



## Extractive Industries Transparency Initiative (EITI)

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# Implementing EITI for Impact

A Handbook for Policy Makers and Stakeholders

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Editors



THE WORLD BANK

EITI is a global standard established in 2003 to promote and support improved governance in resource-rich countries through the full publication and verification of payments by companies and revenues to government from the oil, gas, and mining sectors.

As a voluntary association of stakeholders with shared goals, the structure of the global EITI movement comprises a broad range of stakeholders. The EITI Board oversees EITI and comprises an elected chair and members representing resource-rich developing countries; supporting countries; international and domestic oil, gas, and mining companies; civil society members; and investor representatives. International development agencies such as the African Development Bank, the International Monetary Fund, and the World Bank attend EITI Board meetings as observers.

A Secretariat based in Oslo, Norway, supports the work of the EITI Board and coordinates EITI work globally. More information on EITI, the Board, and the Secretariat can be found at <http://www.eiti.org>.

### Multi-Donor Trust Fund for EITI

In the context of the global EITI goals described above, the World Bank manages a Multi-Donor Trust Fund (MDTF) that helps support the World Bank's technical assistance and financial support to EITI-implementing countries and civil society, and global knowledge and learning activities on EITI.

As of February 2012, the supporting donors that have contributed to the MDTF were as follows: Australia; Belgium; Canada; the European Commission; Denmark; Finland; France; Germany; Japan; the Netherlands; Norway; Spain; Switzerland; the United Kingdom, which was the launch donor; and the United States. Funding from the MDTF to produce this handbook is gratefully acknowledged.



# Extractive Industries Transparency Initiative (EITI)

## Implementing EITI for Impact

### A Handbook for Policy Makers and Stakeholders

As the initial experiences of EITI-implementing countries were becoming evident during 2004–07, the World Bank-EITI-MDTF program published “Implementing EITI: Applying Early Lessons from the Field,” in 2008. Supplementing the “EITI Source Book” and other EITI literature, it was designed to provide EITI practitioners and stakeholders with a practical guide to implementing EITI through examples of good-fit practices.

Since then, EITI has achieved significant traction and momentum, and is now an established global standard, with many countries across the world actively implementing it. This handbook reaches out to countries that aspire to implement the EITI, are currently implementing it, or have already implemented it, by providing guidance on (a) implementing EITI, (b) overcoming common challenges to EITI implementation, and (c) “mainstreaming” EITI by using it as a platform for continued reforms, in general, and sector-specific governance, leading to inclusive, integrated, and sustainable growth and development.

By exploring strategies for “mainstreaming” EITI through follow-on actions and innovations to build on the EITI process, this handbook seeks to facilitate EITI-implementing countries in using EITI as a path to achieve good governance.

This publication is targeted at policy makers and stakeholders in the EITI process, both globally and at the country level, and at other donor partners and supporting agencies.

This handbook is a supplement to the formal EITI literature—The *EITI Rules* (2011 edition) and other pronouncements by the International EITI Board—which are authoritative sources of the EITI standard.



**Oil, Gas and Mining Unit (SEGOM)**  
**Sustainable Energy Department (SEG)**  
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**World Bank**



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This handbook builds upon an earlier publication, “Implementing EITI: Applying Early Lessons from the Field” (Darby, 2008). i.e., issued by the World Bank Oil, Gas and Mining unit (SEGOM) and the EITI Multi-Donor Trust Fund (MDTF). This handbook is a product of SEGOM.

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# Abbreviations

ASM	Artisanal and Small-scale Mining
CASM	Communities and Small-scale Mining
CommDev	Community Development Program
CSOs	Civil Society Organizations
EI	Extractive Industries
EITI	Extractive Industries Transparency Initiative
GDP	gross domestic product
IFAC	International Federation of Accountants
IDA	International Development Association
IFC	International Finance Corporation
MTEF	Medium Term Expenditure Framework
MDTF	Multi-Donor Trust Fund
MoU	Memorandum of Understanding
MSG	Mult-Stakeholder Group
NGO	nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability Initiative
PER	Public Expenditure Review
PGI	Petroleum Governance Initiative
PRSP	Poverty Reduction Strategy Paper
SEGOM	World Bank Oil, Gas and Mining unit
TA	Technical Assistance
TEITI	Tanzania Extractive Industries Transparency Initiative

# EITI Glossary

**Auditor:** A professional service that examines and provides an audit opinion (either “unqualified” or “qualified”) on a company’s, government’s, or other entity’s financial statements (and in some cases statements relating to production volumes), on whether those financial statements give a true and fair view or are fairly presented in accordance with applicable financial reporting standards. Audit work is conducted in line with accepted international audit standards (see below).

**Candidate Country:** A country that has publicly committed to implement EITI and that has met the first five EITI (sign-up) Requirements.

**Compliant Country:** A country that has fully met all the EITI Requirements and has undergone a successful external validation (see also Validation).

**Civil Society Organization (CSO):** A broad term used to describe nongovernmental and noncorporate organizations, such as the media, trade unions, religious groups, nongovernmental organizations (NGOs), academia, and think tanks. Civil society is broad and diverse and often represents a wide variety of constituencies.

**Disaggregation:** A method of reporting EITI data, by which payments made to a government by individual companies are disclosed and can be identified separately in an EITI Report.

**EI Value Chain:** A framework for extractive industry projects described in the introduction of this handbook.

**EITI Board:** The international body that oversees EITI globally. The Board consists of representatives from EITI implementing governments, donors, extractive industry companies, investors, and Civil Society Organizations.

**EITI Criteria:** The six internationally agreed criteria that describe the outcome of a successful EITI process. They can be found at <http://eiti.org/eiti/principles>, and are also contained in *Chapter 2, EITI Rules* (2011).

**EITI Policy Notes:** The binding clarifications published by the EITI Board and circulated to implementing countries. They are consolidated in *Chapter 5, EITI Rules* (2011).

**EITI Principles:** The founding tenets of EITI. They can be found at <http://eiti.org/eiti/principles>, and are also contained in *Chapter 1, EITI Rules* (2011).

**EITI Requirements:** The 21 requirements that need to be fulfilled for an EITI implementing country to achieve and maintain the status of a Compliant Country. These are listed in Annex 1.

**EITI Rules:** Unless specified otherwise, refers to *EITI Rules* (2011), which, among other things, consolidates the EITI Principles, EITI Criteria, EITI Requirements, the Validation Guide, and EITI Policy Notes.

**EITI (International) Secretariat:** Secretariat based in Oslo, Norway, to support the work of the EITI Board and act as a first point of contact for all stakeholders involved in or interested in the EITI globally.

**International Auditing Standards :** The internationally agreed and accepted set of professional and ethical standards for audit and assurance services that professional accounting and audit firms apply and abide by in their professional work in almost all countries, either in compliance with local laws or in line with their professional commitments under the national accounting and auditing professional bodies. These national bodies are, in turn, members of the International Federation of Accountants (IFAC, based in New York, USA), which issues the international audit standards (through its International Auditing and Assurance Standards Board) for application by all IFAC members.

**Mainstreaming:** Integrating EITI into other processes along the Extractive Industries Value Chain in order to deepen its impact and achieve its goals, which are to maximize extractive resource-based development and diversify economic activities.

**Materiality:** The process of determining the reporting threshold under EITI, including by examining the significance of payments (individual and collective) and revenue-streams to the desired outcome of increased transparency (see *Part II, Chapter 4, Setting the Scope of an EITI Process, Materiality in EITI*).

**Multi-Donor Trust Fund:** The EITI Multi-Donor Trust Fund (MDTF) to which a number of donor countries have contributed and which is administered by the World Bank. The trust fund provides technical assistance and funding to countries that are implementing or intend to adopt the EITI.

**Reconciler:** An organization (usually an audit or consulting firm) that is appointed to reconcile payments and revenue data provided by companies and government. While the terms of reference of such an organization may differ under the EITI standards, it is required to compile and analyze EITI data (both financial and, where appropriate, on production volumes) as submitted, and (where they occur) investigate and explain any discrepancies.

**Multi-Stakeholder Group (MSG):** The multi-stakeholder decision-making body in a national EITI process that leads and oversees implementation of EITI in a country, comprising representatives of government, extractive industry companies, and Civil Society Organizations.

**Validation:** The agreed process by which progress on implementing EITI by countries is measured against the EITI Requirements, as described in the “Validation Guide” that forms *Chapter 4 of the EITI Rules* (2011). Details on the Validation Process may also be found at <http://eiti.org/document/validationguide>.

# PREFACE

Oil, natural gas, and mineral deposits (“Extractive Resources”) have the potential to generate significant financial benefits and help countries fuel their economic growth and development, employment, business opportunities, and incomes, ultimately leading to a better life for the citizens of those countries through sustained poverty reduction and inclusive growth.

Unfortunately, instead of the positive benefits to be had from developing and extracting these Extractive Resources, the track record in many resource-rich countries has in fact been negative, suffering from what has been called the “resource curse.” This is characterized by weak economic development despite these Extractive Resources, poor governance, economic difficulties, and even social conflict in areas impacted by the functioning of the extractive industries, often caused by corruption and weak accountability standards.

The Extractive Industries Transparency Initiative (EITI) was launched in 2002 in an effort to combat these symptoms and provide a pathway to better managed oil, gas, and mineral resources that benefits the people of a country. EITI is a global standard designed to improve transparency in the sector by publication of reconciled payments by companies and revenues received by governments from oil, gas, and mining exploration, and production operations. It helps to promote and support improved governance in resource-rich countries. As a global standard,<sup>1</sup> EITI is implemented nationally by a multi-stakeholder group comprised of government, industry, and civil society. As of December 2011, there were 35 such EITI-implementing countries, the details about which can be obtained at the international EITI website, [www.eiti.org](http://www.eiti.org).

In a parallel process since 2004, the World Bank Group, supported by a donor-funded Multi-Donor Trust Fund (MDTF), has alongside the EITI

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<sup>1</sup> At a global level, EITI is managed by an EITI Board which comprises an elected Chair and members drawn from EITI implementing and supporting countries; oil, gas, and mining companies; international and national civil society; and representatives of investor groups. The work of the EITI Board is supported by the EITI International Secretariat (based in Oslo, Norway). In this global structure, the World Bank and other bilateral and multilateral development agencies have observer status at the EITI Board meetings. The World Bank also manages the EITI Multi-Donor Trust Fund (MDTF), established jointly by the donors and the World Bank to support technical assistance and grant funding to EITI-implementing countries and civil society. The subsequent chapters of this handbook deal with these issues in detail.

International Secretariat, international civil society, other bilateral donor agencies, and international development agencies, been providing support to EITI implementation in countries (often as the primary source of technical and financial assistance for EITI implementation) and to civil society. More information on the work of the World Bank and the EITI MDTF can be found at [www.worldbank.org/eiti-mdtf](http://www.worldbank.org/eiti-mdtf).

## Objectives of this Handbook

The basic purpose of this handbook is to provide guidance to stakeholders (including policy makers, industry, and civil society) in countries currently implementing, or seeking to implement, EITI. It provides practical guidance on the measures required to launch and implement EITI successfully.

In addition, using the Extractive Industries (EI) Value Chain as an analytical tool, this handbook holistically analyzes the importance of EITI to domestic economies, governance structures, and local populations, and suggests measures to leverage its potential to ensure inclusive growth and sustainable development. To enable the achievement of this goal, this handbook assists EITI-implementing countries in mainstreaming EITI into the good-governance agenda by recommending global good-fit practices, by building on the EITI standards.

EITI Principles, Criteria, and Rules inform the contents of this handbook. Any set of rules and standards on the path to global acceptance benefits from a common agenda with which most countries and stakeholders are in agreement. The EITI Requirements are such a set of uniform requirements necessary to be fulfilled in order for a country to be recognized as a part of the EITI process. EITI Requirements, in turn, are informed by the EITI Principles and Criteria, which outline the broader objectives and aspirations of EITI.

By delving into the EITI Requirements and innovative good-fit practices in implementing EITI, and by viewing EITI holistically in its role as a system that reinforces processes across the EI Value Chain, this handbook aims to support policy makers and stakeholders in EITI-implementing countries in their efforts to translate mineral and hydrocarbon wealth into sustainable development, economic and social growth, employment opportunities, and social benefits. It is a supplement to, and not a substitute for, the EITI policies and practices specified by the EITI Board. In addition, this handbook outlines the responsibilities and roles of each of the stakeholders in ensuring the successful implementation of EITI.

## Related Resources for Policy Makers and Stakeholders

The past few years have witnessed sharp increases in commodity prices and revenue flows, and an increased focus on investments in the Extractive Resources sector. This has resulted in a heightened focus on research, analysis, and knowledge and guidance material on global good-fit practices in extractive industries.

Knowledge and guidance materials help increase awareness of global good practices. Excellent sources for guidance now exist, providing information on good governance and sound management of natural resources, such as the “Natural Resource Charter” ([www.naturalresourcecharter.org](http://www.naturalresourcecharter.org)), which presents a set of principles on how best to harness the opportunities created by natural resources for development. Another good reference is the Sustainability Development Framework ([www.icmm.com](http://www.icmm.com)), formulated by the International Council on Mining and Metals (an industry body), which identifies key issues relating to mining and sustainable development. The Revenue Watch Institute, through its analyses of EITI processes, EITI Reports, and subsequent data also provides useful information on EITI that is especially useful for civil society (<http://data.revenuewatch.org/eiti/>).

Knowledge dissemination networks assist in collecting inputs and facilitating coordination of action plans. Knowledge dissemination networks have also played a vital role in encouraging global good practices. Web-based interactive and networking platforms, such as “GOXI” ([www.goxi.org](http://www.goxi.org)), have provided a common digital platform for stakeholders to share, learn, and better coordinate while taking steps toward greater accountability, in turn, ensuring better development outcomes from extractive industries.

The *Extractive Industries Source Book* addresses sector-specific issues to enable efficient and beneficial management of natural resources. The book, launched by the World Bank in 2011 as a collaborative effort with a number of academic institutions and other bodies,<sup>2</sup> addresses topics central to the efficient and beneficial management of Extractive Resources, such as (a) sector policy, (b) legal and regulatory development and administration, (c)

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<sup>2</sup>The University of Dundee (Centre for Energy, Petroleum and Mineral Law and Policy), and through strategic partnerships with other academic institutions recognized for their research within the petroleum and mining sectors, ensure an international collaborative approach including, in its first phase, the Universities of Queensland (Australia) and Witwatersrand (South Africa), and the Mining Committee of the International Bar Association. Additional discussions on collaboration have been initiated with the Natural Resources Charter at the University of Oxford, the Revenue Watch Institute (New York), the International Council of Mines and Minerals (based in London, UK), the Institut Français du Pétrole (Paris, France), and the African Center for Economic Transformation in Accra, Ghana.



fiscal issues, and (d) their corresponding linkages to broader impacts across the economy. The electronic version can be found at [www.eisourcebook.org/index2.php](http://www.eisourcebook.org/index2.php).

The *Extractive Industries Source Book* is primarily an interactive, online, open-source compendium of knowledge on sector-specific good practices, which also provides space for third-party comments or contributions. Its objective is to provide policy makers and readers with technical understanding and practical options around oil, gas, and mining sector development issues. It helps inform the tripartite stakeholders normally associated with the extractive industries, such as governments and decision makers, industry and companies, and local communities and civil society. It is also relevant to other organizations (such as nongovernmental and international organizations) that support productive reforms in the extractive industries sector.

Other publications by the EITI secretariat include detailed publications on EITI and its various aspects, which are valuable tools of reference. A list of these publications is presented in table P.1.

**Table P.1 EITI Secretariat Publications**

Topic	List of Publications
About EITI	<ul style="list-style-type: none"> <li>• Fact Sheet</li> <li>• Progress Report (biannually)</li> <li>• Annual Report</li> <li>• EITI Endorsements</li> <li>• Secretariat Work Plan (annually)</li> </ul>
EITI Rules	<ul style="list-style-type: none"> <li>• EITI Rules (including Policy Notes)</li> <li>• Validation Fact Sheet</li> </ul>
Guidance for implementation	<ul style="list-style-type: none"> <li>• EITI Business Guide</li> <li>• EITI Guide for Legislators</li> <li>• EITI Source Book</li> <li>• Talking Transparency</li> <li>• How to Become a Candidate Country</li> <li>• How to Support the EITI</li> <li>• How to Support the EITI—Investors</li> <li>• How to Support the EITI—Extractive Companies</li> <li>• How to Support the EITI—Non-Extractive Companies</li> <li>• How to Support the EITI Countries</li> <li>• Implementing the EITI:</li> <li>• Guidance Note on Materiality</li> <li>• Guidance Note on EITI feasibility and scoping studies</li> </ul>
Reports compilation	<ul style="list-style-type: none"> <li>• Extracting data</li> </ul>
Case Studies	<ul style="list-style-type: none"> <li>• Impact of EITI in Africa</li> <li>• Advancing EITI in the Mining Sector</li> <li>• Liberia Case Study</li> <li>• Nigeria EITI Case Study</li> </ul>

# Introduction

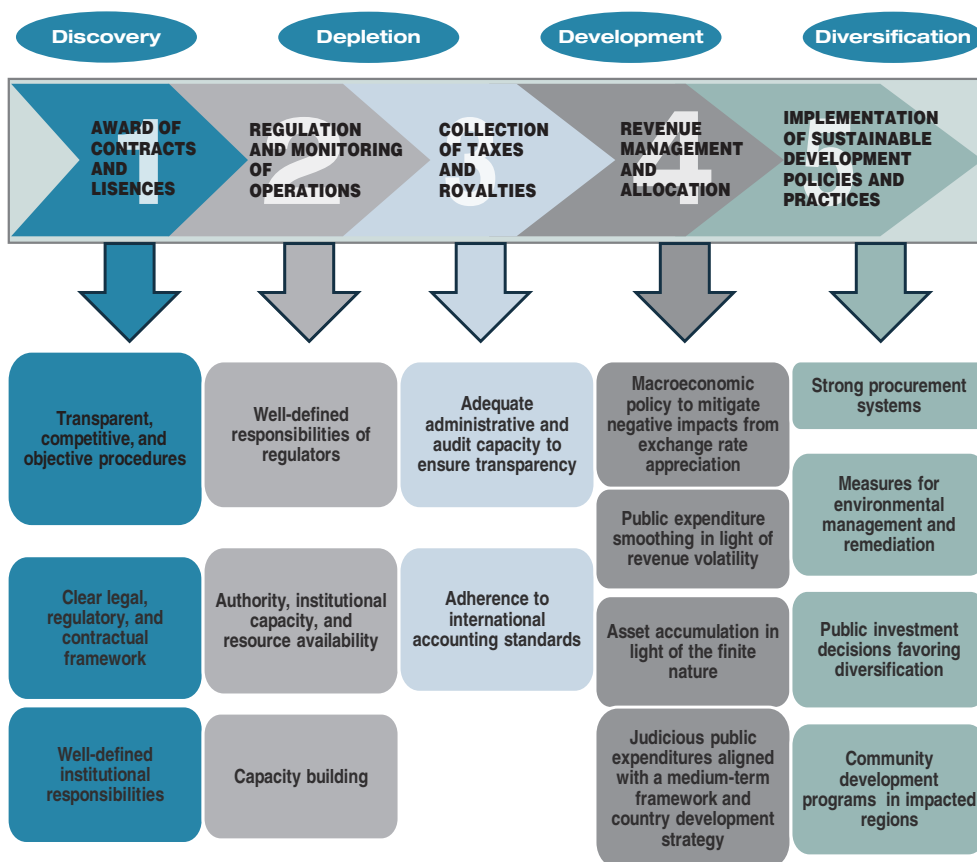
**Natural resources are extremely valuable to countries, and they can be leveraged to fuel sustainable and inclusive economic growth.** Extractive industries have a number of unique characteristics that make them vital to a nation's economic well-being. They have the potential to be, and in many countries are, highly linked to downstream industries. For instance, the products of extractive industries often function as major inputs for the manufacturing, power-generation, and construction industries.

Such a high degree of linkage ensures that efficient leveraging of a country's Extractive Resources tends to have spin-off effects into other downstream sectors, thus fueling economic growth. Extractive industries have the potential to create jobs directly and indirectly, transfer technologies and knowledge, and generate significant income. The extractive industries, and the petroleum sector in particular, are known for high economic rent—the difference between the value and cost of production. The government's share of this rent can be very large in times of high commodity prices, as observed over the last several years. These benefits also provide governments with a financial base for infrastructure development and social services delivery, thereby leading to growth that is both inclusive and sustainable.

**The Extractive Industries (EI) Value Chain describes the processes involved in effectively leveraging natural resources.** The EI Value Chain (figure I.1), is a logical framework that highlights areas for reform in order to strengthen sector governance and facilitate more sustainable outcomes across a highly varied extractive industries sector, which comprises many different commodities and their corresponding intersections with the broader economy. It describes a system of inputs, outputs, and outcomes that assist a nation or state seeking to use its natural resource endowment toward the greater good of its citizens.

The EI Value Chain describes a “five-chevron” process, starting with ensuring improved *discovery* of mineral resources through increased efficiency in the award of concessions and licenses, strengthening regulatory oversight leading to efficient *depletion* of these resources, leveraging investments in extractive industries to achieve economic *development*, and enabling broader economic *diversification* in the surrounding economy. This requires strong institutions and

**Figure I.1 The Processes and Outputs Involved in the “EI Value Chain”**



Source: Modified version of the Extractive Industries Value Chain in Alba 2009.

adsorptive capacity developed to ensure that all stakeholders (especially policy makers and governments, extractive industries, and civil society) participate in the planning and implementation of policies through tripartite dialogue, and can act on opportunities that emerge from the sector. Each chevron of the EI Value Chain is linked to the other chevrons, and each builds upon the other.

Adhering to the following principles is integral to ensuring the integrity of the Value Chain:

- Country ownership and strong government commitment to good governance and transparency
- Attention to social and environmental considerations
- Spending plans that reflect development priorities and long-term fiscal sustainability

- Sound governance translated into transparent and competitive laws, regulations, and contracts
- Capacity in line with tasks and institutional arrangements in line with capacity
- Balance between maximizing government capture of rent and attracting risk capital
- Effective accountability mechanisms.

**Efficient management of resource revenues is integral to ensuring inclusive growth and sustainable development.** Revenues that are derived from extractive industries revenues have certain characteristics—volatility, uncertainty, exhaustibility, and the fact that they originate largely from abroad—that challenge policy makers. Many resource-rich countries have fallen prey to the “resource curse,”<sup>3</sup> under which poor policy choices and corruption have exacerbated the cycles of poverty and conflict. The “resource curse” is also due, in part, to the high rents associated with oil, gas, and mineral (with the exception of artisanal and small-scale mining) projects. For this reason, Extractive Resources are often referred to as “point source” resources, which in the absence of efficient and transparent institutional and administrative mechanisms, have the tendency to impact the domestic political economies, leading to corruption and rent-seeking.

