But the EITI narrative is not all one-way - key issues ahead
 - Maintaining the EITI standard – voluntary initiative with teeth
 - Achieving greater geographical spread (e.g. to LAC, MNA Regions)
 - Mandating participation – particularly “global/national” companies
 - Risk of “façade” of EITI cloaking other poor practices in the sector
 - Sustaining the EITI momentum – in oil/gas and mining countries
 - ✓ high oil gas/commodity prices may affect country commitment
 - ✓ resource competition may affect momentum on EITI
 - Longer term, “mainstreaming” of EITI
 - ✓ going from focused (EITI) to broader (sector governance)
 - ✓ ways to embed EITI and transparency into national processes

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Thank you!

**Publication in process – to be published soon:
“Implementing EITI - Applying early lessons from the field”**

For further information on World Bank Group work on EITI support:

Oil Gas and Mining Department, Policy and Operations Unit

For information on EITI globally visit the website:

www.eitransparency.org

