



Country Experience with EITI – Part 2

TA dedicated website, appointment of a former Minister of Finance as the overall coordinator, a petroleum law requiring revenue disclosure, and a decree establishing a multi-stakeholder committee are some of the ways that the countries that have endorsed the Extractive Industries Transparency Initiative (EITI) principles are implementing EITI. This briefing note, the second in a two-part series on EITI at the country-level, describes the experience of Azerbaijan and other countries.

“**T**his ‘curious coalition’ that we hear about has been remarkably effective in demonstrating what you can achieve through a voluntary and consensus-building process in which governments, civil society, the companies and many others have all felt inspired to play a leading part,” so began the remarks by Richard Paniguin of BP at the EITI plenary conference in London in March 2005 [1–3]. He went on to cite the experience of Azerbaijan, which had pledged to become a pilot country in implementing EITI in 2003. The government of Azerbaijan’s “strong commitment was based on the understanding that EITI objectives substantially correspond to the government’s development agenda,” stated Samir Sharifov, Executive Director of the State Oil Fund of Azerbaijan, at the same conference. Pointing to support at the highest political level as being essential to effective implementation of EITI, Samir Sharifov highlighted the important role that the November 2004 memorandum of understanding signed by various stakeholders played in developing a workable implementation mechanism in his country.

Of the 27 countries that are at various stages of EITI implementation, 17 are in Africa, 4 are in the Americas, 3 in Central Asia, 2 in East Asia, and 1 in the Middle East. This briefing note begins with Azerbaijan—which has published more EITI reports than any other country—in some detail, followed by the EITI experience of five other countries.

Azerbaijan

Azerbaijan has large and mostly untapped hydrocarbon resources. The government has signed two dozen production sharing agreements to date. The State Oil Company of Azerbaijan (SOCAR) was established in 1992 with the merger of two state oil companies, and is party to every production sharing agreement. Production has been ramping up rapidly since 2004.

The government announced its decision to pilot EITI implementation in June 2003. An Ordinance of the Cabinet of Ministers established an EITI Committee in November 2003 as a section of the State Oil Fund of Azerbaijan (SOFAZ). SOFAZ was established by presidential decree in 1999 and receives a portion of revenue flows from oil, with the balance going directly to the state budget. SOFAZ conforms to modern standards of governance in many respects. Amongst others, it is subject to an annual external audit to international standards, and audit reports are published on its multi-language website. SOFAZ is a winner of the 2007 United Nations Public Service Award, the most prestigious recognition of excellence in public service, in the category of “improving transparency, accountability, and responsiveness in the public service.” The EITI Committee is chaired by the Executive Director of SOFAZ and leads the implementation of EITI.

In most countries, civil society organizations (CSOs)

have formed EITI coalitions. CSOs have a crucial role in helping the public understand the importance of oil revenues to a country and how those revenues should be managed. CSOs are also generally involved in the process of appointing an administrator (audit company) to reconcile payments and revenues. In Azerbaijan, CSOs formed the Coalition of Non-Governmental Organizations for Improving Transparency in Extractive Industry (“NGO Coalition”) in May 2004. At the time, the NGO Coalition issued regulations governing its membership, operations, rights and responsibilities, and procedures. The NGO Coalition maintains a dedicated website in English and Azeri to keep the public and the international community closely informed of all the EITI-related activities occurring in Azerbaijan [4].

In November 2004, the government, local and foreign companies, and the NGO Coalition signed a memorandum of understanding (MoU) on EITI in Azerbaijan. Today, 24 extractive industries companies and 75 NGOs are signatories to the MoU. The latter include research institutions, environmental groups, lawyers’ associations, women’s and human rights groups, and societies promoting democracy and transparency. The Executive Director of SOFAZ publicly credited this MoU, which was signed after almost 10 months of intensive consultations, as one of the crucial elements for the success of EITI in Azerbaijan at the London EITI conference in 2005.

The MoU on EITI defined the rules for the EITI process and disclosure of payments made and revenues received. The MoU stated that the EITI Committee would issue two reports annually: a semi-annual one covering January to June, and an annual one covering the entire year. The MoU established a group to select an internationally recognized audit company through a competitive tender to review and aggregate the reports submitted by the government and participating companies.