Efficient management of natural resource revenues, however, can play a pivotal role in ensuring the implementation of comprehensive policies for sustainable development, thus leading to development of local populations and diversification of the economy. For instance, resource revenues, when managed properly, can be used in infrastructure development, environmental restoration, and economic and social rehabilitation of populations impacted by the activities of extractive industries. Implementing such sustainable

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<sup>3</sup> In this handbook, the term “resource curse” refers to the paradox wherein many developing (and developed) countries with abundant oil, gas, and mineral resources have tended to register lower economic growth than countries without these natural resources. In addition to lower growth, the resource curse is also associated with weak institutions and policies to manage the resources, poor accountability, and even conflict. There has been considerable debate on this topic, but it is commonly accepted that important factors contributing to the resource curse phenomenon include (a) political economy factors; (b) difficulties in achieving a policy framework and institutions that are conducive to good management of natural resources; (c) inadequate frameworks for macro policies on managing natural resources revenues; and (d) inadequate spending and saving policies for mineral-resource-based revenues in the face of volatility, uncertainty, and a decline in the competitiveness of other economic sectors (for instance, the volatility in revenues caused by appreciation of the real exchange rate as resource revenue enters an economy).

development policies at the grass roots helps reduce social tensions among local populations.

**The Extractive Industries Transparency Initiative (EITI) is a transparency standard introduced during the collection of taxes and revenues.** Good practice in the collection of taxes and revenues in the extractive industries sector calls for the government to publish revenues regularly generated by EI activities. At this critical point in the EI Value Chain, EITI calls for companies functioning in the extractive industries sector to disclose all their payments to governments and for the governments to disclose corresponding receipts. A publicly disclosed report issued by a Reconciler comprises the reconciliation of company and government disclosures, including the explanation of discrepancies between the two (if any). Thus, EITI places information regarding sector-specific taxes and revenues in the public domain, thereby empowering stakeholders to ensure accountability in financial transactions between governments and extractive industries.

**Implementing EITI ensures increased transparency in the collection of resource revenues.** Since the various elements of the EI Value Chain are mutually interactive, the management of resource revenues and, as a result, the implementation of sustainable development activities, are influenced by, among other things, the transparency in collection of taxes and revenues. Transparent procedures governing the levy and collection of taxes and rents ensure increased efficiency in the collection of resource revenues. Transparency in the collection of taxes and revenues from extractive industries, achieved through EITI, also provides stakeholders with vital data, paving the way for an inclusive and informed dialogue around sector-specific policies, based on a cost-benefit analysis comprising economic, environmental, and social aspects.

**“Mainstreaming” EITI helps deepen the impact of EITI.** The World Bank has been working closely with governments to support transparent, sustainable management of their mineral and hydrocarbon resources to maximize development gains and reduce poverty. In this context, the World Bank, together with other development partners, agencies, and EITIs, has been increasing its efforts to articulate a more integrated and comprehensive approach to managing the processes across the EI Value Chain. The EI Value Chain approach serves as a resource for policy makers and stakeholders and can be integrated into national policy discussions and development planning. Similarly, it also acts as a resource for development partners and for the World Bank’s Country Partnership Strategies, and is of increased importance to resource-rich countries.

For the purposes of this handbook, “mainstreaming” refers to integrating EITI into other processes along the EI Value Chain in order to deepen

its impact and achieve its goals, which are to maximize extractive resource-based development and diversify economic activities. The greater the degree of mainstreaming, the greater the extent to which EITI, its organizational structure, and outcomes and associated processes can be leveraged to facilitate administrative and regulatory reforms leading to good governance. The rationale for, advantages of, and illustrations of mainstreaming EITI are provided in *Part III, Chapter 11, Mainstreaming EITI*.

## EITI Criteria, Principles, and Requirements

EITI policies and practices—that is, the global criteria, principles, and requirements that constitute EITI standards that all EITI-implementing countries must follow—are established by the EITI Board (see *EITI Rules 2011*). The EITI principles are outlined in box I.1 and are described in more detail in Annex 1.

### Box I.1 EITI Principles

The cornerstone of EITI and the principles that articulate its values, aspirations, and purpose, and which underpin the EITI methodology and the EITI standard, are exemplified in the EITI Criteria. All countries wishing to implement the EITI must agree to the Criteria. The original six Criteria have been condensed into the following three instruments:

- *The Validation Guide*, which provides a consistent quality assurance mechanism and guidance to Validators conducting the external Validations of Candidate Countries.
- *EITI Policy Notes*, on topics where further elaboration by the EITI Board was required on certain aspects of the EITI Criteria, such as the consequences of not adhering to the EITI Criteria or Validation deadlines.
- *EITI Requirements*, wherein the minimum requirements for EITI-implementing countries are clearly elucidated to more precisely indicate what the EITI Criteria require (such as defining what the phrase “regular reporting” in the EITI Criteria requires EITI-implementing countries to do). The distinction of the EITI Requirements from the EITI Validation Guide is that while the Validation Guide is aimed at providing the Validators with a framework to conduct their validations, the EITI Requirements are designed to ensure that EITI-implementing countries are aware of the standard to be met in implementing EITI in line with the EITI Criteria.

These three instruments have been incorporated into the *EITI Rules, 2011 Edition (EITI Rules 2011)*.

# PART I: Achieving EITI Candidature

## Introduction

Part I of the handbook delineates the initial steps in becoming a part of the EITI process by analyzing requirements and good practices in achieving EITI Candidature. EITI may be described as “*a global standard, applied locally*”—a description that aptly sums up EITI and the traction it has achieved among EITI member countries, industry actors, Civil Society Organizations (CSOs), development partners, the media, and nongovernmental organizations. This momentum can best be illustrated by the fact that there are now many countries actively implementing EITI in all regions of the world; that most of the world’s largest oil, gas, and mining companies support and participate in the EITI process through their operations in implementing countries and via their international commitments; and hundreds of international and national CSOs and associations are active in the EITI process. Further, many international development and financial institutions have endorsed or supported EITI’s goals at the country level.

The EITI methodology is proving to be robust at the country level as well as globally, with external validation of the EITI process being a core part of the methodology. At the local level, EITI stakeholders are seeing specific, positive results being achieved in EITI-implementing countries—a trend that serves to pull new entrants into EITI.

## Countries that Implement EITI

EITI is relevant to all countries seeking to establish transparency in resource revenues, and its benefits are many (see box Part I.1). However, it is especially relevant to the good-governance agenda in “resource-rich” countries because of the increased positive impacts that “mainstreaming” EITI offers to their development. In its “Guide on Resource Revenue Transparency,”<sup>4</sup> the

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<sup>4</sup> For more details, see <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf> (accessed November 28, 2011).

International Monetary Fund defines a resource-rich country as a country in which the total average fiscal revenues, or the total average export proceeds from the oil, gas, and/or mining sectors, has been at least 25 percent over the previous three years. Such countries are heavily reliant on the export of, and revenues from, a small number of concentrated and volatile revenue streams. Such a scenario provides an increased relevance for mainstreamed EITI to function as a tool to mitigate economic, social, and governmental distortions.<sup>5</sup>

A broad spectrum of countries ranging from developing to developed are involved in EITI. Some have already successfully implemented it and others are currently in the process of doing so. Although a long list of developing countries have implemented EITI,<sup>6</sup> Norway was the first “resource-rich” Organisation for Economic Co-operation and Development (OECD) country to successfully implement it. Australia has agreed to conduct a pilot of EITI (Australian Minister for Foreign Affairs 2011). Other OECD countries such as the United States (EITI International Secretariat) have also committed to implement EITI, and the European Union has sought to strengthen it (EITI International Secretariat). These developed countries having already mainstreamed some of the key EITI components—that is, transparency and disclosure—into their legal and regulatory frameworks for managing and regulating the extractive sectors. For instance, the United States has incorporated mandatory transparency disclosure provisions in the Dodd-Frank Act,<sup>7</sup> and the European Union is expected to follow suit, having already drafted similar legislation.<sup>8</sup>

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<sup>5</sup> This handbook does not attempt to outline the extensive discussion that has occurred concerning the impact of resource dependency on countries’ economies, governments, and levels of social stability, effects sometimes referred to as “the Resource Curse” and “Paradox of Plenty,” which have been researched extensively and are the source of considerable debate.

<sup>6</sup> See <http://eiti.org/countries>, (accessed November 28, 2011).

<sup>7</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010, Title XV, S. 1504.

<sup>8</sup> Proposed directive of the European Parliament and Commission (draft version) to amend Directive 2004/109/EC; accessed November 28, 2011, [http://ec.europa.eu/internal\\_market/accounting/docs/other/20111025-provisional-proposal\\_td\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/other/20111025-provisional-proposal_td_en.pdf).



## Box Part I.1 Benefits of Implementing EITI

Successfully implementing EITI entails several benefits to stakeholders, including:

- **Demonstrating a national commitment to good governance:**
  - ▼ Implementing EITI sends a clear signal to CSOs and industry of the government's intention to ensure transparency and accountability.
  - ▼ When given an explicit anticorruption focus in the context of wider sectoral reforms, EITI assists in creating an environment in which the "hidden tax" of corruption (when it is linked to governmental accounts) is harder to collect.
  - ▼ Since EITI is an international standard, a country listed as being "EITI compliant" receives international recognition by meeting a series of internationally agreed upon criteria on improving transparency (with performance independently monitored via validation). This could help foster a favorable investor climate by increasing investor confidence.
- **Single-window information disclosure system:** While some countries do have other avenues for obtaining information on revenues and payments, EITI processes gather and publicly report data pertaining to resource revenues in one place. Such disclosure makes the data easily accessible to citizens, often opening up information access for the first time.
- **Increased efficiency in collection of resource revenues:** By increasing scrutiny over payments, revenues, and the flow of funds pertaining to extractive industries, EITI programs sometimes lead to efficient tax collection from extractive industry companies.
- **Improving sovereign and corporate ratings:** Producing regular EITI reports on payments and revenues has the potential to assist implementing countries and reporting companies to improve their creditworthiness. Sovereign credit ratings, being based on a country's quality of governance and its medium-term ability to meet financial obligations, would benefit from such increased access to reliable information granted to financial institutions and rating agencies, enabling them to function more effectively.
- **Empowers civil society to seek greater accountability:** When amounts paid to different government agencies (and in some cases to subnational levels of government) are clearly stated and are known to the public, citizens can better organize themselves to hold agencies accountable for how revenues are used in public expenditure programs.

*(Box Part I.1 continued on the next page)*

(Box Part I.1 continued from the previous page)

- **Corporate risk management:** By clearly showing what is being paid to a government and to communities, a company is also reporting the benefits accruing from its operations, thus placing the onus on governments to ensure the long-term sustainable development of the sector and of the economy. Good corporate risk management benefits both companies (from lower long-term operating and reputational costs of extractive activities) and domestic economies (by increasing investments).

## Feasibility Studies are a means to build National Consensus for EITI

When considering adopting and implementing EITI, national governments are advised to consult closely both within the government and with companies and civil society and stakeholder groups that would be affected by, or interested in, national EITI implementation. These stakeholders (discussed further in *Part I, Chapter 2, Requirements and Good Practices Relating to Formation and Functioning of MSGs*) include relevant government agencies (and possibly subnational governments and traditional leaders), international and domestic extractive industry companies and business associations, CSOs, and community representatives.

The process of dialogue and consensus building in many countries has been helped by a systematic consultative process with stakeholders about the utility and relevance of adopting EITI, and an exchange of ideas about how to implement EITI.<sup>9</sup> This is an initial process that precedes the EITI Sign-Up Requirements, including the setting up of the multi-stakeholder group by the EITI implementing country.

Box Part I.2 presents a case of good practice in consensus building for EITI in Zambia.

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<sup>9</sup> The EITI International Secretariat, the World Bank Group's EITI team (and other donors), and CSOs often work closely with national governments, companies, and civil society and other stakeholders at this stage when EITI implementation is being considered (for example, by supporting stakeholder consultation events and financing scoping studies). Both at this stage and throughout the EITI implementation process, the World Bank technical assistance and financing role is supported by the Multi-Donor Trust Fund.

## Box Part I.2 Zambia: Good Practices in Feasibility Studies

Using the feasibility study performed by Zambia as an example, the following indicative points have been identified as good practice in consensus building for EITI.

- **Identifying funding and technical expertise to undertake the feasibility study:** Adequate funding and technical inputs for performing the feasibility studies make them credible and comprehensive. The Government of Zambia sought technical assistance from the World Bank to conduct its feasibility study in 2007.
- **Identifying the key domestic stakeholders:** The relevant stakeholders that would be impacted or have an interest in the reporting of and ensuring the transparency of resource revenues need to be identified. In Zambia, the relevant stakeholders identified were:
  - Government ministries and agencies
  - Extractive industry companies
  - Business associations
  - CSOs, including trade unions, nongovernmental organizations, faith-based groups, and academia
  - Development partners.
- **Identifying key issues around the identified sector:** This involves identifying the sectors where implementation of EITI is needed, and the material issues impacting stakeholders in the sector, including with regard to contracts, revenue flows, and legacy issues. In Zambia, the relevant reporting sector was identified to be mining, and the key material issues identified in the mining sector were opacity, lack of information, and lack of dialogue among stakeholders.
- **Obtaining stakeholders' views on the relevance of EITI in addressing the issues identified and their views on the way forward in implementing EITI:** In Zambia, stakeholder views were solicited on the following issues:
  - The level of transparency existing between government and extractive industries
  - The disclosure (if any) of extractive industry revenues and payments that already existed
  - Identifying risks and possible barriers to adopting EITI in Zambia
  - Actions and resources required to overcome barriers to EITI implementation (if any)
  - The need for stakeholders to be engaged to ensure successful implementation
  - Estimates of the benefits (and costs) of adopting EITI.

*Note:* A detailed feasibility study conducted by Zambia is available online in the compendium of sample documents and is an example of good practice.

# Requirements for Achieving EITI Candidature

Once a government has decided to commit itself to EITI, it is required to complete “sign-up steps” before applying for EITI Candidature. These steps are listed in box 1.1.

## Box 1.1 EITI Requirements: Signing Up to EITI

- Requirement 1** The government is required to issue an unequivocal public statement of its intention to implement EITI.
- Requirement 2** The government is required to commit to work with civil society and companies on implementation of EITI.
- Requirement 3** The government is required to appoint a senior individual to lead on the implementation of EITI.
- Requirement 4** The government is required to establish a multi-stakeholder group (MSG) to oversee the implementation of EITI.
- Requirement 5** The MSG, in consultation with key EITI stakeholders, should agree on and publish a fully costed work plan containing measurable targets and a timetable for implementation and incorporation of an assessment of capacity constraints.

These five steps are the “sign-up requirements” required of countries seeking to become EITI candidates and to begin to implement EITI. Under current EITI Board practice, countries liaise with the EITI Board’s Outreach and Candidature Committee to begin the candidacy process (which reviews and assesses the candidacy application). When successful, the country is designated as an EITI “Candidate Country” by the EITI Board and is listed as such on the EITI website.<sup>10</sup>

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<sup>10</sup> [www.eiti.org](http://www.eiti.org). For further details, see EITI Rules 2011, <http://eiti.org/document/rules>.

## **Public Statements of Intention to Implement EITI**

Public statements of a government's intention to implement EITI, and of its intention to work closely with CSOs and extractive industry companies, are required to be well publicized, for example, through the national media or through formal launch events. They should also be placed on a dedicated EITI website to enable dissemination to key stakeholders (including CSOs and extractive industry companies). Such statements inform the public of the decision to adopt EITI. The public statement must contain the implementing country's endorsement of EITI and its decision to ensure sustained high-level political support to implement the EITI, together with a statement of the actions taken or planned to be taken to meet the EITI Criteria.

Public statements of a government's intention to implement EITI should be made by the head of the government or state or an appropriately delegated representative, and are normally issued at the presidential or ministerial level. The EITI International Secretariat is required to be formally advised (along with other supporting partners and development agencies such as the World Bank/MDTF, African Development Bank, and the International Monetary Fund) of such statements.

## **Government's Commitment to Working with Companies and Civil Society on EITI**

EITI benefits from healthy engagement by, and cooperation among, all three of the major stakeholder groups—governments, companies, and civil society. Therefore, governments are required to commit to engaging these other stakeholder groups in all aspects of managing the EITI process—design, implementation, monitoring and evaluation, and follow-up. The expectation is that government engages the companies and civil society at various levels in the process.

In addition to the five EITI Requirements required to be satisfied for signing up to EITI, the government should also review the legal framework to identify any potential obstacles to EITI implementation (Requirement 5(d)).

## **Assigning a Leadership Role for EITI at a Senior Level**

To champion the effort and provide a single focal point, governments are required to appoint a senior individual to take responsibility for implementing EITI (called "EITI champions"). In most EITI-implementing countries, these appointees are generally cabinet level or senior civil servants, either from

the Ministry of Finance or from the sector ministry (for example, the Ministry of Mines or Energy/Petroleum). In some cases, the appointee is based in the office of the head of state or head of government. A key role for this individual in most countries is to chair or oversee the work of the multi-stakeholder group for EITI in the country, bringing together the various stakeholders.

EITI champions should (a) have the confidence of all national stakeholders and be situated in relevant ministries or agencies, (b) have the authority and freedom to coordinate action on EITI across different government agencies, and (c) be able to mobilize resources to carry forward EITI implementation. Box 1.2 presents good practice in choosing EITI champions.

### Box 1.2 Good Practices in Choosing EITI Champions

The following are suggested as good practice in choosing EITI champions.

- **Public Announcement:** There should be a public announcement from the government of the appointment of the EITI champion.
- **Analyzing trade-offs to assist in selecting the most appropriate EITI champion:** Countries often face a possible trade-off between selecting a high-level official with direct political involvement and an official of lesser rank. The high-level official might have the capacity to push forward the EITI process, including the capacity to facilitate easy removal of barriers to EITI implementation; he or she is also likely to have other priorities that logistically compete with EITI. In some cases, however, an official of a lower rank might be the better choice due to the capacity to dedicate himself or herself solely to EITI, thus ensuring its timely implementation. Weighing the pros and cons of both these choices helps in choosing the best possible champion by the implementing country.

## Establishing a Multi-stakeholder Group

A key underpinning principle of EITI is that it is implemented using a participative, multi-stakeholder approach. This means that stakeholders outside of government—such as extractive industry companies and Civil Society Organizations—are not just consulted, but are actively involved in designing, steering, and governing the process, a principle that is also reflected in the international EITI governance architecture.

The implementation of EITI must be overseen by a national multi-stakeholder group (MSG) consisting of representatives of the various domestic stakeholders. The MSG functions on the basis of an inclusive decision-making

process involving each of its stakeholder groups. This chapter sets out the requirements with regard to the stakeholders' involvement in the national EITI process.

## Stakeholders Typically Involved

Given the participatory nature of EITI, the selection of MSGs to be involved in the oversight of the process is pivotal to implementing EITI. The practice by which stakeholders are involved in EITI implementation in different countries varies considerably, but the EITI Requirements specify that stakeholder groups impacted by, or having a significant interest in, EITI (including government, the private sector, and civil society) be adequately represented in overseeing the process.<sup>11</sup> Having an effectively functioning MSG builds trust over time among the members of the group, paving the way for effective (often tripartite) dialogue on issues in broader areas of governance that often affect the extractive industries and allied sectors. Box 1.3 presents a list of stakeholders typically involved in EITI.

### Box 1.3 Stakeholders Typically Involved in EITI

#### **Government or public institutions:**

- Agencies responsible for management of natural resources
- Agencies responsible for revenue collection and management
- Agencies responsible for economic development, planning, and private sector liaison
- Subnational levels of government
- The legislature, for example, budget, finance, planning, and/or natural resource committees
- Subnational bodies
- Supreme audit institutions
- National oil or mining companies
- Traditional or customary leaders

#### **Private sector:**

- Oil, gas, and mining companies operating in the country (including international state-owned companies, domestic private companies, and international private companies)
- National oil or mining companies

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<sup>11</sup> EITI Rules 2011, Requirement 4.

*(Box 1.3 continued on the next page)*

*(Box 1.3 continued from the previous page)*

- Investors
- Business and industry associations

**Civil society:**

- Community-based organizations
- National nongovernmental organizations (NGOs)
- International NGOs and their local affiliates
- Media
- Trade unions
- Academic and research institutions
- Faith-based organizations
- Traditional or customary leaders

**Organizations contracted to support an EITI process:**

- Reconciler (or auditors)
- Other disclosure agencies

**International partners:**

- EITI Board and EITI Secretariat
- International development agencies and institutions (International Monetary Fund, World Bank, regional development banks)
- Bilateral donor agencies

*Note:* This list of stakeholders is not exhaustive and is only intended to illustrate all the possible stakeholders in an EITI process.

## State-owned Companies as Stakeholders

In many oil-producing countries, and in some mining countries, the government directly participates in the extractives sector through a state-owned company. These companies can be involved in the sector in a variety (and combination) of ways, including (a) as an investment company that holds equity in a number of different companies involved in producing oil, gas, or minerals in a country; (b) as a company responsible for collecting, marketing, and selling a government's share of production (in the case of oil and gas countries); (c) as a partner in a joint venture company; and (d) as the operator of a mine or of an oil or gas field.

Some state-owned companies are also responsible for regulating and monitoring the activities of all other companies operating in a country.



Because of this range of functions, where state-owned companies exist, they have been found to be one of the most important stakeholders to engage early in the process. In collecting information on payments and revenues, state-owned companies often find themselves on both sides of an EITI process—that is, they are sometimes recipients of payments or production share from other companies, and at the same time they make payments to the national budget.

The state-owned companies of some countries are bound by the same disclosure requirements that government agencies are bound by, and in some cases this has meant that there is a lot of information available about such a company's operations. Other countries, however, have found that because of their mixed role, the EITI process needs to specify the need for the state-owned company to provide considerably more information than other companies.

## **Special Considerations where the Reporting Sector consists of only State-owned Companies**

When a reporting extractive sector is completely owned by the state and/or operated solely by state-owned corporations or entities, special considerations might be required to ensure effective reporting under EITI. These include the following.

### ***Physical Audit Mechanisms:***

- State-owned corporations that engage in the extraction of natural resources are sometimes separate legal entities with well-defined rights and liabilities, and pay fees, rents, and taxes to the government at “arm’s length,” thus enabling a reconciliation of amounts paid (by state-owned corporation) and revenues received (by the government). Intragovernmental transfers of extracted resources also sometimes take place between different arms of the government prior to their sale, but are properly accounted for by each separate arm.
- However, this scenario is not predominant in situations where the sole operators are state-owned entities, and/or the resource sector itself is owned and operated by the state, wherein a number of intragovernmental transfers of the natural resources (between various arms of the government) might take place prior to its final sale, absent records (that is, such transfers might take place and the records of such transfers may not be maintained because it is the same entity at both ends of the transfer.)

- In such cases, either developing adequate transfer-pricing mechanisms or conducting a physical audit at each step in the initial stages of transfer before a final reconciliation on the sale takes place, would facilitate reconciliation under EITI by providing comparable data, which otherwise would not be possible. (For more on audit and reconciliation mechanisms, see *Part II, Chapter 4, Setting the Scope for an EITI Process, Data Reporting, Audit, and Reconciliation Mechanisms under EITI*.)

***Identifying Comparable Transactions:***

- Identifying the first comparable transaction using the first point of trade or sale between the government and private enterprises also enables reporting and reconciliation under EITI in such scenarios. This can be used as a means to introduce EITI into the country, which can then be expanded to other reporting sectors.

