

INTERNATIONAL DEVELOPMENT ASSOCIATION



Extractive Industries Transparency Initiative

STRIVING FOR TRANSPARENCY

IDA at WORK



THE WORLD BANK

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SUSTAINABLE DEVELOPMENT NETWORK



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Extractive Industries Transparency Initiative

STRIVING FOR TRANSPARENCY

The Extractive Industries Transparency Initiative (EITI) activities promote transparency, accountability, and good governance in the use of oil, gas, and mining revenues in resource rich countries. From originally seven countries in 2004, the Initiative has grown to include 25 IDA countries that are now in various stages of implementation. EITI activities have helped improve disclosure and reconciliation of extractive industries revenues paid and received by governments, and often set the stage for wider sector reform, such as public financial management or institutional reforms.

CHALLENGE

Approximately 3.5 billion people live in countries rich in oil, gas, and minerals. However, historically, resource-rich developing countries have shown a below-average growth performance, and many have suffered from endemic corruption and persistent poverty due to weak governance and lack in transparency. The global Extractive Industries Transparency Initiative (EITI), launched in 2003, promotes and supports improved governance and transparency in resource-rich developing countries through the full publication and verification of company payments and government revenues from oil, gas, and mining. As a voluntary association of stakeholders with shared goals, the global EITI structure comprises

resource-rich developing countries, international and national resource companies, civil society, and donors.

The World Bank-administered Multi-Donor Trust Fund (MDTF) provides countries with resources to implement the EITI principles of revenue transparency. The Initiative has grown rapidly over the last few years. Going forward, sustaining the progress and momentum achieved so far, is a key challenge that is presently being discussed especially in view of the expiry of the current phase of the Trust Fund in 2012.





APPROACH

The EITI was launched with two main objectives, namely: (i) to disclose and reconcile extractive industries revenues paid to and received by governments, and (ii) to promote and strengthen a multi-stakeholder approach that includes governments, companies, and civil society. To achieve these twin objectives, each participating country has to issue a reconciliation report to which the country's multi-stakeholder group has agreed. After this has been accomplished, the report is submitted for validation to an independent auditor.

The World Bank and MDTF donors are focused on: (i) providing technical assistance and grant funding to individual EITI-implementing countries; (ii) reaching out to countries interested in implementing the EITI; and (iii) promoting the EITI process globally and as a global standard for transparency by disseminating knowledge and sharing best practice.

Under EITI rules, the EITI process in a country is subject to an external validation against established criteria. These criteria include establishment of a multi-stakeholder group and collection of revenue data by independent auditors within a specified deadline. When these criteria have been achieved, the country becomes eligible for 'EITI compliance' status. Progress has been made toward EITI compliance in several countries: three IDA countries have become compliant, while 15 IDA countries are well on their way¹ and most likely will reach validation in the next few months. In addition, seven other IDA countries are in different stages in the implementation process due to different dates of entry into the Initiative and are expected to achieve validation at a later date.

RESULTS

EITI reports have helped uncover certain financial irregularities and have provided a sound roadmap for meaningful reforms of the oil, gas and mining sector, which is often the largest generator of foreign exchange and government revenues. With support of IDA, EITI implementation has also often set the stage for wider sector reforms, such as public financial management or institutional reform including strengthening of government institutions that regulate oil, gas and mining sectors; and enhancing the capacity of civil society. Some of the noticeable improvements in various IDA countries are listed below.

- **Nigeria:** Nigeria was one of the first countries to sign up to the EITI. In addition to the mandated reconciliation report on revenues, Nigeria generated audit reports on the physical amount of oil produced at the wellhead, and on the process of getting the revenues from the company to the national treasury. The first EITI reports, issued in 2005 covering the years 1999-2004, revealed that the government had no reliable tools to ascertain the level of oil production at the wellhead, which led to wider planning for reforms to address some of the issues, including metering. Nigeria conducted six road shows with over 1,200 participants to advertise the EITI report results and held five workshops with over 150 participants to enhance Civil Society Organizations' capacity. It also conducted extractive industries revenue management training for government officials with 24 civil servants participating. Transparency International's Corruption Perception Index² ratings improved from 2.8 in 2004 to 3.1 in 2006. Nigeria became the first EITI-implementing country with a statutory

¹ See the EITI technical assistance work program for a complete list of countries on the EITI-MDTF Web site: <http://www.worldbank.org/eititf>.

² Transparency International's Corruption Perception Index (CPI) ratings range from 1 for the most corrupt to 10 for the least corrupt country.

backing for implementing EITI with enactment of the Nigeria EITI Act in May 2007. Reconciliation following the initial audit report reduced the discrepancy between the actual revenues paid to and reported by the government from \$250 million to \$16 million.