The NGO Coalition has been participating in the meetings and activities of the parties to the MoU on EITI. It has also held a number of round-table discussions, workshops, seminars, talk shows, radio dialogues, and training sessions. Training of trainers has been conducted on subjects such as production sharing agreement analysis. The Coalition has also issued written opinions on

EITI reports. In 2006, the Coalition carried out two campaigns: “Oil Revenues are Ours” and “Oil Revenues Are For All of Us.” In the first campaign, the Coalition hosted a competition for journalists to submit articles on analysis of the estimated expenditures of SOFAZ for 2006, the impact of oil revenues on socio-economic development, or symptoms of Dutch disease (by which an overvalued currency leads to the shrinking of the traditional export sector, such as garments in Cambodia). The second campaign had an extensive outreach component by means of conferences, round-table discussions, radio programs, newspaper articles, meetings with representatives of local communities, TV talk shows, press conferences, and distribution of books and posters.

Azerbaijan has published five EITI reports to date, covering the period from 2003 to 2006. The reports summarize payments by payment type but not by company. Aggregated payments are reported separately for foreign companies and local companies. The NGO Coalition has issued written opinions on the last three reports. Commenting on the third report, the Coalition noted that it was the first time all of the oil and gas-producing companies in Azerbaijan were included, and urged that payments be further disaggregated by company to facilitate identification of sources of discrepancies. BP, a dominant private oil company operating in Azerbaijan, independently published the payment data it had reported to the EITI audit company for 2004 in its “BP in Azerbaijan Sustainability Report 2005,” while Statoil, another important player in Azerbaijan, annually publishes payments to government in every country in which they have a significant presence, including Azerbaijan, in its “Statoil and Sustainable Development” reports.

Commenting on the fourth report, the NGO Coalition said that non-reporting by one company that had not joined EITI was one of the sources of discrepancies, and urged full participation by all petroleum companies. In October 2006, the non-reporting company joined EITI.

Other Countries

Cameroon

The Republic of Cameroon made a public commitment

to EITI in March 2005 at the EITI plenary conference. In announcing the government's commitment, Finance Minister Abah Abah said that this "decision was the culmination of a carefully considered process," pointing to the consultation carried out not only with the stakeholders in the country but also at the sub-regional level. As a demonstration of the government's commitment to promoting transparency, Minister Abah Abah also pledged that the government would soon start publishing on its website quarterly information on total oil production, prices, and revenues to the government, and that the national oil company, the Société Nationale des Hydrocarbures (SNH), would start posting on its website the main elements of the company's audit report prepared by a reputable international auditing firm.

In June 2005, the government issued a decree creating a multi-stakeholder committee in charge of implementing EITI. In September 2005, another decree established a Technical Secretariat in the Ministry of Economy and Finance to coordinate the activities of the multi-stakeholder committee. The government published a fully costed work plan and made it widely available. The government began publishing past audits of SNH as well as production, sales, revenues, expenditures, and transfers to the treasury. Both of these reports are available on SNH's website [5]. In November 2006, the first EITI report covering July 2000–December 2004 was published. In March 2007, Cameroon became one of a handful of countries to have published a second EITI report, covering 2005.

Ghana

Ghana, an important mining country, committed to EITI in June 2003. The Deputy Ministers of Mines and Finance are two important champions of the process. The Minerals Commission released revenue figures for the first time in September 2003. The governing body of Ghana EITI (GEITI)—the National Committee—is a multi-stakeholder group chaired by the Ministry of Finance and Economic Planning, and consists of government representatives, two civil society representatives, and one representative from the Ghana Chamber of Mines representing the mining industry (See GEITI website [6] for more information). An EITI Secretariat, which coordinates all EITI activities, resides in the Ministry of Finance and Economic Planning.

The first EITI report covering January to June 2004 was issued in February 2007, nearly four years after the government made a public commitment to EITI. Ghana, like Nigeria [3], has chosen to publish payments and revenues by company and payment type. Although company participation was voluntary, the companies that contributed about 99 percent of the royalty payments (which in turn accounted for 89 percent of the total mining revenue stream) participated. In April 2007, The Ministry of Finance and Economic Planning organized a round table to discuss the findings and recommendations of the EITI report and follow-up actions.