***Good Practices: Focusing EITI on Exports—Iraq:***

- In Iraq, where the oil and gas sector is 100 percent state owned, EITI was focused first on disclosing the revenues from oil export sales and reconciling these revenues with the corresponding figures that international oil buyers reported to have paid, thereby providing easily comparable data as a forerunner to introducing the process into domestic sales, signature bonuses,<sup>12</sup> and noncash oil exports.

***Leveraging Ministerial Control to Ensure Compliance:***

- Especially in countries where the state-owned corporations are the sole or dominant operators in the extractive industries sector, ministerial control through allotment of finances, or appointments of staff in such corporations, could be effectively leveraged to ensure compliance with EITI. Experience shows that underfinanced and understaffed ministries, when faced with the task of ensuring compliance with EITI by state-owned operators that are either financially independent or independent of regulatory oversight, often fall short of the task.

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<sup>12</sup> Signature bonuses, common especially in the oil and natural gas sectors, are payments made by companies as a part of their payment obligations to the host government, in order to obtain the specified licenses or concessions.

# Requirements and Good Practices Relating to the Formation and Functioning of Multi-stakeholder Groups

Both at the national and international levels, EITI is managed by a multi-stakeholder approach. While the international EITI standards and governance structure are formed and governed based on an inclusive approach with the international stakeholder constituencies (see *Part IV, Chapter 17, International EITI Governance and Management Structure*), the implementation of EITI is based on local ownership and an inclusive dialogue among the domestic stakeholders mentioned above, who are represented in the multi-stakeholder group (MSG). This chapter describes the processes involved in the formation and workings of MSGs.

## A Description of Processes in the Formation of MSGs

**Membership of MSGs.** The criteria for selecting members of MSGs are informed by EITI Requirement 4. The following factors and actions to be taken should be considered when selecting members of various stakeholder constituencies to the MSG:

- Each stakeholder constituency should be given the right to appoint its own representatives, in accordance with the desirability of pluralistic and diverse representation. This requirement is pivotal to ensuring that excessive governmental control does not exist over the stakeholder representatives, and that the respective stakeholder groups are able to democratically represent themselves by electing their representatives.
- MSG members should have the capacity to carry out their duties and be able to operate freely without restraint or coercion, including by liaising with their constituency groups.

- The government of the implementing country holds informal and formal meetings on EITI to explain the purpose of the program to stakeholders, who are asked to appoint their representatives.
- Pursuant to an open and transparent invitation from the government, the groups of stakeholders appoint their representatives (within many countries, civil society coalitions select their own representatives by caucus to join the MSG, and companies are also doing the same via, for example, the Chamber of Mines or a Petroleum Association).
- Publication of public notices requesting nominees from each stakeholder group.
- Individual members are designated. MSGs comprise individual members representing various organizations, but many countries have found it useful to appoint a specific individual by name to make sure that there is consistency and continuity in how an organization engages with the EITI process. However, provisions for alternate members also exist in case the primary members are unable to attend.
- A chairperson is appointed. Most MSGs have a nominated chairperson who is responsible (usually with help from a National EITI Secretariat or implementation unit) for calling and managing MSG meetings. The chairperson is usually the government’s appointed “EITI champion.”
- Funding and support are given to MSGs. In some countries, resources are made available to enable MSG members (for example, from different cities) to attend the meetings.

## Proportional Representation of each Constituency

In most countries, MSGs tend to have between 10 and 20 members. In countries where there are a very large number of major companies, where there are no other subsidiary forums that bring stakeholder groups together, or where there are numerous government agencies involved in the revenue collection process, it has sometimes been necessary for greater weighting of company and government representatives. In such cases, countries have needed to be particularly careful to ensure that CSOs are adequately represented and involved in the process.

## The Role of Governments in the Formation and Working of MSGs

The roles and responsibilities of governments in establishing and ensuring the smooth functioning of MSGs are informed by EITI Requirements 4, 6, and 7. When establishing the MSG, governments are required to ensure that:

- Senior government officials are represented on the MSG
- The invitation to participate in the group was open and transparent
- Stakeholders are adequately represented (even if not equally represented)
- There are no impediments to civil society participation in the discussion and decision-making process
- There is a process for changing group members that does not include any suggestion of coercion or attempts to include members that will not challenge the status quo.

Governments may also, at their discretion, undertake stakeholder assessments for creation of MSGs, and/or establish a legal basis for the MSG. In the context of national law, in some countries the stakeholder group is formed simply at the invitation of a senior official or minister. In other countries, however, some sort of legal device (for example, a presidential or ministerial decree, or law) is necessary to formally establish such a group.

To ensure the smooth functioning of MSGs, the measures required to be taken by the government include:

- Ensuring that Civil Society Organizations (CSOs) and companies that are a part of the MSG get adequate advance notice of meetings and timely receipt of relevant documents to enable them to prepare for meetings and discussions.
- Addressing (either as an individual EITI or in association with companies and civil society) potential capacity constraints impacting civil society and company participation in the process, including by providing access to capacity building or resources.
- Ensuring that the fundamental rights of stakeholders, including civil society and company representatives, are respected (Requirement 6(i)).

The EITI Rules also require the government and the MSG to conduct outreach activities to engage companies and civil society in implementation (see *Part II, Chapter 6, Communicating EITI*).

## The Role of Civil Society in the Workings of MSGs

Civil society, by its very nature, is diverse, and its representation on MSGs should reflect that diversity. The role of civil society in the workings of MSGs is informed by EITI Requirements 4 and 6. Civil Society Organizations involved in EITI as members of MSGs must be independent, both operationally and in policy terms, of other stakeholders, and must be allowed to express their opinion freely without restraint, coercion, or reprisal.<sup>13</sup>

Civil society representatives in MSGs must be allowed to engage in discussions on EITI and disseminate information on the topic among the sectors of civil society who are not a part of the group in order to get their input on the process.

The issue of the involvement of CSOs that are considered to be politicized (that is, are viewed as aligned with the government or opposition political groupings) has been controversial in some countries. For example, some countries have not yet adequately involved civil society in the EITI process, with the attendant risk of slowing progress in implementing EITI and the risk of their EITI efforts being judged as noncompliant with EITI Rules.

## Outreach Activities of MSGs

Requirements 6 and 7 prescribe the outreach activities MSGs are required to undertake. MSGs are required to have representatives of all the significant oil, gas, and mining companies operating in the country. However, where this is not feasible due to the large number of companies, agreed upon representatives of these companies will sit on the MSG, and these representatives will communicate the MSG decisions to the broader constituency of companies. The same holds true for other stakeholders such as civil society, wherein the outreach activities become important in case of selective representation. The

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<sup>13</sup> To address such issues concerning civil society members, the EITI Board has constituted a rapid response team that evaluates whether they are in compliance with the EITI Principles, Criteria, and Requirements. Unlike other sections of the stakeholder group, civil society is probably the most vulnerable, and there have been instances in the EITI process when the ability of civil society members to express themselves on issues faced by the MSG has been curbed. Some of the concerns raised by civil society have included (a) harassment and intimidation of civil society representatives participating in the implementation of the EITI; (b) denial of travel permits sought by civil society representatives to attend related meetings; (c) legal, administrative, procedural, and other obstacles to the registration and operation of independent civil society; (d) impediments to the free selection of civil society representation; (e) inclusion among the “civil society” representatives of members of parliament from the ruling party or other political parties aligned with the government; (f) human rights questions; and (g) resource and capacity constraints.

EITI Rules require the government and MSG to reach out to the extractive industry companies and civil society, and to inform them of their role in implementing EITI (see *Part II, Chapter 6: Communicating EITI*).

## Voting and other Decision Making in MSGs

Once MSGs have been formed, members should agree on rules and procedures under which the group will operate, which could include (a) on voting and quorums for decision making, (b) regularity of meetings, and (c) rules for such meetings (for example, ability to state opinions without attribution that is, the so-called Chatham House Rule). These rules could be incorporated in a Memorandum of Understanding or terms of reference for the group, as discussed in box 2.1.

An example of an MSG Memorandum of Understanding (from Azerbaijan) is available online in the compendium of sample documents. Also included are sample charters of MSGs from a number of EITI countries.

### **Box 2.1 Memorandums of Understanding and Terms of Reference/MSG Charter**

To fully involve all stakeholders and to be clear about the functions and operating rules of an MSG, the MSG is required to agree to clear public terms of reference (ToRs).

Such ToRs are signed by MSG members (and many other organizations to demonstrate their commitment to the EITI), and according to Requirement 4, must include:

- Provisions on the endorsement of the Country Work Plan
- Provisions for revisions of the Country Work Plan following comments by the MSG
- Procedures for appointing an independent Reconciler.

It may also include, as an example:

- Signatories' commitment to EITI principles and criteria
- The rights and responsibilities of every organization that signs the Memorandum of Understanding
- Clear provisions on memberships, chair, quorums, and how decisions are made or voted on
- Provisions for appointing the Validator and other key vendors.

## Other Considerations

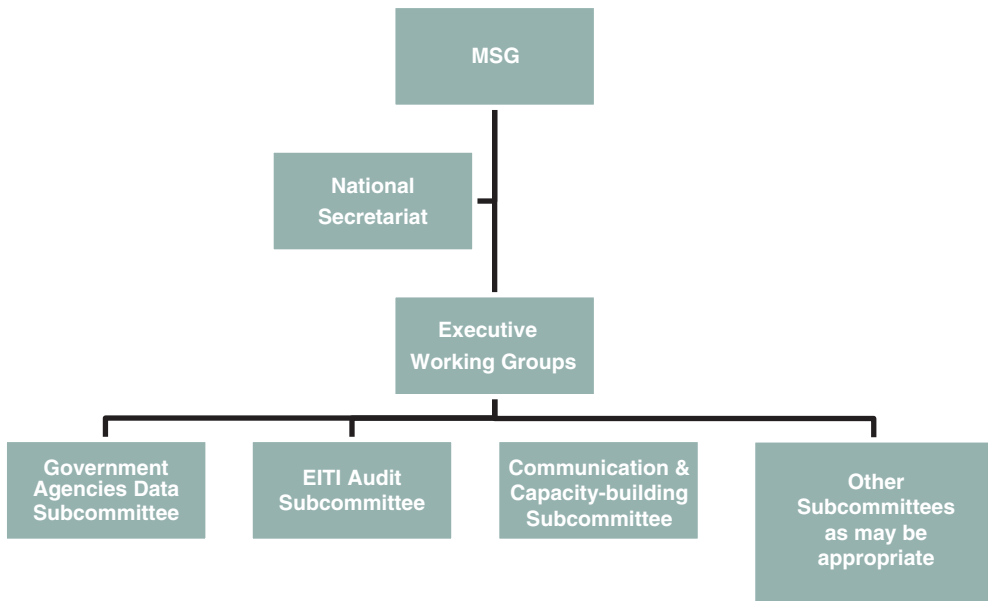
MSGs often face the challenge of balancing the need to be broadly representative, while still being small enough to meet easily and regularly. To address this issue, countries have employed different approaches, such as:

- *National EITI conferences and website:* The *EITI Rules* (2011) require the government and MSGs to reach out to the EI companies and civil society and to inform them of their role in implementing EITI. In some countries, broader numbers of people than those involved in the day-to-day work of the MSGs are convened through national EITI conferences to be consulted on the progress of EITI in the country, so that broader groups of organizations and individuals interested in EITI are engaged. It is also strongly advised that countries start maintaining a national EITI website from a very early stage of implementation. The website forms an important source of dissemination of information concerning EITI, and serves as a forum for obtaining inputs and feedback from stakeholders.
- *National EITI Secretariats or implementation units:* EITI implementation relies on a National Secretariat to coordinate actions on EITI. Some countries have sought to achieve greater buy-in from stakeholders by inviting company and civil society representatives to work in these implementation units (see *Part IV, Chapter 12, The Role of Government EITI Implementation*).
- *Specialist subgroups:* To focus on the technical work that MSGs must carry out, many countries have established smaller subgroups to handle specific tasks.

Figure 2.1 (on facing page) illustrates an example of how an MSG is sometimes organized.



**Figure 2.1 Sample MSG Organizational Chart**



## Functions of MSGs

One of the first tasks of an MSG is to define its specific functions in the context of EITI in that country. In most countries, the functions of the MSG (along with details of its relationships with other groups, and rules and procedures for how it will operate) are set out in the Memorandum of Understanding or terms of reference document for the MSG agreed by all members.

The normal functions of MSGs include:

- *Ensuring sustained political commitment and mobilizing resources:* Above all, the key functions of a EITI MSG are (a) to maintain the political commitment of the government to EITI; (b) to maintain the active engagement of all other stakeholders to ensure a robust EITI process; (c) to be instrumental in ensuring that adequate government budget resources (and support by partners) are available to fulfill the EITI work plan goals; and (d) to ensure successful EITI reporting, validation, and follow-up actions. Therefore, it is often a complex process that requires the close coordination of all the different stakeholders involved and the authority that makes the decisions necessary to implement EITI.
- *Overall strategic decision making:* Effective implementation of EITI often involves close coordination of all the different stakeholders to

meet strategic goals, which is enabled through the MSG. The MSG also possesses the authority to make the decisions necessary to implement the EITI.

- *Assessing and removing barriers to implementation:* MSGs are required (Requirement 5) to identify and address capacity constraints to implementing EITI, and the legal, regulatory, or administrative barriers (Requirement 8), and in the work plan, develop measures to remove them.
- *Scope of the national EITI process:* Perhaps the most important role of MSGs is to decide (and monitor, review, and refine) the overall scope of the EITI process. This includes making decisions on which companies and revenue streams to include, the level of reconciliation or audit involved, whether subnational governments will be included in the EITI process, and in what kind of detail the final report will be published. These issues are dealt with in *Part II, Chapter 4, Setting the Scope of an EITI Process*.
- *Agreeing on and revising the work plan and monitoring progress:* Developing a fully costed work plan for EITI is one of the EITI Requirements (Requirement 5) and EITI Criteria (Criterion 6), and MSGs are involved in creating, reviewing, and approving the EITI work plan (see *Part I, Chapter 2, Requirements and Good Practices in the Formation and Functioning of MSGs*). Once approved, some MSGs exercise oversight over the commitment and use of funds, or get regularly updated on progress and the use of funds for implementation of the work plan.
- *Appointing and managing an auditor and/or a reconciliation organization:* It is a requirement (Requirement 10) that the MSG accepts the organization appointed to reconcile the payments and revenue data submitted by the government and companies. The MSG is required to approve the Reconciler thus appointed as being credible, trustworthy, and technically competent. In many countries, the terms of reference of the MSGs assign technical aspects of this specific task to a smaller technical subgroup under its overall supervision.
- *Approving EITI reporting templates:* The MSG or subgroup is also responsible for working with the reconciler or auditor to (a) develop reporting templates for government agencies and companies for the EITI process, (b) develop guidance for government and companies on how to complete and submit those reports, (c) comply with EITI Rules on how often EITI reports should be compiled and published, and

(d) resolve any other technical issues regarding the management of the contract with the audit and/or reconciliation organization.

- *Raising public awareness on EITI:* MSGs (or a smaller subgroup) play an important role in disseminating EITI reports and raising public awareness so that EITI is widely known and understood, not just by the stakeholders involved in the process, but also by the public (EITI work plans often identify ways of doing this, such as media programs, national “road shows,” and developing websites). In terms of these outreach activities, MSGs are required to reach out to civil society and companies (Requirements 6 and 7).
- *Approving the validation firm and the draft and final Validation Reports:* A key role of MSGs is to procure the validation firm selected from a preapproved list prepared by the EITI Board to conduct the validation required under EITI Rules and to review, approve, and act on the draft and final Validation Report findings and the final decisions thereon delivered by the EITI Board (Requirement 20; see *Part II, Chapter 7, Preparing for and Undergoing Validation*). This process can often take up to nine months and needs to be planned well in advance, including seeking financial resources from the government’s budget often up to two years in advance, to ensure adequate resources are available to facilitate Validation.
- *Follow-on actions and consolidating/building on EITI:* Especially for EITI Compliant Countries, another key role of MSGs is to develop strategies and action plans that implement remediation actions for systemic weaknesses uncovered in the EITI process and more generally seek to consolidate EITI as an irreversible process and that promotes EITI as a platform for better governance of the oil, gas, and mining sectors.

## Developing and Refining National EITI Work Plans

The EITI Requirements (Requirement 5) specify that MSGs of EITI countries develop a comprehensive work plan (see box 2.2) for implementing EITI (and its requirements for political commitment and funding), allowing an EITI country to set out clearly the steps, sequence, and funding for the activities needed to properly implement EITI. As the last step in the EITI “sign-up phase,” the national MSG is required to outline, refine, and agree to a national EITI work plan in consultation with other key stakeholders, including extractive companies and civil society.

The EITI work plans must be made available in the public domain by publication on the national EITI website or websites of relevant governmental agencies, in print media, and so on—and must be regularly updated.

### Box 2.2 Contents of an EITI Work Plan

National EITI work plans are required to encompass:

- *Objectives and Targets:* The goals of the national EITI process and specific measures and targets to reach it
- *Scope of EITI Reporting:* Establish the scope of EITI reporting in terms of the companies, sectors, and key revenues involved
- *EITI activities and sequencing:* Specific work steps required to meet the above EITI goals
- *Timetable and responsibility:* The dates by which the activities are to be completed and the agency or individual responsible for completing planned actions
- *Costs and funding sources:* Costs of the EITI work plan activities and funding sources
- *Capacity constraints:* Assesses any potential capacity constraints in government agencies, companies, and civil society that may be an obstacle to effective EITI implementation, and actions to remedy such constraints.

## Structuring and Consulting on EITI Work Plans

The experience of implementing countries developing an EITI work plan shows that it is both a consultative and iterative process, which is shaped in large measure by the kind of EITI process being implemented. In some countries, the entity responsible for producing the draft EITI work plan and shepherding the process is the national EITI Secretariat or implementation unit. The draft work plans are typically shared widely in a consultative process. However, it is required that the final work plans be worked through with, understood by, and officially adopted by the MSG. The degree of urgency of implementation and the resources available will also shape the work plan.

EITI work plans are not static documents; they undergo continuous revision and many EITI-implementing countries finish their first round of EITI reporting with very different work plans from the one they started with. Usually certain actions and sequencing are identified only when the EITI process has actually begun, and for this reason the MSG is also encouraged to refine and revise the work plan regularly. Box 2.3 presents good practices in determining national EITI work plans.

### Box 2.3 Good Practices in Determining National EITI Work Plans

Good practices in determining national EITI work plans include the following:

- *Scoping*: Discussion among all stakeholders of the scope of the EITI program (see *Part I, Chapter 1, Setting the Scope for an EITI Process*), which is best done prior to producing the work plan, including considering issues such as (a) which payments and revenues are material and should be included; (b) which companies and government entities, including subnational levels, pay or receive these revenues and should report; and (c) making sure the data are reliable (carrying out a reconciliation or a variant thereof or full audit).
- *Goals, measurable targets, costs, and timelines for implementation*: The ideal work plan identifies goals to be achieved by EITI, and fixes quantifiable targets that would help achieve the goals by analyzing the benefits expected compared to the expected costs of implementation. The timelines for implementation of the work plan and achieving specific objectives are also crucial to the success of EITI.

The work plan could also specifically address the following issues:

- *Removing barriers to implementation*:
  - ▼ How any barriers to implementation will be identified
  - ▼ How to ensure that all companies and all government agencies will be legally able to disclose audited figures
  - ▼ How to ensure that all companies engage in the process.
- *Building capacity in government*:
  - ▼ How the government will support and carry out the EITI process
  - ▼ How a secretariat or implementation unit will be set up and supported
  - ▼ What the government will need to do in order to produce its own reports on the revenues it has received, including an analysis of human and technical resources within the government and their ability to implement EITI
  - ▼ Are there other countries in the region that are also implementing EITI from which the government could learn?
- *Building capacity in companies and civil society*:
  - ▼ How companies will be engaged in the process
  - ▼ What companies will need to do in order to be able to produce a report—based on audited figures—of what they have paid to government

*(Box 2.3 continued on the next page)*

*(Box 2.3 continued from the previous page)*

- ▼ How civil society will be engaged in the process
- ▼ How issues of capacity building for CSOs will be addressed—do they, for example, have a good understanding of the extractive industries and of the different kinds of payments and revenues
- ▼ What other companies or CSOs in other countries in the region are involved in EITI implementation from which local groups could learn.
- *Producing an EITI report:*
  - ▼ The process of consultation used to determine the scope of the EITI process
  - ▼ How a reconciliation or audit firm will be appointed to produce an EITI report
  - ▼ How the reporting templates and guidance for government and companies will be designed
  - ▼ How the reconciliation or audit firm will be managed and funded
  - ▼ How the EITI report will be reviewed and then disseminated.
- *Communicating the EITI report and process:*
  - ▼ How all stakeholders affected by or interested in the EITI process will be engaged
  - ▼ Which media and communications products will be used to explain EITI
  - ▼ How the information on the EITI process and the EITI reports will be presented in an easily understood way and made widely available to members of the public
  - ▼ How the EITI reports will be widely disseminated and discussed.
- *Revising and funding the work plan:*
  - ▼ How the work plan itself will be reviewed and revised
  - ▼ Who will be responsible for making any necessary changes to the work plan
  - ▼ How funding and resources will be identified and allocated to support all of the actions of the work plan.
- *Preparing for and undergoing validation:*
  - ▼ How the validation procedures set by EITI Board will be met and funded.
- *Monitoring and follow-up of the EITI:*
  - ▼ How EITI will be monitored and its results and impact measured
  - ▼ At what points the program will be reviewed to determine whether it is working well, and if not, how changes to the program will be made
  - ▼ How and when follow-up on validation findings will be acted on
  - ▼ How and when follow-on strategies and actions will occur, building on EITI.

# Securing Funding and Defining Timelines

## Securing Adequate Funding for Implementation of EITI

Simultaneously with the sign-up requirements, decision makers are required to begin identifying the needed financial resources within government budget systems for timely implementation of the national EITI work plan (Requirement 5). They are also required to formulate strategies to mobilize resources and technical assistance from supporting countries, donor agencies, and international development agencies. Sufficient funding for Validation should be specifically budgeted, and the majority of the Validation cost must be covered by the government.

Direct, medium-term technical and financial assistance to support implementation is usually led by international institutions such as the World Bank (supported by the donor-funded EITI Multi-Donor Trust Fund, regional development banks, other international development agencies, bilateral agencies, and international Civil Society Organizations (CSOs)). Such international sources of funding may be sought, if necessary, by EITI-implementing countries to augment their domestic sources. What follows is a brief description of the roles of each of these agencies.

- ***World-Bank-managed Multi-Donor Trust Fund for EITI:*** An EITI Multi-Donor Trust Fund (EITI MDTF) administered by the World Bank is used by many donors to channel support to EITI-implementing countries. This trust fund makes grants directly to countries implementing EITI and is also used to provide technical assistance (through EITI advisers and consultants) to these countries. For maximum impact, the trust fund tends to focus its resources on countries that (a) have clearly demonstrated their commitment to the EITI process and are likely to be able to deliver EITI reports within the prescribed time limits, (b) have developed a comprehensive EITI work plan, and (c) meet the selection criteria of the MDTF.