- **Liberia:** Liberia launched its EITI process in 2006-2007 and issued its first EITI reconciliation report in February 2009 covering the period June 2007-2008. The government expanded the Initiative to include the forestry sector and has reached out to help EITI implementation in Sierra Leone. Ranking for Liberia in Transparency International's Corruption Perception Index moved up from #137 out of 158 countries (rating of 2.2) in 2005 to #97 out of 180 countries in 2009 (rating of 3.1), which has contributed to an improved investment climate for the extractive industries sector. The EITI is incorporated into the national plan to develop the mining sector. Liberia also enacted the Liberia EITI (LEITI) Act in June 2009, which established LEITI as a public entity with access to the national budget so the need for donor funding can be limited or phased out.
- **Mongolia:** The mining law of 2006 has an article obliging companies engaged in extractive industries to report their payments to the government. In 2007, a government resolution mandated the government institutions to report and be active in the EITI process. While the government reported on revenues from 134 companies for 2006-07, it increased to 186 companies for 2007-08. Private companies are engaged in the EITI with leading mining and exploration companies reporting. Twenty five participated in the first reconciliation, 38 in the second, and 46 will report in the third. The reconciliation following the initial audit report

in February 2008 reduced discrepancy from MNT 25 billion³ to 775 million in the second report in November 2009. The government is presently in the process of drafting an EITI law and strategy for 2010-2014.

BANK CONTRIBUTION

Since its launch, EITI has seen great momentum and traction, with rapid uptake in most regions. This track record is due in large part to the IDA/MDTF technical assistance and financing support which has helped several countries adopt and implement the EITI. For instance, IDA is presently supporting the 'Sustainable Management of Mineral Resources' project (\$50million) in Tanzania, that aims to strengthen governance and transparency in Mining including activities related to the implementation of the EITI. In addition to its role as Administrator of the MDTF, the World Bank Group has committed approximately \$5 million through its own budget processes from FY05-FY10, and received a Development Grant Facility allocation of \$1.5 million for a three-year window to support civil society capacity building in EITI implementing countries in FY05-07 with the Kyrgyz Republic, Mongolia and Nigeria as IDA beneficiaries.



³ As of September 15, 2010, MNT 25 billion = \$18.8million; MNT 775 million = \$0.6million.

PARTNERS

From FY05-10, 13 donors (Australia, Belgium, Canada, the EC, Finland, France, Germany, the Netherlands, Norway, Spain, Switzerland, the United Kingdom, and the United States) have contributed almost \$31 million to the MDTF. The MDTF donors participate in the Management Committee (chaired by the World Bank), which reviews and approves the overall work program for use of the MDTF funds.

In addition to the bilateral MDTF donors listed above, the World Bank works closely with the private sector (such as International Council on Mining and Metals, Standard Life Investments), Civil Society Organizations (such as Open Society Forum Mongolia, Green Advocates Liberia, Global Witness, Revenue Watch Institute); other multilaterals (such as International Monetary Fund, Inter-American Development Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development and European Investment Bank), European Union, African Union, and Organisation for Economic Co-operation and Development in promoting and implementing the Initiative.



MOVING FORWARD

EITI's success in any given country rests on political commitment by leaders and engagement with all relevant stakeholders to maintain the pressure for accountability and transparency. As noted, the core EITI standard is one of disclosure of oil, gas, and mining revenues and payments, structured in a participatory manner. In terms of supporting development, EITI implementation can be seen as not just meeting a credible international standard but also in setting a coherent platform to continue and strengthen the reform path of extractive sector governance.

EITI is a core part of the WBG sector strategy for oil, gas, and mining and the Bank's Governance and Anti-corruption Strategy 2007. IDA, with the support of the MDTF donors, is well-positioned to meet country demand and to support countries in their goals of better governance in oil, gas, and mining sectors, beyond the EITI. Further, country programs and individual Country Partnership Strategies in IDA countries are increasingly emphasizing implementation of the EITI as both a freestanding objective and as a platform for furthering the reforms agenda and moving toward greater accountability and good governance and management. In this respect, IDA/MDTF is piloting programs of on-going support that aim to: (i) help countries to consolidate and deepen the EITI; and (ii) continue the governance reforms building on the platform of EITI structures and transparency.

Moreover, progress with the EITI has served to emphasize the need to adopt a value chain approach for the extractives sector. IDA has committed to expanding transparency and accountability in oil, gas and mining revenue management to include all links in the extractive industries value chain approach, from the award of contracts and licenses to implementation of sustainable development policies and projects in regions affected by extractive industry activities.



THE WORLD BANK

1818 H Street, NW

Washington, DC 20433 USA

www.worldbank.org/ida

www.worldbank.org/sustainabledevelopment