Mauritania

Mauritania, an oil producer, established an oil fund in 2006, enabling clear tracking of oil production and revenues. Mauritania also has significant mineral deposits. In September 2005, Prime Minister Boubacar announced the government's commitment to EITI. The Prime Minister designated a former finance minister as the EITI coordinator. In January 2006, the government issued a decree establishing an EITI National Committee. The Committee has 30 members and draws a number of its members from the mining industry and civil society, including the international NGO Transparency International. In May 2006, the National Committee held a workshop on EITI aimed at engaging the stakeholders involved in the EITI process and discussing the Committee's future work program. The National Committee maintains its own website [7]. In March 2007, Mauritania released its first EITI report for 2005, covering both petroleum and mining companies.

Guinea

Guinea, rich in mineral resources, committed to EITI in April 2005. In June 2005, a ministerial decree established a Steering Committee responsible for the technical operation of EITI under the Ministry of Mines and Geology. Half of its members are from the government and the other half from mining companies and civil society. The Steering Committee's mandate as stipulated in the decree is to organize the data in the mining sector; implement financial, sales, technical, economic, and environmental audits; and publish mining revenues in an accessible and comprehensive manner. In July 2005,

the Steering Committee drafted an organizational chart for EITI. In addition to the Steering Committee, the overall structure of EITI includes a Management Committee (five members including the Prime Minister), a Technical Secretariat, and, falling under the Steering Committee, an Executive Committee (five members) and three sub-committees (statistics, audit, and communication and capacity building).

The EITI process in Guinea has been participatory and consensus-based, facilitating active involvement of all three stakeholder segments: government, mining companies, and civil society. Capacity building activities were undertaken in 2005 to help key people in the public institutions and private companies involved in revenue data management understand requirements of the EITI process.

An EITI report covering 2005 has been published. The process of data collection and reconciliation prompted one mining company to pay income tax in 2006 for the first time. EITI has also fostered a culture of discussion among all the key stakeholders, particularly on how revenue allocation and administration for community development are decided, and significant differences in the fiscal terms in mining agreements from company to company.

Peru

Minerals exports account for more than half of Peru's total exports. The government committed to EITI in May 2005. An EITI Action Plan drafted by a multi-stakeholder committee was adopted and published on Peru's EITI website in June 2005. In May 2006, the government published an Executive Decree that approved the EITI Action Plan, created an EITI Working Group which represented the entire stakeholders' constituency, and provided a legal basis to the implementation of EITI. At the request of industry and CSOs, the Ministry of Energy and Mines has drawn up a Ministerial Resolution establishing criteria to ensure the legitimacy and qualifications of civil society representatives on the Working Group. In December 2006, the EITI Working Group was established. A unique feature of Peru's EITI process is its plan to carry out audits at the sub-national as well as the national level.

Observations

The experience in Azerbaijan and elsewhere suggests that the more disaggregated the reporting, the more the stakeholders benefit from the process; disaggregation makes it easier to identify where discrepancies are occurring. Azerbaijan's EITI report for 2005 reinforces the point made in [3] that, if even one company does not submit data, revenues and payments cannot match and it will be more difficult to identify sources of discrepancies. Legislating participation in EITI is one way of ensuring full participation.

Guinea's experience, as with Nigeria's [3], demonstrates that, by raising awareness and publicizing independent monitoring of company payments, more effective revenue collection may ensue. This not only increases government revenue, but also contributes to creating a level playing field for companies operating in the country. In the long run, such an outcome helps to strengthen the sector and make it more efficient.

References

- [1] EITI website www.eitransparency.org. Email eitiinfo@eitransparency.org.
- [2] World Bank. 2007. "Extractive Industries Transparency Initiative." Petroleum Sector Briefing Note No. 4.
- [3] World Bank. 2007. "Country Experience with EITI – Part 1." Petroleum Sector Briefing Note No. 5.
- [4] The Coalition of Azerbaijan Non-Governmental Organizations. www.eiti-az.org/ts_gen/eng/index.htm.
- [5] www.snh.cm.
- [6] GEITI. www.geiti.gov.gh.
- [7] www.mauritania.mr/itie.

For more information contact:

Mr. Bun Veasna

Infrastructure Officer

Email: vbun@worldbank.org or

Masami Kojima

Lead Energy Specialist

Email: mkojima@worldbank.org