- ***Technical and financial assistance from donor agencies and the World Bank:*** Many donors have also provided technical assistance resources (and funding) to support EITI implementation in different countries.
- ***International CSOs:*** Organizations such as the Revenue Watch Institute, the Publish What You Pay Coalition, and Transparency International are able to provide advice and support to local CSOs involved in EITI implementation.
- ***Extractive industry companies:*** In some countries, companies have committed to help support the costs of operating MSGs and the local costs of EITI implementation, although such a funding relationship needs to be kept at arm's length (for example, by contributing to an independently administered national fund that supports EITI implementation) in order to ensure that there is no improper influence over the EITI process.

Countries that have received financial support for their EITI process from multiple donors have often found it useful to ensure that all donors meet regularly with the implementation unit and the MSG to ensure that there are no gaps or overlaps in funding.

While external sources of funding can be useful for kick-starting an EITI program, they can rarely be relied upon to provide permanent funding. For that reason, most EITI countries seek to eventually provide funding for their EITI process from their own budgets, so that the program becomes a normal part of government operations.

## Implementation Timeline

Given the different scope of countries' EITI work plans, there is considerable variation in how long it has taken different countries to implement EITI. Some have been able to progress very quickly and have been able to produce their first EITI Report within a year of implementation. Rushed implementation, however, carries a risk of insufficient consultation with stakeholders, which often ultimately delays the production of an EITI report.

All Candidate Countries, unless they apply for extensions based on exceptional and unforeseen circumstances, are required to submit their first EITI Report within 18 months of attaining Candidate Country status. Subsequent EITI Reports are required to be published annually (Requirement 5, Policy Note #3).

Most EITI countries have had to review their EITI progress and make refinements to the process; EITI is a technical process that involves many



different stakeholders, and most countries only learn how to implement it by doing it. Factors that can increase or decrease the speed of implementation include (a) the scope of the EITI process that is to be delivered (with more complex programs requiring longer time to implement), (b) commitment of the EITI champion (the most important factor in the smooth progress of EITI), (c) engagement of companies and civil society, and (d) adequacy of human and financial resources deployed.

## Illustrative Simplified EITI Budget

Table 3.1 shows a simplified example of an indicative budget for an EITI process. In reality, the costs of an EITI process vary considerably depending on the scope of the program a country adopts. The figures included in the table, therefore, are only estimated averages. Moreover, the budget would normally be presented as part of the completed work plan, and thus would break down the categories of expenditure used here into specific actions.

**Table 3.1 Example of a Generic and Simplified Indicative EITI Budget (per year)**

Item	Cost	Paid by (as an illustration)
Supporting the work and operations of the MSG (e.g., providing transport for members so they can meet in different cities when necessary, provision of refreshments, stationery)	US\$5,000	Government
Establishment and maintenance of an implementation unit (e.g., paying salaries of staff, provision of IT and communications equipment, stationery, transport)	US\$60,000	75% by government; 25% by grant from EITI MDTF
Hiring of audit company to advise on production of reporting templates, and to reconcile payments and revenues data for 2 years	US\$200,000	50% government; 50% grant from EITI MDTF
Communications and outreach program (development of EITI materials; setting up an EITI website; running EITI conferences and road shows)	US\$50,000	Funded by grant from Bilateral Donor A
Capacity-building and training programs for government agencies, companies, and CSOs involved in EITI implementation	US\$50,000	25% from grant from EITI trust fund; 50% from government; 25% from international CSOs
Consultancy assistance to help draft new regulations or legislation or to assist with scoping work to enable EITI reporting to proceed	US\$20,000	Funded by grant from Bilateral Donor B
Hiring of an independent Validator (periodically)	US\$100,000 (per year)	Government (at least 50%)
<b>Total funding provided by development partners</b>	<b>US\$260,000</b>	<b>External support</b>
<b>Total funding provided by government budget</b>	<b>US\$225,000</b>	<b>Government budget</b>
<b>TOTAL</b>	<b>US\$485,000</b>	

## Applying for EITI Candidature

When a country has completed the “sign-up” steps, it is eligible to seek the EITI Board’s recognition as an “EITI Candidate Country.” The senior individual appointed to lead on EITI implementation, with support of the MSG, is required to formally submit a Candidate Application in writing to the EITI Chair. Templates and guidance on the application process are available from the International Secretariat. The Outreach and Candidature Committee of the EITI Board together with the EITI International Secretariat assess the application and contact stakeholders at the national level to ascertain their views on the sign-up process and resolve any outstanding issues.

Based on these consultations, the EITI Outreach and Candidature Committee, after due consideration, makes a recommendation to the EITI Board on whether or not “EITI Candidate Country” status should be granted to the applicant country. The EITI Board subsequently takes a final independent decision that is informed by the prior recommendations.

# PART II: Achieving EITI Compliance

Although EITI has clear key requirements and a well-defined Validation framework (see *Part II, Chapter 7, Preparing for and Undergoing Validation*), its implementation on the ground has taken a variety of shapes, since EITI processes have been developed to address different countries' individual circumstances and sector conditions. Part II of the handbook delineates the processes involved in achieving EITI compliance, and the good practices that have been followed globally while implementing them.

## Setting the Scope for an EITI Process

Setting the scope of the EITI work plans is an important function of multi-stakeholder groups (MSGs) (Requirement 5). This chapter presents the elements of the various requirements of EITI and innovations that have been developed by implementing countries. Since the issues presented here go the heart of a country's EITI Report, it is important to read Part II, Chapter 2, Producing an EITI Report, as well, which covers the technical processes used to prepare for and produce EITI Reports. The Guidance Note on "EITI Feasibility and Scoping Studies" may be referred to for further information.<sup>14</sup>

The World Bank Group has observed that the countries with more extensive EITI processes have produced higher-quality EITI reports and have tended to benefit more from EITI in the long run. More information, so long as it is presented in an understandable manner, is ultimately more useful in achieving the goals of EITI.

Equally, however, there is a clear cost-benefit trade-off—some countries must balance the scope of the EITI process they aspire to with the scope that is possible to achieve with the resources available. Each expansion of the scope of the EITI process has a cost—both financially and in the amount of time and effort it takes to complete a reporting process. In virtually all countries, the increased cost is easily matched by the fiscal benefits (for example, more efficient revenue collection) it brings, but stakeholders need to be clear on the trade-offs involved in determining the scope of the EITI program.

EITI is also a process in which much is learned by stakeholders during the implementation process. Thus, some countries have often found it useful to start off with a limited program that satisfies the EITI Requirements and then, following further consultation or the production of a first EITI report, choose to further expand the scope of their program, with a view to mainstreaming EITI into their broader governance structure. This phased approach allows for learning and for trust to be built up among stakeholders before scope refinements are made.

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<sup>14</sup> <http://eiti.org/document/guidance-notes>.

## Key Scoping Decisions

Different choices lead to different types of EITI programs—the scope of an EITI program determines whether it seeks to satisfy the EITI Requirements and standards, or also aims to mainstream EITI into the general administrative structure. Given the strict timelines required for submitting EITI Reports, arriving at scoping decisions at an early stage helps the EITI process significantly. This is also the reason why some countries have chosen to undertake scoping studies even prior to applying for EITI Candidacy. The scoping decisions that follow (which are discussed further later in the chapter) have needed in-depth analysis and stakeholder consultation and have been the most debated issues faced by MSGs.

- *Including other sectors and/or nonproduction-related transactions:* A few countries have decided to include other natural resources in their EITI programs. Some countries have also decided to broaden their programs to include revenue streams that are not directly related to upstream (extraction and production) activities, such as export sales and by-products.
- *A reconciliation process or an audit process:* A fundamental scoping decision in EITI countries is whether the EITI Report will be a reconciliation of payments and revenues (carried out by a firm acting as a Reconciler), or whether it will go further and allow for payments and revenues data to be audited under accepted international auditing standards (that is, carried out by an appropriately qualified audit company).
- *Materiality definition and possibly thresholds for payments, revenue streams, or company participation:* Some countries opt for comprehensive disclosure covering all payments and revenues, regardless of size. Other countries have set their own materiality limits in order to reduce the scope of reported data, thereby reducing timelines and costs of compliance. “Materiality” standards are required to be set on the basis of (a) payments (that is, the size of payment below which it is excluded for efficiency from the EITI process), (b) revenue streams (including a list of revenue streams presumed to be material—and consequently, reportable—unless proved otherwise), and (c) relevant companies (that is, the threshold size of company operations below which they are excluded from the EITI reporting process).

- *Degree of disaggregation of data disclosure in EITI Reports:* In addition to materiality, a key element of the scope of EITI is the degree of disaggregation of data that an EITI Report contains, with respect to separately identifying—or not identifying—total payments by reporting companies and the corresponding types of such payments.
- *Including subnational payments:* Some EITI countries choose to report only on what companies pay to the national or federal government. However, EITI requires the reporting of payments made to subnational levels of government (for example, state, district, and traditional leaders) and other governmental entities where such revenue streams are considered “Material.” MSGs are encouraged to apply a high standard of transparency to social payments and transfers, beginning with an understanding of the types of payments and transfers, the parties involved in the transactions, and the materiality of these payments and transfers relative to other benefit streams.
- *Including arrangements based on in-kind payments:* Where agreements based on in-kind payments, infrastructure provision, or other barter-type arrangements exist, the implementing countries are required to decide whether these are material and should be reported. To be able to do so, the MSG needs to analyze contractual terms, the parties involved, the resources pledged by the state, the value of the balancing benefit stream (for example, infrastructure works), and the materiality of these agreements relative to conventional contracts (where reconciliation of transactions involving in-kind payments is not feasible, the MSG should agree on an approach for unilateral company and/or government disclosures to be attached to the EITI Report).
- *Reporting social payments:* Stakeholders in implementing countries have often commented that reporting material “social payments” under EITI is important because (a) “social payments” are important for local communities in terms of realizing direct benefits from extractive industry projects; and (b) “social payments” may, on occasion, be controversial or the source of speculation regarding corruption. This is an option (but not a requirement) that the MSG might consider, based on the consolidated impacts of social payments on the reporting sector, as a revenue stream.

## Determining the Sectors to be Included

The preliminary issue to be discussed during decisions on scoping is the relevant sectors that will be covered under EITI. While some countries have restricted EITI coverage to a part of the Extractive Resources sector, such as either oil and gas or mining, some countries have taken EITI to its logical extension by making it applicable to other natural resources. In many EITI countries there has been considerable debate on the issue of whether to expand EITI to other sectors not related to oil, gas, and mining (for example, forestry and fisheries), or to oil, gas, and mining aspects not related to exploration or production (for example, refining or processing and transport)—or indeed key transactions that have by design been left out of the scope of the EITI Criteria (for example, award of extractive licenses or the public expenditures side of national budgets) (see box 4.1).

The decisions made on this issue directly relate to the issues EITI-implementing countries seek to address, and the relevance of sectoral reporting to that goal. A decision on this aspect is made by MSGs while formulating country work plans, but it can also be informed by scoping studies.

### **Box 4.1 Different Approaches to EITI in Oil, Gas, and Mining Countries**

EITI covers both countries and companies involved in the oil and gas and mining sectors. Given the different nature of the oil and gas sector and the mining sector and their financial flows, differences exist in the scope of EITI processes adopted for each sector. These include:

- State-owned companies (often closely involved in EITI implementation and required to provide more information than other companies) are more commonly found in the oil and gas sector than in the mining sector.
- Oil and gas operations are often larger (in terms of investment and in revenues generated) than mining operations, where even a small oil or gas company is normally a very significant company. Mining operations, however, can be quite small in comparison. This has a bearing on the materiality threshold set for EITI participation, where very few countries have excluded oil and gas companies from an EITI process, but some EITI countries have excluded very small mining companies for reasons of overall cost-efficiency.
- In many mining countries, there are large numbers of “artisanal” or small-scale miners. How to include small-scale mining entities in its scope is an emerging area for EITI. One option is to focus on exporters and dealers in minerals in the EITI process,

*(Box 4.1 continued on the next page)*

(Box 4.1 continued from the previous page)

where such trade is often dominated by just a small number of individuals or firms. Another option is for the government to unilaterally disclose the combined revenues received from all such small-scale operators, given the fact that ensuring compliance by the small-scale operators is likely to be expensive and tedious.

- Mining operations often have a far greater immediate and visible impact on communities as users of infrastructure (roads, railways, ports) compared to typical oil operations (which may well be offshore). Thus, mining companies often make significant payments to subnational levels of government, or a proportion of mining revenues are redistributed by central governments to mining districts—and where material payments are being made to subnational levels of government, the scope of an EITI process must be expanded to capture those payments.
- Indeed, some experience has been that because mining companies have a more obvious physical presence than oil companies, mining companies are often more interested in ensuring that there is a good public understanding of their impact and the payments to government.

Overall, EITI is not any less suited (or practiced) in mining countries than in oil- and gas-producing countries.

## Expanding the scope of EITI reporting to other sectors

Recognizing the benefits of EITI in addressing issues resulting from lack of transparency, and EITI's empowering nature in terms of providing stakeholders with valuable data that fuel demand for better governance, some implementing countries have expanded the EITI process beyond extractive industries. For example, the Central African Republic plans to extend EITI reporting to the forestry sector and the Kyrgyz Republic to the electricity sector, and Liberia has extended it to forestry and agriculture and Togo to the water sector. Extending the scope of sectoral reporting under EITI paves the way for mainstreaming it into the governance structure of the implementing country.

When seeking to expand the scope of EITI reporting sectors, the following issues should be addressed:

- *EITI, on the revenues and payments side, is itself a challenge:* Producing an adequate reconciliation of payments and revenue data from one sector can be a difficult process in itself, even without adding additional sectors.
- *Expanding to other sectors means expanding the numbers of stakeholders:* By remaining focused on oil, gas, and mining, EITI is able to proceed



at a good speed because the number of people and the process are kept manageable. Expanding an EITI process risks having to bring together larger numbers of stakeholders with diverse interests.

- *Expertise in reporting sectors is preferred:* Embracing a sector such as forestry, fisheries, or water, would mean the availability of limited or no expertise from existing international structures that support EITI, due to their focus on extractive industries.

## Reporting other oil, gas, and mining revenues

Within the extractive industries and allied sectors, some EITI-implementing countries have debated whether to include transactions other than exploration and production, such as payments and revenues relating to transportation (for example, pipeline transit fees, which may generate significant revenues for government) and processing (for example, refining oil or concentrating ore where such “downstream” operations can be argued to be an integral part of production and exports).

Regarding these transactions, other than exploration and production, certain (though not all) countries have included other revenues in the scope of EITI, such as payments by an oil refining company. One view could be that, although a complex undertaking and not required by EITI Requirements, a country might find it useful to cover these “downstream” oil, gas, and mining transactions to yield a better understanding of overall sector financial flows and possibly provide a better link to the monetary value of original, upstream transactions (exploration- and production-related).

Experience suggests that stakeholders considering the expansion of the EITI process to areas other than its primary exploration and production focus might consider (a) whether the EITI process itself delivered satisfactorily on the EITI Requirements, including satisfactory external validation; and (b) whether such expansion risks creating an overcomplicated process whose costs exceed its benefits. Equally, however, experience also suggests that increasing transparency in one sector and in the transactions related to it in itself creates increased demand for greater transparency in other sectors and transactions.

Further, in some countries (mainly oil-producing countries), “production sharing agreement” systems are in place under which the oil or gas produced are apportioned into shares between the producing company and government (“cost oil” and profit oil”) to cover production costs and profit, and the government’s take of production. The government’s take is often disposed of by the producing company selling it on the government’s behalf. Such sales are done by a government company, a marketing agency, or another

intermediary. In these cases, care is taken to be sure that the government production share is appropriately “monetized.”

Certain countries have sought to include monetized values of production-sharing-agreement operations in the scope of their EITI processes. However, the practice in most EITI countries has been to report on physical volumes only. Producing companies (non-state-owned) hold the view that how a government monetizes its production share is not a concern for companies; that is, a company should focus on reporting the volume of production and how it was shared.

## Data Reporting, Reconciliation, and Audit Mechanisms under EITI

### Determining data reportable under EITI

After deciding on the scope of the reporting sector, the next relevant scoping decision pertains to the nature of data to be reported, which follows debate within the MSG as to (a) what the optimum balance is between producing data compared to the cost of producing that data; (b) whether the data are “material,” that is, does its exclusion materially affect EITI reporting and the desired goals; (c) the benefit derived from the process; and (d) how the EITI process might be linked to broader sector management and good governance programs.

There is no “right” answer to these questions; each EITI implementing country must make its own choices in accordance with *EITI Rules* (2011). Nonetheless, certain core overarching factors exist in a country-specific context, which affect the scope of data reported under EITI. These are:

- *The amount of data already publicly available:* In some countries, very little information on company payments and government revenues is publicly available or consolidated into a single, easy-to-understand source. In other countries, a lot of such revenue data already exist and are available to the public via a few, easily accessible sources.
- *Quality of revenue data in the public domain:* Of the data that have already been produced and are publicly available, whether or not they are audited to international standards has a bearing on deciding the scope of EITI.
- *Public perception of the level of transparency in the country:* Notwithstanding the information made available by the government and companies, the perception of their reliability (trust) by the public at large is also important.

- *Resources available to conduct an EITI process:* A core driver of scope is sometimes simply the levels of human and financial resources available for the task, whether from the government or from donor-provided funds that support the EITI process.

Assessments of these factors have generally helped stakeholders shape the direction of the EITI process in their countries. In countries in which very little information has previously been disclosed, or what little has been disclosed is of low perceived quality and is not trusted by the public, stakeholders in an EITI process may wish to consider opting for a wide-ranging and in-depth EITI process. In other countries, where high-quality data are in the public domain, a more high-level EITI process might be more appropriate in order to create a participative multi-stakeholder EITI process and consolidate EITI-reported data in one place.

## Approaches to EITI data reporting, reconciliation, and audits

There are three EITI Requirements on reporting and determining the quality of data, as listed in box 4.2.

### Box 4.2 EITI Requirements on Reporting and Determining Quality of Data

- Requirement 11** The government is required to ensure that all relevant companies and government entities report.
- Requirement 12** The government is required to ensure that company reports are based on accounts audited to international standards.
- Requirement 13** The government is required to ensure that government reports are based on accounts audited to international standards.

The EITI process requires the reconciliation and publication of payment and revenue data through reports that are based on accounts audited to international standards. This is to ensure that the data used meet a commonly accepted standard of reliability. The government is also required to ensure that data submitted by governmental agencies and/or companies are based on accounts audited to the same international standards. Achieving this may require the following steps:

- The government may pass legislation requiring figures to be audited to international standards

- The government may amend existing audit standards to ensure that they are to international standards, and require companies and government entities to operate to such standards
- Companies might be obligated to agree to Memorandums of Understanding requiring them to submit figures audited to international standards or to voluntarily commit to do so
- When figures submitted for reconciliation are not audited to international standards, the government might agree to a plan with the company (including state-owned enterprises) to achieve international standards within a fixed time period
- Government entities might be required to submit a letter affirming that their reports provide a faithful representation of the extractive industry revenues received and, if the reports do not do so, to take steps to ensure they will in the future
- In cases where the figures submitted for reconciliation do not meet international audit standards, the MSG agrees to a way to address this, for example, by developing an action plan with clear deadlines requiring the company or government entity to issue reports that do meet international standards.

An efficient way to achieve EITI reconciliation with regard to the data submitted by companies and government entities would be for them to rely as much as possible on the work of existing auditors and audit institutions and procedures, working under national laws and international auditing standards. For example, a practical process in EITI might include companies obtaining from their external auditor an opinion that the information they are submitting for EITI is consistent with their financial statements. This could be a “special procedures” request attached to the terms of reference of the external audit. These auditors would relate the cash-based submissions by the companies to their accrual-based financial statements. This process should be done in line with appropriate international auditing standards.

For government data, a practical process might include requesting that the government auditor give an opinion on the accuracy of the government’s submissions, or that a broader statement is received from the National Auditor General about how extractive revenue flows to government are covered under the latter’s programs of audits of government finances and public financial management systems.

## Approaches to reconciliation and audit of EITI data in EITI Reports

In practice, and given different systems of oil, gas, and mining accounting and reporting at the national level, there are a variety of approaches to revenue and payment data collection and to reconciliation and audit among EITI-implementing countries. It is for each country to decide which of the approaches best suits its needs, as long as they satisfy the requirement of a reconciliation process to identify and explain discrepancies in the data reported.

Currently, there are four variants of reconciliation and/or audit among EITI-implementing countries: (a) reconciliation, (b) reconciliation supplemented by limited audit, (c) reconciliation and audit testing of specified transactions, and (d) fully audited EITI Reports.

The EITI Requirements provide for a multi-stakeholder process to reconcile and publish the available data. In countries where companies, state-owned enterprises, and government agencies are already obliged to produce annual financial statements that are audited to international standards, this is very effective. Under this approach, companies submit completed EITI data templates (which their own auditors may state are based on and drawn from the company's audited financial statement audited to international standards). A Reconciler receives these data submissions and compares and analyzes them to see if the data match. The Reconciler may also seek additional specific information and data from a company or from the government to explain any discrepancy identified between the two reported amounts. The submitted data and any unexplained differences—and recommendations for improvements—are reported in the EITI Report by the Reconciler.

Other approaches include the following:

*Reconciliation supplemented by limited audits:* A variant of the reconciliation approach some countries have used is for the reconciler (or a separate firm), in addition to the reconciliation, to also undertake a limited or full audit of the financial statements of certain reporting companies, that is, those that have not been audited to international standards. This variant may apply in countries where the financial statements are of mixed quality; that is, some are audited to international standards and some are not.

*Reconciliation and audit testing of specified transactions:* In some countries, an audit company has been appointed to carry out a reconciliation of payments and revenue data as described above, and to supplement this with a limited testing of specific aspects of the company or government accounts that are the basis of the information provided for the reconciliation process (for example, the validity of costs claimed for tax deductions by companies,

or ensuring that companies are using accurate market prices to determine the value of their production).

*Audited EITI Report:* In this model, an audit company is appointed to conduct an audit of the EITI data reported by all of the companies and government agencies involved in this process, and to issue an audit opinion on the EITI Report in accordance with international audit standards. This process is an in-depth one involving substantiating revenues and payments and their underlying contractual accuracy and completeness, and verification of assets and funds flows. The EITI audit company thus needs terms of reference (and financial resources) that allow full access to company and government financial statements and records to compile the audited EITI data and report.

Given its cost and its breadth and depth, this approach, which is a full audit, has been used in only a few countries. The amount of information a company needs to provide as part of a reconciliation process is significantly less onerous than the amount of information it needs to provide for a full audit. However, such audits have generated improvements in transparency and accountability, and in the countries that have carried them out, their cost has been more than paid for with improved fiscal returns and payments. See box 4.3 for examples of audits as part of the EITI process.

#### **Box 4.3 Examples of Audits as Part of the EITI Process**

Normal EITI reports focus on what has been paid and what has been received—that is, they deal with collecting information based on existing financial statements and revenues flows. Some countries (such as Nigeria) have chosen to implement more extensive audits. These include:

1. *Physical audits:* These are audits used to measure the actual quantity and quality of the physical output of an oil, gas, or mining operations, at various points in the production, processing, and transportation process. These kinds of audits are useful in countries where government revenues are heavily dependent on production share (that is, a percentage of production that is passed to the government) and where it is suspected that the amount of actual production is higher than that being reported and taxed. Physical audits are also useful in detecting where output is being lost between two points—for example, where either through wastage or theft, the amount of oil delivered for transportation (ships or pipelines) or to refineries is significantly less than what was produced. They are also used to detect where the quality of output is being altered or misrepresented—for example, where high-quality oil is being mixed with lower-quality oil, or where the purity of a mineral ore is either overstated or understated.

2. *Process audits:* These kinds of audits are used to trace how money is paid, collected, and redistributed. These audits are useful because there are a variety of ways in which legitimate government revenue can be lost if these systems do not work efficiently. For example, if revenue is collected by a government agency that is not the country's central bank, the agency that collects the revenue can often profit from the collection process by delaying the transfer of revenues to the central bank and collecting interest on the money during the time it is between the company and the central bank. These timing differences can also be used to manipulate revenue because extractive commodity prices fluctuate daily—sometimes by several percentage points in a very short time. Similarly, because the sale of oil, gas, metals, and minerals most often involves foreign exchange transactions, small differences in the reported time of a transaction can often yield a gain, which is not passed on to revenue agencies or the central bank.
3. *Audit against contract:* In many countries, different fiscal provisions are negotiated for individual mines or wells. This is because the costs, risks, and difficulties of extraction can vary greatly from project to project. An onshore oil field that is located close to or benefits from publicly owned infrastructure, will be significantly less risky and costly for a company to develop and operate, and therefore will often pay a higher level of tax and production share than a field that is offshore in deep water. The latter project would be more costly to develop and more risky, and would require the company to develop its own transportation infrastructure. As a result, such operations may pay a lower level of tax and production share. Because of these variations in the fiscal provisions of different contracts, some countries have chosen to carry out an “audit against contract” to ensure that companies are paying the right amount of tax and production share.

The EITI process and in-depth verification of reported EITI data in these cases thus not only answered the question “what is the reported payment and revenues?,” but also answered the question “did the companies pay what they should have to the government?” in terms of applicable contracts and tax laws.

Where EITI processes include these kinds of extensive audits, countries have found it useful to think very clearly from the start of the process about how their own revenue collection agencies might (in the medium to long term) take responsibility for carrying out audits of companies' payments. These kinds of operations work best when they are a regular and predictable function of government.

## An observation on audits

In many EITI-implementing countries, there is a public perception that corruption or fraud in the sector involves physical theft of oil, gas, minerals, or metals—and the scope of the EITI reflects this concern.

In some countries, (for example, where there is an exposed pipeline infrastructure or where gemstones are illegally handled), this may well be the case, and additional physical audits may well be helpful. Experience has shown, however, that corruption or fraud in extractive industries is just as often a financial theft such as unjustified inflation of costs, transfer pricing, or related-party sales at below-market prices. This suggests that process audits or audits against contract, or, over the longer term, improving the capacity of sector management revenue collection authorities to more accurately assess compliance with contracts and tax payments, are as effective at detecting corruption or fraud as are physical audits.

## “Materiality” in EITI

The EITI Criteria require that all “Material Payments” made by companies, and corresponding “Material Revenues” received by governments, be published (see box 4.4). The MSG is required to decide which payments are “material” and which ones are not for the purpose of the disclosure requirements (Requirement 9). Effective determination of “materiality” is key to ensuring that EITI attains the maximum penetration possible, within the given reporting sectors, and a holistic picture of the revenues accruing from the extractive industries. It is also an issue that is of an intricate nature, and when determined wrongfully, has acted as a barrier to achieving compliance. MSGs are required to document the options considered when exploring materiality, and the rationale for the agreed materiality definition and thresholds.

### Box 4.4 EITI Requirements on “Materiality” of Data

**Requirement 9** The MSG is required to agree to a definition of materiality and the reporting templates.

Determining materiality levels can often lead to difficult debates, with the definition of what is material and what is immaterial a matter of judgment and one that varies among countries and also among stakeholder groups within countries. Ultimately, countries have chosen to set materiality levels by considering efficiency, because doing so allows the EITI process to proceed relatively quickly without incurring the extra cost and time that would be required to deal with small transactions or small companies (see figure 4.1).



Because there is no prefixed materiality level that is prescribed for all countries implementing the EITI, experience shows that MSGs in countries need to keep materiality under review, not just from a cost or process efficiency standpoint, but also mindful of the reputational effect of a national EITI process being perceived to be only partially transparent. The ultimate test of whether materiality levels are appropriate is that there be no material—or significant—impact on the reported EITI data as a result of the exclusions from an EITI Report.

“Materiality” standards are required to be set on the basis of (a) revenue streams (including a list of revenue streams presumed to be material—and consequently, reportable—unless proved otherwise); (b) relevant companies and government recipients (that is, the companies and government entities that pay or receive the revenue streams identified); and (c) the size of the payments/revenues, that is, by establishing a threshold for which payments and revenues are considered material within the scope of the identified revenue streams. Establishing “Materiality” standards is informed by Requirements 9, 11, 14, and 15, and by Guidance Notes.

The ideal scenario would be that *all companies and governmental agencies* in a country would normally be part of the process of reporting *all payments made and revenues received*, and *all streams of payment and revenue*, to a Reconciler. However, due to cost-efficiency and time constraints in ensuring compliance, implementing countries are required to define a materiality level on the size of payments, companies, or importance of revenue streams in a country to exclude inconsequential or “immaterial” data. If the MSG wishes, all data could be considered material, in which case, the materiality threshold would be a nullity in terms of each of the three classifications.

## Revenue stream materiality

Revenue streams that do not materially impact the EITI Reports on account of being insignificant may be excluded from the reporting process, especially when the MSG perceives the costs of compliance that they entail to exceed their potential positive impacts to EITI’s goal of sectoral transparency and accountability. It is important that both the MSG and the Reconciler are confident that all material payments included in contracts that collectively impact a benefit stream are included in the EITI Report. This is relatively easy to achieve—either by a senior officer of the company providing written assurance that all material revenue streams are being disclosed, through publication of the full contracts or the fiscal provisions of the contracts, or by contracts being provided to the Reconciler on a confidential basis (box 4.5).

#### **Box 4.5 Recommendations in Determining Revenue Stream Materiality**

When determining the “materiality” of a relevant revenue stream, the MSG is encouraged to consider the following factors:

- The significance of the particular revenue stream in relation to the total revenues collected in the sector
- The size of the particular revenue stream in relation to the government flow of funds table
- The share of revenues that the particular revenue stream represents of the total revenues received by the recipient institution or region
- Whether the revenue stream, despite being immaterial in the national context, becomes material when viewed in the regional context and thus mandates reporting.

### **Reporting material revenue streams**

The EITI Rules state that the following revenue streams<sup>15</sup> must be reported, unless the MSG specifically can document that they are insignificant and thus not “material” for reporting purposes: (a) production entitlements of host governments, (b) national or state-owned company production entitlements, (c) profits taxes, (d) royalties, (e) dividends, (f) bonuses, (g) fees for licenses and concessions, and (h) other significant benefits to be received by the government.

### **Federal structures and their impact on the materiality of revenue streams**

Federal structures and the distribution of powers, responsibilities, and revenues in governments may impact the determination of materiality. From the national government’s perspective, a particular type of taxation, for example, may account for 20 percent of all extractive industry revenues, while another type may account for only 0.1 percent. In these circumstances, it may be possible to exclude the latter without having an undue impact on the overall process. However, the very same taxation stream that is insignificant at the national level might constitute the majority of the revenues in specific regions (the subnational level), and thus attain material significance, thereby requiring reporting.

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<sup>15</sup> See EITI Rules (2011), Requirements 9(d), 9(e), and 9(f).

## Payment and revenue materiality

The EITI Rules (Requirements 9(b), 14, and 15) require that all “material” payments made by companies, and corresponding revenues received by governments, be reported. Ideally, every company that makes a payment (within the scope of the agreed material benefit streams), regardless of the size of the payment, is required to participate in the reporting process, and any government agency that receives a payment (within the scope of the agreed material benefit streams) is also required to participate.

However, some financial transactions may be relatively small, and the process of gathering additional data on these very small transactions may exceed its benefit. An entity should be exempted from reporting only if it can show with a high degree of certainty that the amounts it reports would not be “material.” A country, therefore, sets a materiality threshold to determine which payments and revenues amount to being “material” so as to impact the EITI Report (see box 4.6). This limit may be reviewed and reset for each EITI Report.

### Box 4.6 Examples of Payment Materiality Thresholds

**Aggregate payment thresholds:** Aggregate payment thresholds are based on the total payments made by a company or government entity. For example: “Any company making total payments (within the scope of the agreed material benefit streams) in excess of US\$50,000 is considered material and should report all payments,” or “Any government entity receiving payments (within the scope of the agreed material benefit streams) in excess of US\$10,000 is considered material and should report.” The MSG may wish to set different thresholds for companies and government entities.

**Disaggregated payment thresholds:** This approach employs the same rationale as above, but sets different thresholds for each of the material benefit streams. For example: Any company paying corporate taxes greater than US\$10,000 **or** royalties greater than US\$5,000 **or** dividends greater than US\$10,000, or license fees greater than US\$1,000 is required to report. The MSG should establish whether the entities that meet this test should disclose all payments, or just the payments that are material. Again, the thresholds can be set at different levels for companies and government entities, as appropriate.

## Full governmental disclosure

Some countries have established payment thresholds for companies only. In such cases, while individual transactions by companies are to be reported by the companies in the EITI process on the basis of payment thresholds set, the government discloses all revenues received. This is an effective approach

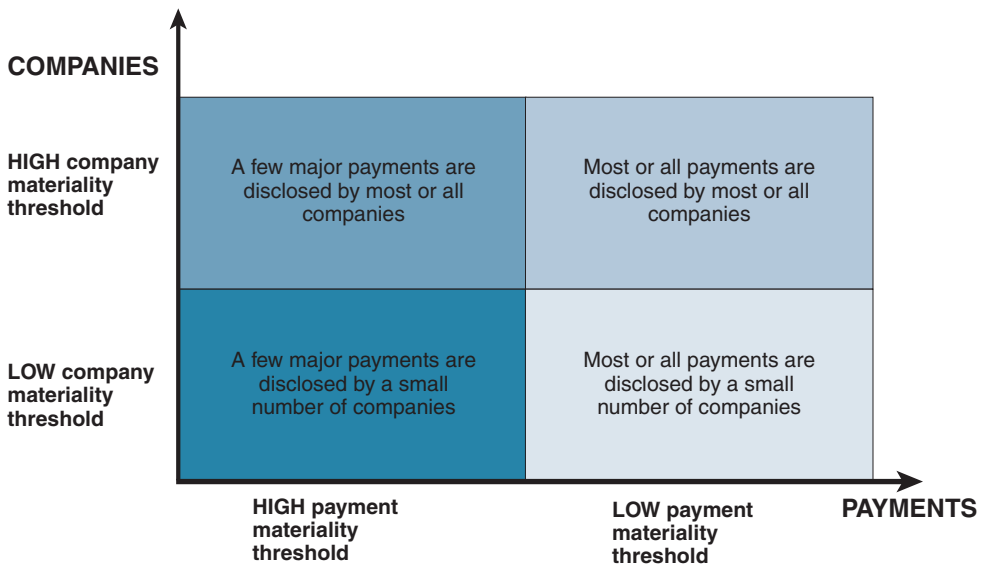
where there are a large number of small companies that make payments that are individually immaterial (that is, fall below the materiality threshold) but are collectively material. In such scenarios, the MSG may wish to request that the government disclose the combined benefit stream from such small operators. Where revenues from small operators form a significant part of the total revenues received by the government or any individual government entity, particular care would have to be taken to ensure that the materiality threshold has been set at an appropriate level.

### Company materiality

Company materiality should be clarified from the outset, while determining the materiality of benefit streams. EITI Requirement 11 specifies that all “relevant companies” report in the EITI process. While determining which companies are relevant for the purposes of reporting under EITI, and for cost-efficiency, a country may set a “materiality” threshold for a company based on previous total taxation payments. While determining the relevant companies that are to report under EITI, it is recommended that consideration be given to the fact that signature bonuses and other such payments may mean that even non-extractive companies may make material payments to the government, in which case they would have to be included in the reporting process.

Figure 4.1 presents a matrix of results for various decisions in company and payment materiality thresholds and box 4.7 presents a recommended sequence of actions in determining materiality.

**Figure 4.1 Company and Payment Materiality Thresholds—Matrix of Results**



#### **Box 4.7 Recommended Sequence of Actions in Determining “Materiality”**

In determining “materiality” of payments for the purpose of incorporation of data in the EITI Report, the multi-stakeholder group is advised to follow the following steps, sequentially:

- **Develop a clear understanding of the taxation arrangements in the extractive sector, including:**
  - a. The fiscal regime and the revenue streams from the extractive sector
  - b. The licensed or registered companies involved in the extractive sector and their activities (exploration, feasibility, development, construction, production, decommissioning)
  - c. The government entities receiving revenues from the extractive sector, including regional and local government entities
  - d. Frameworks for intragovernmental transfers of extractive sector revenues (if applicable)
  - e. The role of state-owned enterprises and the extent to which they make payments to the state and/or receive payments from other companies.
- **Agree as to which benefit streams are “material” by:**
  - a. Considering the nature of the revenue collected, as mentioned above (“Types of Payments”)
  - b. Reviewing data from relevant ministries to identify the largest taxpayers and the most material revenue streams
  - c. Considering the significance of a revenue stream relative to total revenues collected in the sector (that is, the share of total revenues from extractive industries that each revenue stream represents)
  - d. Assessing the significance of a revenue stream relative to total revenues collected by the institution or region receiving the revenue; a revenue stream might be insignificant at the national level but highly significant at the regional or local level
  - e. Consider the materiality of in-kind payments (for example, the state’s share of oil and gas resources from production-sharing agreements)
  - f. The largest payments are typically made by companies that are in the production phase; however, the MSG should ensure that there is a consensus regarding payments made at stages of the production cycle, for example, licensing fees and signature bonuses.
- **Consider whether payment or company-specific thresholds are necessary**
- **Agree to a definition of “materiality” and incorporate it into the EITI Report.**

## A Discussion on Disaggregation of Data in EITI Reports

A key element of the scope of EITI is the degree of disaggregation of the data in a published EITI Report—that is, to what extent payments are identified separately—or not—by individual reporting companies and on a *per-project* basis or by type of payment. The issue of disaggregation is only about how much detail is disclosed to the public in the final published EITI Report. This is because the underlying data are required to be provided to the Reconciler or auditor in fully disaggregated form, so the auditor can accurately compare company data with government data.

Some countries have chosen to release EITI Reports containing data that are either a sum of data disclosed in all benefit streams or merely disaggregated on a benefit-stream basis. However, the greater the disaggregation of data, the better for all stakeholders, and the greater the penetration of the EITI process. Table 4.1 presents a matrix describing the benefits for stakeholders of a greater disaggregation of data.

**Table 4.1—Good Practices in EITI—Benefits to Tripartite Stakeholders from Disaggregation**

Governments	Companies	Civil Society
<ul style="list-style-type: none"> <li>• Availability of detailed sectoral data in public domain promotes accountability</li> <li>• Use disaggregated data to reach more equitable arrangements for their country’s natural resources</li> <li>• Obtain detailed information on the list of participants in extractive industries and their contribution to public funds, leading to better natural resource management</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed data disclosure helps reduce political risks by reducing suspicion or perception of corruption</li> <li>• Revealing the company’s contribution to public revenue protects it against possible public displeasure over inefficient government spending</li> <li>• Project reporting increases investor confidence by providing them data on possibly high-risk individual projects</li> <li>• Strengthens social license to operate, such as in Nigeria</li> <li>• Resulting buy-in from other stakeholders enhances the investment climate in the country</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed information fosters public understanding about extractive industries and revenues</li> <li>• Detailed company or project data are of greater importance to local communities impacted by extractive activities</li> <li>• Enables informed dialogue about the net benefits of resource extraction, fully taking into account the sectoral revenue contributions</li> <li>• Facilitates public debate and leads to informed choices on sustainable development policies</li> </ul>

The extent of disaggregation in EITI Reports can be determined based on the following criteria:

- ***Disaggregation by company:*** Many EITI-implementing countries choose to disaggregate company information so that payments by individual companies and by revenue types are disclosed. This is a norm currently followed by 18 EITI-implementing countries.
- ***Disaggregation by project:*** When the EITI Reports contain project-specific information, they become highly useful to local communities impacted by that particular project. They gain greater significance especially in countries where the extractive industries are required, as a part of the national law or their licensing agreements, to share a portion of their revenues directly with the local governments. The revelation of project-specific data also assists governments in conducting contract audits and compliance checks to spot underpayment. Even in countries where extractive industries are required to disclose such data to governmental departments through laws and licenses, such reporting is seen to have a favorable additive effect.

It is up to the MSG to decide the degree of aggregation or disaggregation of data in the EITI Report. Countries will ultimately adopt the level of disclosure with which the majority of stakeholders are comfortable. In many countries, this issue has been one of the most intensely discussed by stakeholders. Experience shows that countries that tend toward more rather than less information disclosure are able to generate more trust among stakeholders, and the general trend (including the approach taken in U.S. legislation and European Commission draft directives) in this regard is for detailed company-by-company and project reporting of payments.

## Subnational Payments and Revenue Decentralization<sup>16</sup>

Subnational issues in resource-rich countries often arise because of uneven spatial distribution of these resources and the impact on communities directly affected by oil, gas, and mining exploration and production. Problems related to citizen perceptions of extractive industry operations and their lack of contributions or benefits tend to be most common in these communities and the relevant districts or provincial governments. Lack of transparency at this level, and the mistrust it generates, directly affects the interests of the local

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<sup>16</sup> This section is based on Aguilar, Caspary, and Seiler (2011).

population and the operating conditions in which companies invest in and operate their natural resource projects. These perceptions may interfere with companies' "social" license to operate in those areas.

## Types of subnational revenue flows

Subnational governments (SNGs) generally obtain natural resource revenues through two main fiscal arrangements:

- *Local payments by companies*, in which legislation assigns specific collection responsibilities to the SNGs (which has a closer impact from an EITI perspective, given the direct revenue access)
- *Fiscal transfers*, in which intergovernmental revenue-sharing arrangements entitle SNGs to a share of, or indirect access to, resource revenue collected by the national (federal) government.

Within these groupings, revenue-sharing arrangements among countries range from limited decentralization in unitary countries to broad subnational autonomy in federal systems. In most cases, resource revenue sharing in developing countries has been done primarily through transfers rather than through direct payments by companies (see box 4.8). Table 4.2 contains a list of countries where a detailed approach to subnational EITI may be potentially developed.

### Box 4.8 Reporting Subnational Revenue Flows under EITI

In defining the optimal fit and scope for subnational revenues in EITI, three broad pathways can be discerned, with key criteria being materiality of the revenue flows and the fit of the proposed approach to the country's circumstances and national systems. The pathways are:

- 1. Including direct revenue flows in extractive industry (EI)-producing districts:** The EITI rules already mandate covering all material direct payments from operating extractive companies within the scope of the national EITI process and the EITI Report (Requirement 9(e)). The two-way reported data are reconciled just as they are for company payments to the central government, but potentially with different materiality thresholds.
- 2. Including key indirect revenue flows in EI-producing districts:** This option, which countries may exercise at their discretion, covers key resource revenue streams received at the subnational level via transfers from the central government to SNGs.



This avenue would allow stakeholders to know the full amount of sums transferred, with data reconciliation between the central government and SNGs.

- 3. Intragovernmental fiscal transfers:** The EITI Rules also encourage the reporting of transfers between national and subnational tiers of government, where they are material, and particularly where they are mandated by legislation.

A further variant for each of these potential pathways could be to institute a more in-depth audit verification of, and not just reconciliation of, the revenue flows.

**Table 4.2 Countries with Potential for In-depth Approaches to Subnational EITI**

EITI-compliant Countries	EITI Candidate Countries		Potential
<ul style="list-style-type: none"> <li>• Mongolia</li> <li>• Ghana</li> <li>• Kyrgyzstan</li> <li>• Nigeria</li> <li>• Niger</li> </ul>	<ul style="list-style-type: none"> <li>• Democratic Republic of Congo</li> <li>• Kazakhstan</li> <li>• Peru</li> <li>• Iraq</li> <li>• Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>• Guinea</li> <li>• Guatemala</li> <li>• Mozambique</li> <li>• Madagascar</li> </ul>	<ul style="list-style-type: none"> <li>• Philippines</li> <li>• Papua New Guinea</li> <li>• Dominican Republic</li> <li>• Colombia</li> <li>• Australia</li> </ul>

## Key lessons learned from implementing countries

Key lessons learned from countries that have implemented EITI include:

- Direct payments at the subnational level in EITI need a clear political “lead,” with specific authority to register, account for, and report on revenues. Donations by companies to SNGs may be a major issue, based on discrepancies in EITI Reports, because of the way companies make donations to various government bodies and the valuation of in-kind contributions, for example.
- Weaknesses indicated in EITI Reports include time lags in receiving transfers from the central level, lack of information about companies’ payments to the central government, and complex calculation systems making it difficult for district assemblies to determine whether they are receiving what they are due.
- Issues that may need to be addressed include weak calculation procedures to check for discrepancies and ascertaining the accuracy of payments, volatility of revenue transfer, and weak local capacity.

## Reporting “In-kind” Payments under EITI

Reporting of “in-kind” payments is crucial to the success of EITI in many countries. “In-kind” payments essentially arise out of barter agreements and production-sharing contracts, or through legislation, wherein the extractive company is bound to share a portion of the resource extracted with the government. Often, state-owned oil companies play a crucial role in this process, since they are the institution that receive the production entitlements and sell or export them for profit. Indeed, such exports of oil by state-owned oil companies amount to more than two-thirds of the government’s sectoral revenue in countries including Angola, Azerbaijan, Congo-Brazzaville, Iraq, Saudi Arabia, and Yemen. Therefore, considering the large scale of these transactions, even small errors or irregularities can adversely impact sectoral revenues.

The EITI Rules (Requirement 9) require that the benefit streams accruing through such “in-kind” payments, including through production sharing and/or barter agreements, be included in the EITI reporting process, where material. Where the MSG concludes that these agreements are material, they are required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams.

In order to include “in-kind” payments in EITI reporting, the MSG needs to gain a full understanding of (a) the terms of the contract, (b) the parties involved, (c) the resources that have been pledged by the state, (d) the value of the balancing benefit stream (for example, infrastructure works), and (e) the materiality of these agreements relative to conventional contracts. Where reconciliation of key transactions is not feasible, the MSG should agree on an approach for unilateral company and/or government disclosures to be attached to the EITI Report.

## Reporting “Social Payments” under EITI

Apart from revenue streams and payments that must be reported, there are also other types of payments and transactions that the EITI Rules encourage being reported but that are not mandatory to report.<sup>17</sup> One such revenue stream is “Social Payments.”

The Rules encourage that a clear understanding be developed of (a) types of “social payments and transfers,” (b) parties involved in such “social payments and transfers,” and (c) whether such “social payments and transfers” are “material” in relation to other benefit streams.<sup>18</sup> If such “social payments” are

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<sup>17</sup> See *EITI Rules* (2011), Requirement 9(g); and the EITI Guidance Note on Defining Materiality.

<sup>18</sup> See *EITI Rules* (2011), Requirement 9(g).

recognized as “material,” MSGs are encouraged (*but not mandatorily required*) to modify EITI reporting templates to require their disclosure, in a manner similar to other revenue streams.<sup>19</sup> Furthermore, the EITI Rules recognize that when such “social payments” are made to third parties, reconciliation may not be possible. Hence, they recommend unilateral disclosures by the paying company (attached to the EITI Report) under such conditions.<sup>20</sup>

“Social payments” are essentially made to “third parties” (that is, parties other than the government). While the Rules mention the term “social payments,” they do not define them explicitly. However, an analysis of the Rules indicates that since reporting of “social payments” is not mandatory, they are contributions that are not made to the government, either at the national or subnational level. Payments made to the government (in cash or in-kind) are easily reconcilable or subject to audit. Moreover, they also qualify as “benefits to government” under Requirement 9(d) or payments to “subnational/local governments” under Requirement 9(e), and hence must be reported. “Social payments” are payments that are made on a mandatory or voluntary basis to third parties, whether in cash or in-kind (see box 4.9).

#### **Box 4.9 Types of Social Payments to Third Parties**

1. Mandatory payments to third parties arising out of contractual obligations with third parties
2. Mandatory payments to third parties arising out of contractual obligations with government
3. Mandatory payments to third parties arising out of domestic legal regime (constitutional, legislative, and regulatory) requirements
4. Voluntary donations and other charitable contributions to third parties.

The reason behind separately classifying social payments was that they were not easily reconcilable or verifiable. Therefore, it logically follows that “social payments” must include only payments that are made on a mandatory or voluntary basis to third parties, in cash or in-kind. The idea behind such a definition is that it would decrease the scope of optional reporting and further strengthen the reporting requirements under EITI, thereby increasing transparency. A number of EITI-implementing countries are currently

<sup>19</sup> See *EITI Rules* (2011), EITI Requirement 9(d) and Requirement 9(g).

<sup>20</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010, Title XV, S. 1504.

considering including social payments in the reporting process, including the Democratic Republic of Congo, Mali, Mongolia, Niger, and Togo.

## Identifying Constraints to Implementation of EITI

The journey from being an EITI Candidate Country to being an EITI Compliant Country requires that the government and/or the MSG of the Candidate Country remove legal, regulatory, and other obstacles to the implementation of EITI (Requirement 8). This is best preceded by a review of the legal and regulatory framework impacting reporting under EITI.

Moreover, according to EITI Requirement 5, governments should, concurrently with sign-up requirements, review their legal and regulatory frameworks in the work plan to ensure there are no impediments to the implementation of EITI, and if there are, to make sure they are addressed. Also concurrently, governments should begin considering their legal framework vis-à-vis implementation of EITI and EITI structures, and make any needed legislative changes (that is, to laws or ordinances) and to take any needed executive actions (that is, governmental administrative orders and regulations) to enable EITI implementation (see box 4.10).

### **Box 4.10 Good Practice in Implementing EITI: Timelines for Removing Legal and Regulatory Obstacles to Implementation**

Initial examination of domestic legal and regulatory regimes to identify obstacles to EITI Implementation is required during the pre-EITI candidature phase, and their removal, if possible, while optional, is desirable.<sup>a</sup> The final removal of obstacles, including legal and regulatory, to EITI implementation is required only after EITI candidature is achieved, to enable effective reporting of data under EITI.<sup>b</sup>

However, since the process of removing such obstacles to implementation of EITI is likely to be time-consuming (especially when it requires legislation and legislative amendments), and considering that finalizing EITI Reports and preparing for Validation is now a time-bound process (see *Part II, Chapter 7, Preparing for and Undergoing Validation*), implementing countries would benefit from initiating the procedures for removing such obstacles as early as possible—even during the phase of applying for EITI candidature, if required.

*Note:* a. See EITI Requirement 5. b. See EITI Requirement 8.

## Confidentiality requirements often act as a barrier to transparency

Experience has shown that substantive legal obstacles to EITI implementation have often been in the form of confidentiality requirements that prevent disclosure of data relevant to EITI reporting purposes.

These confidentiality requirements typically arise from (a) the domestic laws of the EITI Candidate Country, including the constitution and statutes, rules, or regulations; and (b) contractual obligations concerning data disclosure. Confidentiality requirements arising out of local laws are either uniform in terms of their application, or are applied based on a rationally based classification (such as being classified based on the type of industry, whether a private or public limited company, and listing on stock exchanges). Contractual confidentiality requirements, based on the terms of individual contracts, are likely to differ more widely, unless uniform contract templates are used.

Widely differing legal and regulatory obstacles to data disclosure under the EITI have been addressed by Candidate Countries in order to become EITI compliant. Table 4.3 presents the actions taken by selected EITI Compliant Countries to address legal issues.

**Table 4.3 Good Practices in Removing Legal Barriers to EITI Reporting, Selected Countries**

<b>I. Issue: Addressing contractual confidentiality requirements</b>	
<b>Country: Azerbaijan and Yemen</b>	
<b>1. Facts:</b>	<ul style="list-style-type: none"> <li>Confidentiality clauses present in production-sharing agreements were an obstacle to disclosure of data for EITI purposes.</li> </ul>
<b>2. Corrective Measures:</b>	<ul style="list-style-type: none"> <li>The government waived contractual requirements that prevented the companies from publishing the relevant data.</li> </ul>
<b>II. Issue: Adequacy of legal framework for disclosure</b>	
<b>Country: Mongolia</b>	
<b>1. Facts:</b>	<ul style="list-style-type: none"> <li>The Government of Mongolia passed a resolution (Resolution No. 80 [2007]) requiring government departments to periodically compile and submit reports to the EITI National Council and MSG as part of the annual audit. However, the Validation Report observed that the reports based on these laws were insufficient for EITI purposes (in terms of data required to be reported by the EITI reporting template). Therefore, the companies were in fact reporting according to EITI templates on a voluntary basis and, despite the law, were under no legal obligation to do so.</li> </ul>

*(Table 4.3 continued on the next page)*

(Table 4.3 continued from the previous page)

<b>2. Corrective Measures:</b> <ul style="list-style-type: none"><li>• The Mongolian EITI secretariat is drafting an EITI-specific law to oblige relevant companies to report their payments. The law will contain specific penalties for failure to report or willful falsification of data. The issues to be covered by the proposed law include licensing, contracts, natural reclamation costs, and physical audit.</li></ul>
<b>Country: Ghana</b>
<b>1. Facts:</b> <ul style="list-style-type: none"><li>• Existing laws of Ghana have been observed to have loopholes in reporting.</li></ul>
<b>2. Corrective Measures:</b> <ul style="list-style-type: none"><li>• Gap-filling in current national laws, along with creation of new EITI-based legislation were explored.</li><li>• Legislation providing for freedom of information to citizens was recommended.</li></ul>
<b>Countries: Liberia and Nigeria</b>
<b>1. Facts:</b> <ul style="list-style-type: none"><li>• Implementation and data disclosure are supported by specific EITI-based legislation in both countries.</li></ul>
<b>III. Issue: Waiver of legislative requirement of confidentiality</b>
<b>Country: Central African Republic</b>
<b>1. Enabling Measures:</b> <ul style="list-style-type: none"><li>• A Decree (July 2008) was passed that provided the National EITI Secretariat the authority to require data disclosure for EITI purposes. Confidentiality in all commercial contracts was waived to that extent.</li></ul>
<b>IV. Issue: Addressing conflicts of local laws</b>
<b>Country: Norway</b>
<b>1. Facts:</b> <ul style="list-style-type: none"><li>• Norway had, prior to commencement of reporting, codified the EITI reporting requirements in the form of laws.</li><li>• Addressing concerns about whether provisions regarding confidentiality in the Customs Act and the Tax Assessment Act precluded the Norwegian Tax Administration and customs from disclosing data in EITI Reports, the authorities concluded that there were no such limitations in current law.</li><li>• Nevertheless, the Petroleum Act was amended to include express EITI reporting requirements.</li></ul>

## V. Issue: Effect of disaggregation on legal and contractual compliance

### Countries: Timor-Leste and Kyrgyz Republic

#### 1. Facts:

- The Validation Reports in both countries observed that, based on the current EITI reporting template, no modifications to existing laws were required.

However, a possible move toward disaggregation of data in the future was observed to be likely to violate legal provisions (such as for the disclosure of taxpayer information and confidentiality requirements of certain production sharing agreements). Therefore, a modification of the legal regime was suggested in case of any intended move toward such disaggregation.

# Producing an EITI Report

## Introduction

The scope of EITI, once agreed by a multi-stakeholder group (MSG), will take shape through the design and content of the EITI reporting templates, which are required to be developed and endorsed by the MSG (Requirement 9). Wider constituents of stakeholders from outside the MSG must also have the opportunity to comment on the reporting templates. These templates, once properly completed, will ensure that the scope of EITI as agreed actually does generate the data that is disclosed in an EITI Report, in terms of types of benefit streams disclosed and the threshold levels for inclusion of payments and companies.

This chapter draws on the emerging experience of the process of compiling EITI reports. Throughout the chapter, the term “Reconciler” is used to describe the role of the service firm at the heart of the EITI data reconciliation process (or in some cases the audit process) and the EITI reporting process.

Figure 5.1 illustrates how an EITI Report is compiled and the roles that different stakeholders play in the process.

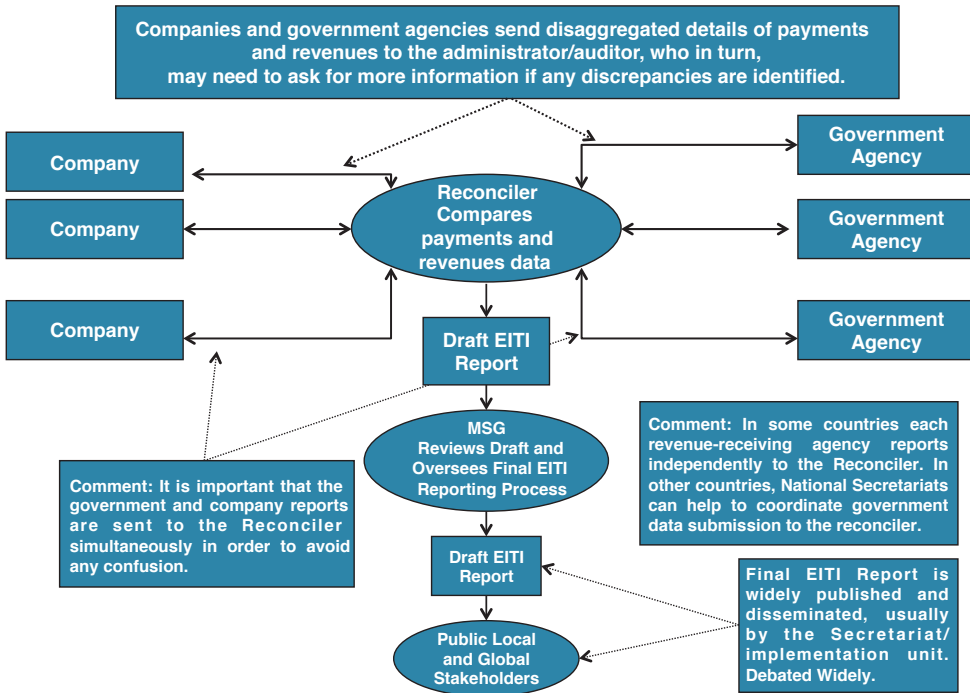
Experience shows that one of the most common tensions in an EITI process comes from differing expectations or levels of understanding about what the EITI report will or will not contain. For that reason, the countries that have had more successful EITI processes tend to be those that have worked hard to get clear multi-stakeholder agreement on the scope of the process, and in which the MSG understands exactly what work the Reconciler will be doing and what the EITI report will look like.

In addition, providing background information on the extractive industries sector also helps inform the stakeholders and put EITI reporting into perspective, with a view to clarifying the expectations, objectives, and sectoral issues that EITI seeks to address. A model of background information for EITI reporting is presented in box 5.1.

EITI Requirements for the reconciliation of data are presented in box 5.2.



**Figure 5.1 EITI Reporting Process**



### Box 5.1 Model Background Information

The following factors may be considered as background information relevant to EITI reporting:

#### I. Production:

- Physical production by commodity
- Value of production by commodity and state/region (where relevant)
- Physical exports by commodity
- Value of exports by commodity and state/region (where relevant)
- Key companies in the extractive sector (private and state owned)
- New large projects to start production (within the next two years)

*(Box 5.1 continued on the next page)*

*(Box 5.1 continued from the previous page)*

## **II. Fiscal and Nontax Revenues**

- List of key policies, laws, codes, and decrees governing the extractive industry tax regime
- Description of fiscal regime:
  - Surface rental fees (reconnaissance fees, prospecting fees, mining leases)
  - Mineral royalties
  - Corporate tax
  - Dividends/dividend tax
  - Indirect taxes, value-added tax, and any other relevant taxes
  - Property rates
  - Land rents/fees
  - Production-sharing agreements
  - Windfall charges
  - Equity participation
  - Capital gains
  - Subnational government payments
- Key institutions in charge of revenue collection

## **III. Contributions to the Economy**

- Direct contribution of the sector, distinguishing where feasible between contribution associated with exploration, and exploitation vis-à-vis processing activities (such as refining and smelting)
- Direct contribution to gross domestic product (GDP) (value added). The contribution should be in absolute terms and as a percentage of total GDP.
- Direct contribution to Gross National Income (GNI). The contribution should be in absolute terms and as a percentage of total GNI.
- Direct contribution to fiscal revenues. This contribution should be in absolute terms and as a percentage of total fiscal revenues, total government expenditures, and GDP. The report should distinguish between the private sector and profits or losses of state-owned enterprises or the government's share of joint ventures or similar institutional arrangements.
- Direct contribution to exports. The contribution should be in absolute terms and as a percentage of total exports of goods and services.
- Direct contribution to net exports (that is, exports minus imported units). The contribution should be in absolute terms, and as a percentage of the current account of balance of payments.
- Direct contribution to employment. The contribution should be in absolute terms and as a percentage of total formal sector employment.
- The contribution of downstream industries that process the output of the country's extractive sectors—such as jewelry, specialized steel, and copper pipes—with respect to GDP, GNI, fiscal revenues, exports, and employment.
- Key regions or areas where production is concentrated.

### **Box 5.2 EITI Requirements for Reconciliation of Data**

**Requirement 10** The organization appointed to produce the EITI reconciliation report must be perceived by the MSG as credible, trustworthy, and technically competent.

**Requirement 16** The MSG accepts that the organization contracted to reconcile the company and government figures did so satisfactorily.

**Requirement 17** The reconciler must ensure that the EITI Report is comprehensive; identifies all discrepancies; where possible, explains those discrepancies; and, where necessary, makes recommendations for remedial actions to be taken.

## **Selecting a Reconciler (or Auditor)**

In all EITI countries, the responsibility for selecting the Reconciler (or auditor, if that is the case) rests with the MSG (or a subgroup thereof), even though the actual tender and contracting process of this service firm is handled by governments, which often bear the cost of the work and have to follow procurement processes that are often time-consuming. Selecting a Reconciler is also financed by international donor trust funds such as the EITI Multi-Donor Trust Fund. It is an EITI Requirement that the Reconciler be perceived by the MSG as being credible, impartial, trustworthy, and technically competent (Requirement 10).

Countries have handled the selection of this service firm by defining the service terms of reference according to the agreed scope, and issuing tender documents that seek proposals from service firms, usually public accounting firms or specialist consulting firms. MSGs have typically looked for these firms to be able to show:

- A good understanding of how the extractive industry in that country is structured and how company payments and government revenues flows work
- Experience in the oil, gas, or mining sector and of specifics of fiscal and tax systems in the sector
- Good skills and capability to carry out the required work within the budget available
- An absence of any conflict of interest (with companies or the government), or an ability to protect against the possibility of such a conflict

- A level of independence, integrity, and objectivity that is respected by all members of the MSG.

## Terms of Reference for a Reconciler (or Auditor)

As noted, country EITI Reports, within the framework of the EITI Requirements, vary in format and detail of content, depending on the scope of the EITI process adopted, and in particular on the choice of depth of work for the required reconciliation. However, the Reconciler must ensure that the EITI Report is comprehensive, identifies all discrepancies, where possible explains those discrepancies, and where necessary makes recommendations for remedial actions to be taken. The MSG must also accept that the reconciliation process was satisfactory (Requirement 16).

In devising the terms of reference for the core data reconciliation (or audit) work and the issuance of EITI Reports, issues that have been commonly addressed by countries in the terms of reference have included the following:

### ***Contract terms and preparatory work:***

- *Cost of the reconciliation (or audit) work:* An important consideration is who (for example, the government) takes responsibility for paying the cost of the contract and determining the milestones for progress payments on the contract. While contracts and payment schedules can be variable, based on the number of hours worked, most are fixed-fee contracts in which the stated deliverables at the designated level of quality and timeliness trigger the contractual progress payments at each milestone (for example, at delivery of reporting templates, at issuance of draft reports, and at issuance of final reports).
- *Oversight of the work of the reconciler (or auditor):* In most countries the guidance on a day-to-day basis has been provided by the MSG (or a subgroup thereof), including on making decisions on technical questions that the Reconciler (or auditor) raises.
- *Responsibility for preparatory work:* In some countries, draft templates are developed by the implementation unit for approval by the MSG (which the Reconciler or auditor begins to use), while in other countries, the reconciler (or auditor) has been commissioned to consult with stakeholders and develop—as their first deliverable—a draft reporting template for review and endorsement by the MSG. However, when such a delegation of responsibility is made to the Reconciler, careful consideration must be given to the consequential cost and compliance implications.

- *Training of users as part of the contract:* Certain Reconciler firms have been required, as part of the contract, to work with the MSG to develop guidance on how the EITI templates or other aspects of the EITI process will function, and provide training for entities involved in providing data as part of the reporting process. The development of these EITI reporting templates is also informed by, among other things, the Materiality Requirements (see *Part II, Chapter 4, Setting the Scope of EITI*). In such cases, countries have generally been able to proceed faster with EITI than the norm by achieving a consistent understanding of the data to be submitted.
- *Data confidentiality and records retention:* Provisions may need to be made in the contract for the data provided to the Reconciler (or auditor) to be considered confidential and for data retention periods to be specified.

***Key issues of scope:***

- *The number of participating companies (and government agencies)* involved in the process, as determined by the materiality level set by the MSG, and in the case of government entities, dependent on the country circumstances and whether subnational governments are also involved in the EITI process.
- *Coverage by revenue streams, payment type, or size:* The EITI Report must clearly list and describe the revenue streams that are included in the report, and this in turn depends on whether the MSG has decided to exclude certain revenue streams because they are immaterial. The scope of the EITI Report also depends on whether the MSG has set a materiality level for payments below which they are considered immaterial.
- *Frequency of EITI report production:* The EITI Requirement is that EITI Reports be produced annually. In addition, at the very beginning of an EITI process, some countries have chosen to apply EITI retroactively to prior years to gain assurance on those prior years' payments and revenues. The EITI Rules require that the Reports cover data not older than the second-to-last complete accounting period. The frequency of EITI Reports also depends on the financial resources available to bear the cost of these Reconciliation (or audit) services.

***Reconciliation work and supplementary audit verification:***

- *Nature of reconciliation (or audit) work:* The scope of work adopted determines whether the country EITI process is a reconciliation of

submitted data or involves a more extensive audit. Countries that use a reconciliation process do so when the financial data that already exist are reliable.

- *Additional assurance on data submissions:* In some reconciliation processes, a step has been added to assure the reliability of data provided by companies by seeking submitted data to be explicitly “signed-off” by a company official or accompanied by a statement from the company’s own auditors confirming that the EITI data submitted by that company was based on and drawn from existing audited financial statements and records, audited to international standards.
- *Supplementary verification:* The question has sometimes arisen, in the case of the reconciliation process, whether there is any element of the reported data that the Reconciler should require to be verified or tested for greater assurance. The need for additional verification or testing should also be identified in the work plan, and additional funds will need to be budgeted for it.
- *Depth and extent of audit scope:* In cases where the EITI work and report are conducted as full audits, the depth and extent of the audits are a key decision; for example, whether to expand to areas other than just the financial audit of revenues and payments to include fiscal audits, physical audits, and sector processes.
- *Access to company and government records:* In this case, as in other audits, the audit firm will need access to company and government financial and production records to enable the audit verification of completeness and accuracy of the data.

#### ***Handling discrepancies identified by a Reconciler (or auditor):***

- *Degree of follow-up:* A key issue experienced in countries is the extent of follow-up work expected to be undertaken by a Reconciler (or auditor) when a discrepancy is identified. There is a cost-benefit consideration, and therefore most countries have sought a reasonable effort by the Reconciler (or auditor) to obtain explanations from companies or government agencies for discrepancies in the data reported (which can arise for a variety of technical reasons—not necessarily through bad conduct). After certain follow-up efforts, the Reconciler (or auditor) has reported the discrepancies, and such follow-up has continued after the EITI Report has been issued.

## Presentation and Publication

The presentation and publication of EITI Reports is governed by the provisions of Requirement 18 (see box 5.3). These include the following:

- *Report is understandable and comprehensive:* A key function of the EITI process is to take financial data, which is sometimes complicated, and present it in a form that is clearly understandable to all stakeholders. The Reconciler (auditor) will need to prepare a report that is comprehensive but presented in a way that is easily understood, including by ensuring that it is written in a clear, accessible style and in appropriate language. The terms of reference of the work must clearly state who will be responsible for printing, publishing, and distributing the report (this is the function of the MSG, not the Reconciler [auditor]). The MSG must also ensure that the EITI Report includes all information gathered as part of the Validation Process and all recommendations for improvement. Implementing countries are also encouraged to (a) summarize and compare the share of each revenue stream to total revenue accruing to the respective level of government, (b) include a list of all companies active in each extractive sector as an annex to the EITI Report (including the source of the list), and (c) provide additional detail regarding their activities during the reporting period (for example, exploration, feasibility, development, construction, production, and decommissioning).

### Box 5.3 Contents of an EITI Report

The contents of an EITI Report are informed by Requirement 18(b). The EITI report must:

- Clearly set out the agreed definition of “material payments and revenues”
- List all licensed or registered companies involved in the extractive sector exploration and production, their relative size in terms of production of revenue and payments, and whether each company participated in the EITI process or not
- If any companies or government entities failed to participate in the reporting process, assess whether this is likely to have had a material impact on the stated figures
- Describe the steps taken by government and the MSG to ensure that data disclosures are based on accounts audited to international standards
- Describe the methodology adopted by the Reconciler to identify discrepancies and any further work undertaken by the Reconciler
- Describe the work done by the MSG and the government, and address any discrepancies that have been identified.

- *Report is widely distributed and accessible to the public:* The MSG and the government are also required to ensure that the EITI Report is widely distributed to the public, including by producing paper copies of the Report, which are distributed to a wide range of key stakeholders, including civil society, companies, and the media; and by making the report available online and publicizing its web location to key stakeholders.

Often, countries have sought to address these two challenges by issuing a shorter “popular” version of the Report, with the longer version being limited in distribution and available electronically. The EITI International Secretariat requires the final data to be sent to them electronically in Excel to enable it to be on a global database for ease of access.

## A Note on EITI Reporting Templates

The discussions in the preceding sections of this chapter have made reference to EITI reporting templates that are designed, either as a preceding step to the selection of a Reconciler (or auditor) and determining their terms of reference, or as a required first deliverable of these service firms’ terms of reference.

Experience of EITI countries suggests that the design of these templates and questions on how they will work in practice when companies and governments complete them to submit financial data to the Reconciler (or auditor) generates considerable debate among participants in the MSGs.

The most common issue that MSGs have had to address with respect to EITI data templates is an uneven understanding of template requirements, that is, where companies or government agencies completing the templates have had an uneven understanding or varying interpretations of how to complete the templates or what specific data to enter. Other issues of technical definition that have caused difficulty include:

- Technical accounting or taxation-related issues such as coding of different tax payments
- Calculating and reporting the data on a consistent basis—whether on a cash or an accrual basis of accounting
- Consistent measures for reporting the quality and quantity of physical volumes of oil, gas, metals, and minerals
- Consistent treatment of social or “voluntary” payments by extractive companies to local communities or local governments that nonetheless



are perceived by companies to be nonvoluntary and therefore akin to a tax to be reported in the EITI templates

- Foreign exchange translation issues.

To address these issues, most countries also develop brief guidelines for companies that are filling out reporting templates.

Different countries ultimately have very different fiscal regimes for determining what kinds of taxes and other payments a company should make to the government. Because of this, each country will need to design its own templates.

### Specific training on completing the templates

As noted, in some cases, the Reconciler (or auditor) has been tasked with providing training of and guidance to users in filling out these templates consistently and accurately. In general, good communication and the provision of timely guidance appear to address these problems when they have occurred.

## A Note on International Audit Standards in Relation to EITI Criteria

The EITI Criteria state that “Where such audits do not already exist, payments and revenues are the subject of a credible independent audit applying international audit standards.” The Criteria also state that “Payments and revenues are reconciled by a credible independent administrator applying international audit standards...”<sup>21</sup>

The latter standards are the internationally agreed and accepted sets of professional and ethical standards for audit and assurance services that professional public accounting and audit firms apply in almost all countries, either in compliance with local laws or in accordance with their professional commitments under their own national accounting and auditing professional bodies. These national bodies are, in turn, members of the International Federation of Accountants (IFAC, based in New York, USA) which issues the international audit standards (through its International Auditing and Assurance Standards Board) for application by all IFAC members.

The issue of international auditing standards has been discussed in relation to two of the EITI Criteria: that the Reconciler (or auditor) will need to apply these accepted standards in their work in preparing the EITI Reports, and that the revenues and payments included in the EITI Reports themselves

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<sup>21</sup> <http://eiti.org/eiti/criteria>.

need to be the subject of audits completed to international standards of auditing.

As noted, in most EITI countries, this criterion is met in accordance with local circumstances, although in certain countries the transition from national systems or standards of audits of enterprises or governments is still in progress.

## **A Note on the ongoing Developments in Good-practice EITI Reporting**

At the time of writing, the International EITI Board and stakeholders are engaged in a debate and a search for options to strengthen EITI standards and motivate EITI-implementing countries to mainstream EITI into national processes. Part of the quality improvement effort involves discussions around protocols and norms for web-tagging and electronic dissemination of EITI data for ease of analysis and comparison, and ways to automate the data template reporting processes used to gather the payments and revenue data that are reconciled in EITI Reports.

# Communicating about EITI

## Introduction

“Communications” in the context of the Extractive Industries Transparency Initiative (EITI) does not mean only the simple delivery of information to people; it means engaging them in dialogue about natural resources management, educating them about the EITI process, encouraging their participation, listening to their concerns, ensuring that the reports are discussed, and widely publicizing the results and follow-up actions. Therefore, communications is not just an “add-on” to the EITI, but has to be considered throughout the process of implementing EITI. This chapter covers the broad strategies, requirements, and good practices in EITI communications.

One of the early lessons learned while implementing EITI globally was that for the process to have meaningful impact, and for accountability to gain traction in implementing countries, robust, proactive communication and stakeholder outreach is critical. This, in turn, led to multi-stakeholder group (MSGs) in many countries giving primacy to communications.

Countries that have paid attention to the communications aspect of EITI throughout the process have reaped many benefits. Not only have they seen increased accountability and more interest in the results from the EITI, but also better relationships with stakeholders, increased sustainability of the support from government and funders, better functioning secretariats and MSGs, and increased public interest in and scrutiny of the issues identified and follow-up actions proposed. Thus, effective communications strategies assist in fueling demands for sectoral or broader-based governance reforms from stakeholders at the grass roots using data, issues, results, and follow-up actions identified through EITI. In other words, effective communications strategies can contribute effectively to enhancing the probability of “mainstreaming EITI.”

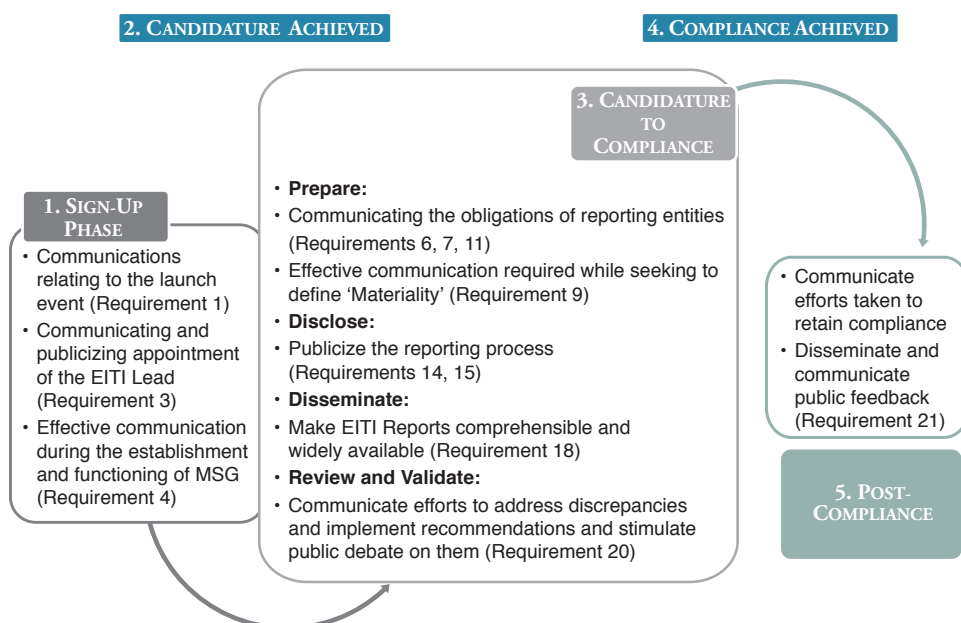
EITI Requirement 18 (box 6.1) is the central requirement relating to communications. It states that the government and MSG must ensure that the EITI Report is comprehensible and publicly accessible in such a way as

to encourage its findings to contribute to public debate. However, 11 other EITI Requirements explicitly relate to communications activities. Countries seeking to achieve or retain EITI Compliance would have to undertake communications activities to meet the EITI Requirements (see figure 6.1), with special attention to ensuring that the annual EITI Report is widely available and leads to public debate about the revenues from natural resources.<sup>22</sup>

### Box 6.1 EITI Requirements on Communications

**Requirement 18** The government and MSG must ensure that the EITI report is comprehensible and publicly accessible in such a way that its findings contribute to public debate.

Figure 6.1 Effective Communications Reinforces the Entire EITI Process



<sup>22</sup> For a detailed analysis of the steps needed to effectively fulfill each Requirement, see EITI Communications Guide, <http://eiti.org/document/communicationsguide> (March 11, 2012).

## **Leveraging Stakeholder Capabilities to Ensure Diverse and Effective Outreach**

Engaging the various stakeholders in the EITI process to contribute to the outreach activities enables effective and diverse outreach to the public. This is because each of the stakeholders—and this applies especially to the major tripartite stakeholders (government, companies, and civil society) in the process—intrinsically reach out to different segments of the population due to a combination of their technical, institutional, and organizational efficiencies. For instance, extractive industries (and companies engaged in downstream core sectors such as iron and steel) often have specialized communications units whose technical capabilities far exceed those of the government. Being commercial entities, they also have at their disposal larger financial resources for the purpose of communication and outreach activities. Such institutions are well positioned to effectively reach out to other members of their constituency and to members of civil society (such as national and international Civil Society Organizations [CSOs]) through their technically superior communication capabilities.

Government can use its institutional coverage to communicate about EITI to certain segments of its audience, such as its employees and trade and industry unions, to whose membership lists it has access. Arguably, the most effective grass-roots-level outreach, especially to local populations impacted by resource extraction, is done through local CSOs, whereby the information is simplified and communicated to the marginalized sections of society. Therefore, a healthy blend of outreach activities by all three stakeholders would help in effective penetration of EITI communications across all strata of society. Countries could also seek assistance from international organizations, which through their country offices and exposure to global good practices in communications, could effectively contribute to communicating about EITI.

## **Explaining Media Coverage of EITI in Compliant Countries—A Sample Analysis**

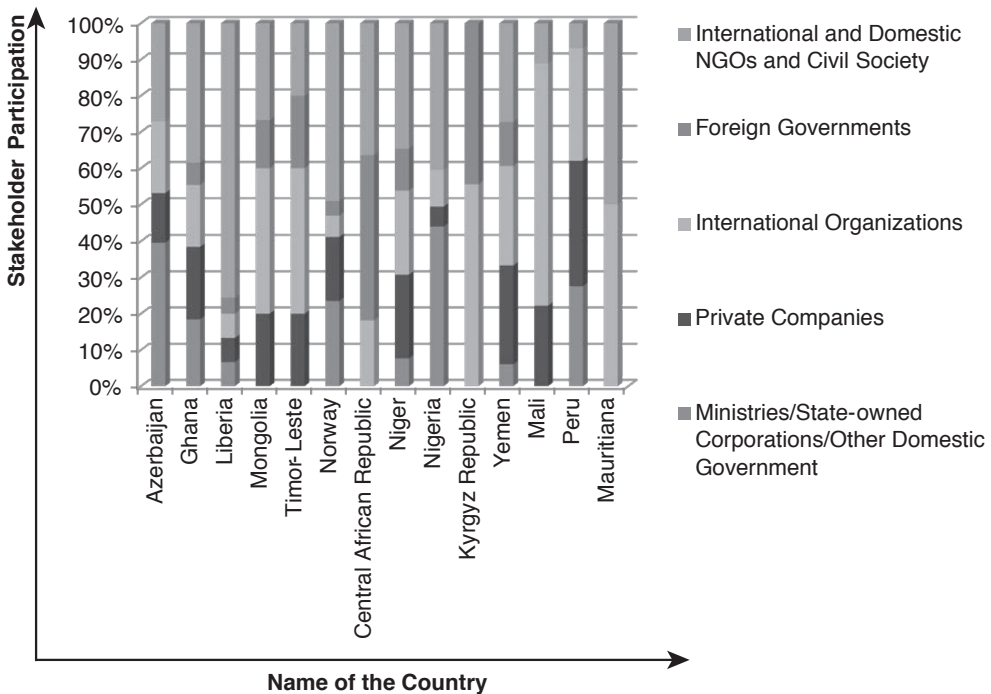
The roles played by different stakeholders in communicating about EITI are reflected in samples of communications data from EITI Compliant Countries. One sample study was on media reports (in English) in Compliant Countries from March 15, 2010 to March 15, 2012, which focused on EITI and transparency (with EITI or transparency mentioned either in the headline or lead paragraph). The scope of the study was restricted to media mentions of EITI and/or domestic transparency EITIs, and did not consider other outreach

activities. The results of the study are indicative and are used to illustrate the extent to which individual institutions from each of the stakeholder constituencies have played a leading role in communicating EITI through media mentions.

The data collected (see figure 6.2) showed that the top 10 participants most actively involved in communicating about EITI and transparency through media mentions included players from the following categories: (a) governments (both domestic and foreign), (b) companies (extractive; downstream, such as iron and steel; sidestream,<sup>23</sup> such as infrastructure-related companies, and others), (c) CSOs (international and domestic); and (d) international organizations (including the World Bank and other International Financial Institutions, and the United Nations).

An analysis of the global data sample shows considerable variation in participation of the stakeholder constituencies among Compliant Countries. However, institutions belonging to civil society, such as CSOs including

**Figure 6.2 Stakeholder Participation in Communicating about EITI**



<sup>23</sup> Sidestream companies are companies that are not vertically connected directly as upstream or downstream entities, but are companies that benefit from spin-off effects of extractive resources, such as infrastructure-related companies that get a boost due to natural resource extraction and production because they are an allied service.

Transparency International, Publish What You Pay, and Revenue Watch, have been consistently leveraged in almost all Compliant Countries and are placed among the 10 most active institutions communicating about EITI. Extractive industries, both state owned and private, have also been actively involved in publicizing the EITI and transparency through media mentions. International organizations have also actively supported communication about EITI through media mentions, with the World Bank leading the way.

However, the data reveal that the involvement of downstream and sidestream private companies has not been very effective. While some downstream and sidestream industries have participated in the communications process, systematically using such industries, which are capital intensive and often have large amounts of financial and human resources at their disposal, would help communicate about EITI effectively, thereby greatly reducing the burden on governments. Governmental outreach to other foreign governments that might have strategic economic or security interests in the stability of the region would also help in the formulation and implementation of an effective communications strategy. Greater governmental outreach to international organizations and international financial institutions that are aware of global best practices, and some of which have domestic offices and skilled human capital at their disposal, can assist in strategy formulation, effective capacity building for further communication domestically, and even in implementing communication strategies.

## Developing a Strategic Communications Plan

Developing a strategic communications plan to facilitate communicating what EITI is about and what national programs aim to deliver is central to ensuring that citizens and other stakeholders can contribute to—and benefit from—EITI (see box 6.2). Making EITI understandable can be difficult, because the reports involve highly technical data that take some effort to put into a narrative that people can readily comprehend. EITI also involves a wide range of stakeholders with very different interests and expectations, and it is difficult and challenging to find the right messages and formats to appeal to them all.

### Box 6.2 Meaning of Strategic Communications

**Strategic communications** means systematic planning and realization of **information flow**, **communication**, **media development**, and **image care** in a long-term horizon. It has to bring three factors into balance: the **message(s)**, the **media channel(s)**, and the **audience(s)**.

Many EITI-implementing countries have devised comprehensive communications strategies that cover, for instance, ways to (a) identify which stakeholders will be impacted by, or are interested in, the EITI; (b) explain EITI to those stakeholders and decide with different stakeholders how they will be involved in EITI; (c) communicate the debate and decisions of the scope of the EITI process to be implemented; (d) communicate the eventual results of the EITI process; and (e) periodically review the EITI process.

The lack of a broadly defined communications strategy risks omitting key stakeholders from the EITI process. Therefore, countries have found it important to ensure that an effective communications strategy is in place that reaches as many people as possible. Every citizen is seen as a potential recipient of government revenues, and public involvement in EITI is seen as a way of promoting accountability of government and companies.

Countries that put their communications strategy in place at the outset of the EITI process find that, by making the communication of messages easier and preparing stakeholders for engagement, it is easier to manage a difficult process, and a robust public dialogue around EITI is ensured. Countries without a communications plan often experience problems and delays, as a result.

Box 6.3 presents a step-by-step guide to preparing a communications strategy for EITI. However, there is no “one size fits all” approach. Each implementing country must take into account the unique political, historical, cultural, linguistic, geographic, and other challenges, while making the most of its opportunities.

### **Box 6.3 A Systematic Approach to Designing a Communications Strategy**

- Assess the context for the EITI and communication, media
  - What are the main risks, opportunities?
  - What are the historical, cultural, political, geographic, linguistic, and other factors that affect:
    - ▶ our messages
    - ▶ the communication and other approaches used

Define the objectives—the EITI outcomes to be achieved by communication

- As specifically as possible
- Not only dissemination, but dialogue, as well
- Specify the stakeholders and target groups
- Decide the message(s) they need to receive to achieve each objective
  - ▶ and who are the best “messengers”



- List the best actions and activities to meet stated goals
- Specify how performance will be measured and monitoring methods
- Assign responsibility for implementation
- Calculate the costs, prepare budget
- Follow up and make adjustments (if needed) to ensure success.

## Defining the Objectives of a Communications Strategy

Defining the objectives of a communications strategy is the most important step in the process. Much of the success of any EITI communications activity depends on how the objectives are formulated. The more effort spent getting the objectives right, the more effective implementation will be.

The checklist below, also referred to by the acronym “SMART,” can help ensure high-quality communications objectives:

- ✓ **Specific/Simple:** What will be achieved? What will be the outcome?
- ✓ **Measurable:** How will you know when you have achieved it?
- ✓ **Attainable:** Is the objective realistic with the effort and resources available? Are additional resources needed? If yes, can you secure them in time?
- ✓ **Relevant:** Does this contribute to the overall EITI objective?
- ✓ **Timely/Time-bound:** When must the intended results be delivered? By when will the objective be reached?

In addition, the communications strategy’s objectives should be crafted to deliver on each of the EITI Requirements (see figure 6.1). Box 6.4 presents a template for a communications strategy.

### Box 6.4 Template of a Communications Strategy

**Time Frame:** Identifies the time period for which the Communications Plan shall apply, including regular and periodic revisions. The time frame is directly related to the stage of a country’s EITI implementation. A typical time frame might be up to and including Validation.

**Introduction:** Description of the overall objective(s). What role will communications play? Explain why it is important to prepare a specific Communications Plan.

**Analysis of current situation** (this analysis needs to include both internal and external factors): What are the political, historical, cultural, and other preconditions that will affect communications related to the EITI? For ongoing implementations, includes an analysis of past and current communications efforts, including problems, constraints challenges, and opportunities.

**Key Stakeholder Groups:** Identifies and prioritizes the most important and relevant stakeholders to aide in choosing the communications activities best for each.

**Communications Objectives:** Answers the question, “What do we need/want our communications to achieve?”

**Messages:** Description of the most important message(s) for each of the main stakeholder group(s). Some messages will be relevant for more than one stakeholder group.

**Methods:** What approaches and tools—media and nonmedia, one-way or two-way communications—will be used to reach the objectives.

**Critical Success Factors/Limitations:** What are the necessary preconditions, such as staffing capacity and funding? What constraints and limitations exist that will influence our success in reaching the communications objectives? Which of those is it realistic to expect can be overcome? The Communications Plan should be scoped to reflect those conditions.

**Monitoring & Evaluation:** How can we assure that the communications plan is put into effect and how do we follow up and measure results? What are the qualitative and quantitative ways to measure/assess whether the communications EITI was successful? Assign responsibility for the various activities in the Communications Plan.

## Prioritizing Stakeholders

EITI focuses on extractive industries, but has important implications for many other parts of society, as well. It is useful, therefore, to cast a wide net when identifying the stakeholders who may be interested in the EITI. Resources for EITI communications, however, are typically limited (see table 3.1 for an example of a generic and simplified EITI budget). Thus, prioritizing stakeholders can aide in making decisions about how best to deploy available resources to achieve the agreed communications objectives.<sup>24</sup>

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<sup>24</sup> For more information on prioritizing stakeholders, defining stakeholder categories, and stakeholder mapping, see “EITI Communications Guide,” accessed March 11, 2012, <http://eiti.org/document/communicationsguide>.

## Creating Messages

Messages are the key phrases, facts, and viewpoints that the government and MSG use to reach their strategic objectives. They should both reflect and serve the objectives of the communications strategy. EITI messages might aim to do a number of things. For example, their goal might be to interest, inform, and engage stakeholders. Because the range of EITI stakeholders is so diverse, different messages need to be created for different groups, and even for different occasions (see box 6.5).

### Box 6.5 Messages and their Relevance to each Stakeholder Constituency

Messages convey to each stakeholder constituency:

- What the government and MSG want them to know, think, or do
- The benefits accruing to the constituents or to people they care about
- Why the constituents should think or act in the suggested manner
- What to expect and *not* expect from the EITI
- A rebuttal of any “myths”
  - ▼ address misunderstandings
  - ▼ explain why their current beliefs or actions may not in their best interest.

A good message that “sticks” gets through to the audience even if they are only exposed to it only briefly. Designing the message requires careful preparation, because once the message is disseminated widely, it cannot easily be withdrawn or changed. According to Heath and Heath (2007), to make a message stick, “Step 1 is determining the right strategy. Step 2 is communicating it in a way that allows it to become part of the organizational vocabulary. Both are necessary. Unfortunately, many organizations stop at Step 1. (...) If strategies are to be living and active, they must be woven into day-to-day conversations and decisions.” Box 6.6 presents six principles for making a message stick.

### **Box 6.6 The Six Principles for Making a Message that Sticks: “SUCCES”**

- *Simple.* Keep it focused on the single-most-important thing.
- *Unexpected.* Use surprise to get attention, and stimulate curiosity to hold attention.
- *Concrete.* Use concrete words and avoid ambiguity to help people remember.
- *Credible.* Use facts that listeners themselves will recognize as credible.
- *Emotional.* Make people care and use the power of association.
- *Stories.* Use stories to inspire and tell people how to act.

Source: Heath and Heath 2007.

## **Monitoring and Evaluation**

Implementing a Communications Plan in full or performing a specific activity flawlessly may or may not deliver the intended results. National Secretariats and MSGs are encouraged to follow up to ascertain whether their communications and stakeholder-engagement EITIs in fact achieved the desired results or whether they require modification. Deciding how the results of each activity in the Communications Plan will be monitored, assessed, and measured and who will be responsible for doing it is an integral part of the initial communications strategy planning. Formulating this after the implementation of the Communications Plan has begun is not advisable, because in the absence of an effective evaluation of their feasibility, some predetermined activities may not be plausible.

## **Resourcing and Funding of EITI Communications**

Implementing countries often underestimate the amount of human and financial resources needed to deliver effective communications activities to fulfill the EITI Requirements.

### **Human resources**

Given that more than half of the 21 EITI Requirements involve a communications component, the optimal situation is for national secretariats to implement a communications strategy and hire a qualified, full-time communications officer as early in the process as possible.

Most countries do not have a (full-time) communications professional at the national secretariat when they launch the EITI. Some never appoint

one, or give the role to an administrator. This has considerable downsides. Sometimes, the lack of communications expertise at national secretariats is due to funding issues, but often it is because communication is not perceived as a priority activity until the run-up to the first report. As the experience of Liberia (positive) and Tanzania (negative) show (see box 6.7), the more effort put in up front to inform and engage citizens, civil society, the media, local government, and company officials, along with other key stakeholders, the higher the quality of a country's EITI process will be.

### **Box 6.7 Case Study—Tanzania**

In late 2010, Tanzania faced an extremely tight deadline for validation. For two years, the national secretariat and MSG relied on help from the already overburdened communications officer from the Ministry of Energy & Mines. As a result, they managed to do relatively little to communicate with or engage key stakeholders in the process.

The Tanzania Extractive Industries Transparency Initiative (TEITI) secured World Bank support to hire an international communications advisor, who designed a robust communications strategy aimed at TEITI validation, but also laid the groundwork for sustained engagement when the first TEITI report was released. TEITI then hired a talented Tanzanian communications officer to implement the strategy, using funds from the Norwegian and Canadian governments.

World Bank country offices often have a communications officer who might be able to provide initial advice on development of a communications strategy, including on aspects such as the terms of reference (ToRs) for a qualified communications professional to implement the strategy. The availability of support from a World Bank communications officer, however, would vary from country to country. There is a need for implementing governments to coordinate with the corresponding country office, and with the World Bank's EITI team. Effectively leveraging the World Bank's local infrastructure, brand value, and communications networks would assist in enriching the EITI communications process.

### **Financial resources**

There are a variety of funding sources for EITI communications available to national secretariats and MSGs. The World Bank Multi-Donor Trust Fund (MDTF) is the facility most often used by countries for operating their

national secretariats and implementing EITI.<sup>25</sup> The fund covers operating costs of implementing EITI and also pays for technical assistance—including communications expertise. As noted in the Tanzania example, several bilateral donor agencies have provided funds for communications and stakeholder outreach activities, and even other international organizations, such as the African Development Bank, the European Bank for Reconstruction and Development, and the United Nations Development Programme have funded discrete communications EITIs for national EITI implementation. Some international NGOs, such as the Revenue Watch Institute, the Open Society Institute, and Publish What You Pay, also provide support for training and capacity building. Implementing-country governments often dedicate funds or in-kind support for EITI communications, as well.

## Roles and Key Players

The following are the key players and their roles in communicating EITI:

- *Communications Officer in the national EITI secretariat*: Several countries implementing EITI have individuals specifically dedicated to developing and overseeing communications programs. It is recommended that all countries implementing EITI appoint such a person, even if only part time.
- *Communications subgroup of MSG*: Many countries implementing EITI have established subgroups of their main steering group to specifically focus on communications activities. Some of the organizations represented in the multi-stakeholder steering group may have their own communications professionals who might sit on such a group.
- *Communications professionals or companies*: If there is not enough capacity in the national EITI secretariat or steering group to develop communications activities, it is often possible to hire public relations and communications consultants and firms to develop (and assist in implementing) a communications program.
- *The EITI “Champion”*: Every country implementing EITI is required to have a designated EITI implementation “lead”. In most countries, the champion is a senior government minister. Often a newsmaker in his or her own right, he or she will act as the main public spokesperson for the process.

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<sup>25</sup> See World Bank 2005. While not specific to the EITI, this document provides overall guidance on procuring communications support services based on World Bank guidelines.

- *Industry associations:* Virtually all countries implementing the EITI also have industry associations (for example, a National Petroleum Association or Chamber of Mines) interested in transparency in governance and EITI implementation. These groups often act as intermediaries between their members and the government, consult their members on issues affecting them, and provide members with useful information. These groups can be an extremely efficient and cost-effective way of engaging with, consulting, and informing large numbers of stakeholders on the EITI process.
- *Civil Society Organizations:* CSOs are arguably best positioned to contribute effectively to communicating EITI at the grass roots, and especially in local areas that are impacted by the extractive activities. This is especially so, given the fact that most local communities are able to have an effective dialogue with CSOs, which often have local representatives, as opposed to the government, which is often looked upon as an outsider to local issues or as a superior. However, a common problem CSOs face is the lack of financial resources and well-trained human resources, which acts as a hindrance to the desired level of information dissemination.
- *Extractive industry companies:* This group often has a significant presence in the communities in which they operate, and are often well placed to provide information to those communities. In Ghana, for example, some mining companies pass on information to local councils about how much royalty and tax they are paying to the national government.

## **Making the EITI Report Comprehensible and the Data Available**

The government and MSG are required to ensure that the EITI Report is made publicly available, including by (a) producing paper copies, which are distributed to all key stakeholders; (b) making the Report available online and publicizing its web location to key stakeholders; (c) producing “summary” or other easy-to-read versions of the Report; (d) ensuring that outreach events are organized by government, civil society, or companies to spread awareness of the Report; and (e) ensuring that the Report and its findings contribute to public debate.

A key part of EITI communications programs is to ensure that EITI Reports are presented in a clear and understandable way. This can be considered in all stages of the EITI reporting process:

- *In developing terms of reference for the reconciler of the EITI Report.* For example, reconcilers can be asked to include diagrams, visuals, tables, and comparisons that provide easy summaries of the contents of the Report.
- *When commenting on the draft of the EITI Report from the Reconciler,* the MSG and secretariats may wish to task the Reconciler with clarifying the EITI Report.
- *In producing a summary, press releases, or other materials for the EITI Report.* Since these are usually produced by the secretariat (that is, not the Reconciler), there are more possibilities to ensure that good communications practices are being used. The methods described for developing good messages that stick can, with success, be applied when producing content for these materials.

A growing number of countries have, since 2010, made the data from the EITI Report available in “machine-readable” format. This allows media, researchers, and citizens to analyze the EITI data and compare it to other data sets, with the use of IT (information technology) tools. In its simplest form, making EITI data machine-readable means making the figures from the EITI Report available in a Microsoft Excel file that is published on the country’s EITI website.



### Box 6.8 Examples of Communications Tools for EITI

- *Stakeholder mapping exercises:* Interviews to determine which stakeholders are interested in or will be impacted by EITI implementation, used to inform potential stakeholders about EITI and identify potential members of a steering group.
- *Surveys and polls:* Can be used to determine the public's level of understanding of how extractive industries operate and how payments are channeled by companies to governments and communities. Such surveys would also identify key issues stakeholders would like to see addressed by an EITI process, to help determine the scope of the process. Can also be used during the course of an EITI process as a way of evaluating public impact of the EITI global standard—for example, polls taken at the start of the process and then again after the first report has been released to measure changes in levels of awareness of extractive industry or EITI issues, and of public perceptions.
- *A communications response:* Could be used to bring together the results of surveys and stakeholder mapping exercises to identify the mix of media tools that would best support EITI in reaching out to different stakeholders.
- *Workshops, conferences, and road shows:* Most EITI countries have held several large public events at which all stakeholders and the wider public are invited to have EITI explained to them, discuss how it would work, and come to decisions on how EITI could be implemented. In many countries, these events have been held in several different areas—for example, in the capital city and in important commercial cities, and in areas directly affected by oil, gas, or mining operations.
- *Public information centers:* Some countries have established physical public information centers where the public can go to access information relating to the EITI, copies of EITI reports, and information about the extractive industry.
- *Media articles or advertisements:* All EITI countries have held press conferences, provided interviews to media organizations, or advertised in the local media, taking into account media accessibility by the wider population at the local level.
- *Capacity building for journalists:* Some countries have held training sessions for journalists to provide greater detail on how the EITI process works, who is involved in it, where EITI reports have been produced, and explanations of those EITI reports.
- *Establishing an EITI website:* A large number of national EITI websites have been established by governments to act as a source of information on the EITI and of ongoing details such as minutes of the meetings, notices, and completed EITI reports.
- *Public debates:* Some countries have carried out public debates with different individuals or groups presenting different views on how EITI should be implemented.

In all EITI-implementing countries, key documents relating to the program (for example, the terms of reference of the stakeholder group, minutes from MSG meetings, Memorandums of Understanding, and the work plan) are made publicly available.

## Critical Success Factors for Effective EITI Communications

The following factors are considered to be critical to the success of the EITI:

- *Start early with strategic communications.* Consider the communication aspects of the Requirements and the objectives, timelines, and capacity-building needs that they trigger. Agree on the communication objectives and prepare a communications strategy as early in the process as possible. Build communication EITIs into the overall EITI work plan. Developing a communications strategy when the first report is being produced is too late.
- *Secure and allocate resources and assign responsibilities.* Adequate resources—skilled professionals and funding—need to be secured to develop and implement the communications plan. Each national secretariat should have a communications specialist on staff (or as an external consultant) responsible for communications. Experience shows that communications is a full-time job. Additional people and organizations—government, business, or CSOs—should be assigned responsibility for handling the communication activities they are best suited to deliver.
- *Prioritize stakeholders.* The priorities of different stakeholder groups and individuals will vary depending on the stage of EITI implementation. Focus most effort and resources on the stakeholders needed to meet your immediate objectives. One of them must always be a citizen.
- *Get feedback ... and “feed it back.”* Create mechanisms for obtaining feedback from the very outset so that stakeholders can relate their views, concerns, and ideas throughout the process. The EITI process and the people working on it need to be publicly accessible and up-front about how people can expect their feedback will be used. “Feeding back” to those who are interested and generous enough to provide ideas and input is key to building trust and continual engagement.

- *Review results and address issues.* As the EITI process progresses, adapt communications activities to reflect both progress and problems, to address new issues and stakeholders, and to take stock of the effectiveness of individual approaches/EITIs and the program as a whole.

Box 6.8 provides examples of EITI communications tools. In addition, examples of communications strategies, presentations, and tools are available online in the compendium of sample documents.

Further, detailed information on communicating about the EITI is available on the EITI website at [www.eiti.org](http://www.eiti.org). The EITI secretariat publishes material on good practices to be followed in communicating about the EITI, which includes a guide to communications (Darby 2009), which provides insight on communications strategies and measures to be applied at each step of the EITI process.

# Preparing for and Undergoing Validation

## Introduction

The *EITI Rules* (2011) specify, as Requirement 20, the need for governments and multi-stakeholder groups (MSGs) to undergo Validation under the applicable EITI Rules and within the deadlines specified (box 7.1).

### Box 7.1 EITI Requirements Regarding Validation

**Requirement 20** The government and MSG must take steps to act on lessons learned, address discrepancies, and ensure that EITI implementation is sustainable. Implementing countries are required to submit Validation Reports in accordance with the deadlines established by the EITI Board.

This is an important step in the overall global EITI standard and methodology, and EITI candidates that do not successfully complete Validation and submit a final Validation Report within the specified deadlines and in accordance with the EITI Rules risk being removed from the list of EITI-implementing countries (as indeed happened to certain initial EITI countries).

Therefore, since this is a key pillar of the global EITI process, national EITI Secretariats need to work very closely with the EITI International Secretariat on all validation issues and ensure there is good planning in preparing for and undergoing validation as an integral part of the national EITI work plan.

## Key Preparatory Steps for Validation

All EITI Candidate Countries, upon reaching candidate status, must meet a deadline by which EITI implementation must be completed (including publishing its first EITI Report within 18 months of becoming an EITI candidate), and a deadline by which the country must complete and submit

its final report of external validation, endorsed by the MSG (two-and-a-half years before becoming an EITI candidate country).

An outline of the key steps in the Validation Process is presented in box 7.2, but the *EITI Rules* (2011) and the Validation Guide included therein contain more detail (it is essential to consult the *EITI Rules* and the Validation Guide for definitive guidance on the Validation Process).

The validation experience of EITI countries thus far has generally proven to be a more iterative process than initially anticipated (in terms of interactions among EITI countries, validation firms, and the EITI Secretariat and EITI Board), but also a process that needs a longer time frame than initially anticipated. Currently, the process takes around six months.

For that reason, this chapter highlights the following key factors that experience has shown to be particularly important in preparing for and undergoing validation.

- *Substance of EITI—getting the scope of EITI right from the start:* An important determinant of the quality of EITI Reports (a big part of the eventual validation outcome) is the collective decisions taken early on regarding the scope and content of the Reports. MSGs, therefore, need to pay particular attention to getting this aspect right—especially setting and documenting materiality, ensuring the inclusion of all material companies and revenues streams, and ensuring audit assurance of underlying data. The collective buy-in and engagement of all stakeholders is essential at this stage, as well as throughout EITI implementation.
- *Validation procedures—the need for good planning:* The Validation Guide and related procedures for how validation firms are to be hired (under national tender processes) and sources of funding for paying the validation firms (at least 50 percent to be covered by government budget sources), are tightly prescribed. These, therefore, need good planning on the part of National EITI Secretariats to ensure that both the applicable national tender and budget rules, and the EITI Rules on validation are met on time so that the validation is completed within the specified timetable.
- *Validation Process—avoiding surprises:* As preparation for the actual validation, National EITI Secretariats and MSGs could consider self-assessment workshops (of their EITI process relative to EITI Criteria and the Validation Guide) as a way to ensure there is no major disconnect in how the different national stakeholders view the performance of the EITI process—especially the engagement of civil society and all

stakeholders, and whether the content of the EITI Report is adequate and meets EITI Criteria.

- *Validation Process—continuous communication and liaison:* Above all, National EITI Secretariats and MSGs should be in continuous communication with the EITI International Secretariat during the Validation Process so that obstacles and problems can be surfaced early and solutions explored. Supporters and partners such as the World Bank and other bilateral agencies have often played an important facilitation role in helping to ensure validation is completed on time.

## **An Overview of the EITI Validation Process**

The Validation Process is an external, impartial, and independent assessment mechanism that proves that Candidate Countries have implemented EITI successfully and have met all the EITI Requirements. Successfully undergoing the Validation Process indicates that the Candidate Country has met an internationally agreed standard on transparency and accountability. On successful completion of the Validation Process, Candidate Countries become designated as Compliant Countries.

There are two purpose of Validation: (a) to promote dialogue and learning on EITI-related issues at the country level, and (b) to safeguard the EITI brand by holding all EITI-implementing countries to the same global standard.

The intent of the Validation Process is to allow a clear distinction between those countries that have endorsed the EITI and are in the process of implementing it, and those countries that have fully implemented EITI in accordance with EITI Requirements and have been validated as such.

An implementing country, through its MSG, may petition the EITI Board at any time to review its decision regarding the country's designation as a Candidate or Compliant Country. The Board would then make a final decision on such requests, keeping in mind the facts of each case, the need to preserve the integrity of the EITI brand, and the need to ensure consistent treatment among countries.

## **The Journey from Candidacy to Compliance— Mechanics of EITI Validation**

The initial phase is for a country interested in implementing EITI to seek “EITI candidate” status and to continue implementation. At end of the initial EITI cycle, the country undertakes Validation in order to move from

the candidacy phase to “EITI compliant” status. When successful, the country ensures continued EITI compliance by adhering to the following requirements:

- *Achieving “candidacy” status:* Countries that have successfully completed the five sign-up requirements may apply to the EITI Board (via the Outreach and Candidature Committee) to seek EITI Candidate status. On being satisfied that these requirements have been met, the EITI Board declares the country to be a Candidate Country.
- *Achieving “Compliant” Status:* Candidate Countries are required to perform specific time-bound tasks in order to achieve compliance. They must submit their first EITI Report within 18 months. Subsequent EITI Reports are to be submitted annually, that is, at 12-month intervals.
  - Candidate Countries are required to submit their first Validation Report within two-and-a-half years of achieving candidate status. The Validation Report verifies whether the various EITI Requirements have been satisfactorily fulfilled, including verifying whether the EITI Report meets the EITI Requirements.
  - Nonadherence by a Candidate Country to the deadlines mentioned above with regard to submission of both the EITI Report and the Validation Report would cause it to be delisted.
  - A Candidate Country may seek to extend either or both of the EITI Report and Validation Report time frames by submitting a request in advance of the respective deadline. Such requests must be approved by the MSG of the particular country. The EITI Board will grant an extension only if the MSG can demonstrate that it has been making continuous progress toward meeting the deadline and has been delayed due to exceptional circumstances. The maximum period for which a country can be a Candidate is three years and six months. All extensions and time frames are subject to this requirement. Therefore, unless a Candidate Country achieves “compliant” status within three years and six months of candidacy, the country risks being delisted from the EITI.

*Maintaining “Compliant” status:* EITI compliant countries must continue EITI implementation, adhering to EITI Rules. Compliance status is normally for five years before another validation is required, although stakeholders may request a new validation at any time. If required, the stakeholders’ constituency representative on the EITI Board may mediate the request. The EITI

Board would subsequently decide whether the request merits consideration. Also, where concerns are raised about the standards of implementation of the EITI in a Compliant Country, the EITI Board may require it to undergo a new validation.

Finally, a compliant country needs to regularly publish and make publicly available an annual report endorsed by the MSG. This report must detail activities in implementing the EITI and progress made in implementing the Validator's recommendations. It should also elaborate on efforts to strengthen EITI implementation, including any actions to extend the detail and scope of EITI reporting. The EITI Board may request a new validation if a Compliant Country fails to comply with this requirement.

## Overview of the Steps Involved in the Validation Process

The key steps involved in the Validation Process are summarized in boxes 7.2 and 7.3, and are outlined in figure 7.1.

### Box 7.2 Overview of the Steps Involved in the Validation Process

1. **Multi-Stakeholder Group Agreement to Commence Validation:** The multi-stakeholder group (MSG) should agree on when to schedule the validation and how the process will be conducted, and should oversee the process throughout.
2. **Procurement of a Validator:** The procurement of a Validator should be from a list of individuals preapproved by the EITI Board and overseen by the MSG and the EITI International Secretariat (acting on behalf of the EITI Board).
3. **Validation:** The Validator:
  - a. Assesses compliance with the EITI Requirements.
  - b. Engages the MSG, the Reconciler, and other key stakeholders (including companies and civil society not in the MSG) in a consultative process.
  - c. Should also consult available documentation, including:
    - ▶ The EITI work plan, and other planning documents such as budgets and communication plans
    - ▶ The MSG's terms of reference and minutes from MSG meeting
    - ▶ EITI Reports and supplementary information such as summary reports and associated communication materials
    - ▶ Company forms.
4. **Draft Report:** The **Validator** produces a draft Validation Report, comprising:
  - a. An introduction that addresses:



- ▶ The key features of the extractive industries in the country
    - ▶ Overall progress in implementing the Country Work Plan
    - ▶ A summary of engagement by Civil Society Organizations
    - ▶ A summary of engagement by companies.
  - b. A detailed assessment of the Candidate Country's compliance with each EITI Requirement, taking into account stakeholder views, including a table summarizing the Validator's findings
  - c. An overall assessment of the implementation of the EITI and a determination as to whether the Candidate Country has satisfied all of the EITI Requirements
  - d. A narrative report that addresses:
    - ▶ The impact of the EITI in the Candidate Country
    - ▶ The sustainability of the EITI process
    - ▶ Any innovations and actions being undertaken by the MSG that exceed the EITI Requirements.
  - e. Conclusions, lessons learned, and recommendations for strengthening the EITI process
  - f. Collated company forms.
5. The EITI Board's Validation Committee assesses the draft validation report and provides comments.
  6. The Validator produces a final Validation Report, formally endorsed by the MSG and the government.
  7. The EITI Board analyzes the report and decides whether to grant "Compliant Status" to the Candidate Country.

### **Box 7.3 Steps Involved in the Procurement of a Validator**

The procurement process involves the following steps:

1. Initiation of the Validation Process:
  - a. Multi-stakeholder group (MSG) formally approves the decision to initiate the Validation Process
  - b. MSG, either by itself or through a subcommittee, oversees the selection of the Validator.
2. **Informing the EITI International Secretariat of such implementation:**

Lead officer of the Candidate Country writes to the EITI International Secretariat informing it about:

  - a. An indicative timetable for completion of the Validation Process

*(Box 7.3 continued on the next page)*

*(Box 7.3 continued from the previous page)*

- b. The proposed procedure for procuring and contracting an approved Validator, including:
  - ▶ The lead agency and contact person for the procurement process
  - ▶ The proposed procurement procedure including the proposed selection criteria and weighting for assessing proposals
  - ▶ The proposed contracting authority that will enter into the contract on behalf of the Implementing Country
  - ▶ The role of the MSG in the procurement process
- c. The arrangements for financing the Validation Process
- d. Any requests for technical assistance from the EITI International Secretariat.

The EITI International Secretariat would respond to the letter within 10 days of receipt with details relating to the requests, accredited Validators, guidance notes, and templates.

### **3. Candidate Country to Draft Terms of Reference (ToRs):**

- a. Candidate Country must draft the ToRs for the Validation Process based on templates provided by the EITI International Secretariat and methodology and indicators mentioned in the validation guide.
- b. ToRs must also be approved by the MSG.
- c. ToRs may differ from the template to accommodate local variations in EITI implementation. However, such variations will be assessed by the EITI International Secretariat.
- d. Stakeholders may raise concerns about the ToRs before the EITI International Secretariat, which would refer the concerns to the EITI Board.
- e. ToRs must be clear and unambiguous and must provide:
  - ▶ Background information on the country's participation in the EITI (including details on initiation and key milestones)
  - ▶ Details on the participating agencies, companies, and stakeholders
  - ▶ Commentary on recent events and developments of relevance to the Validation Process.
- f. ToRs must include the EITI work plan as an attachment, and an update on the status of company reporting, disclosure, and auditing
- g. ToRs must clearly specify the timeline for the Validation Process, the deliverables, and the process for reviewing and commenting on the draft Validation Report
- h. The ToRs should empower the Validator to document lessons learned, concerns expressed by people, and recommendations for future implementation of EITI.

### **4. Procurement and Contracting of the Validator by Candidate Countries:**

- a. Candidate Countries must procure an EITI Validator from a list of accredited organizations and individuals preapproved by the EITI Board through the EITI International Secretariat.

- b. Implementing Countries shall select the most appropriate method for the procurement and contracting of an accredited Validator. The EITI International Secretariat recommends a competitive bidding process open to all accredited Validators. International best practice includes a range of procedures, including quality- and cost-based selection (QCBS), quality-based selection (QBS), selection under a fixed budget (FBS), least-cost selection (LCS), selection based on consultants' qualifications (CQS), and single-source selection (SSS).
- c. The procurement process must include appropriate provisions to ensure the independence of the Validator by addressing possible conflicts of interest.
- d. The procurement process (including the proposed selection criteria and weighting for assessing proposals) should be endorsed by the MSG or its subcommittee.
- e. The contract for the Validation Process shall be between the Candidate Country (the lead government agency, or the MSG) and the selected Validator.

**5. Quality Assurance by the EITI Board:**

The EITI Board, working through the EITI International Secretariat, reviews the procurement process and the Validator's ToRs and contract prior to initiation of the validation assignment. In conducting its review, the EITI Board shall have regard to, among other things:

- a. The overarching quality and transparency of the procurement process
- b. The involvement of the MSG
- c. The treatment of conflicts of interest
- d. The adequacy of the terms of reference vis-à-vis the objective of Validation and the methodology as set out in the Validation Guide
- e. The coherence of the Validator's technical and financial proposals
- f. The terms of the contract between the Implementing Country and the Validator.

Where the Board, working through the EITI International Secretariat, has concerns regarding the procurement process or the Validator's contract, it would communicate these concerns and recommend remedial actions and modifications in writing. Once these issues have been addressed to the satisfaction of the Board, the EITI International Secretariat will issue a letter of no objection sanctioning the Validation exercise. A copy of the signed contract should be forwarded to the EITI International Secretariat.

**6. EITI Oversight of the Validation Process:**

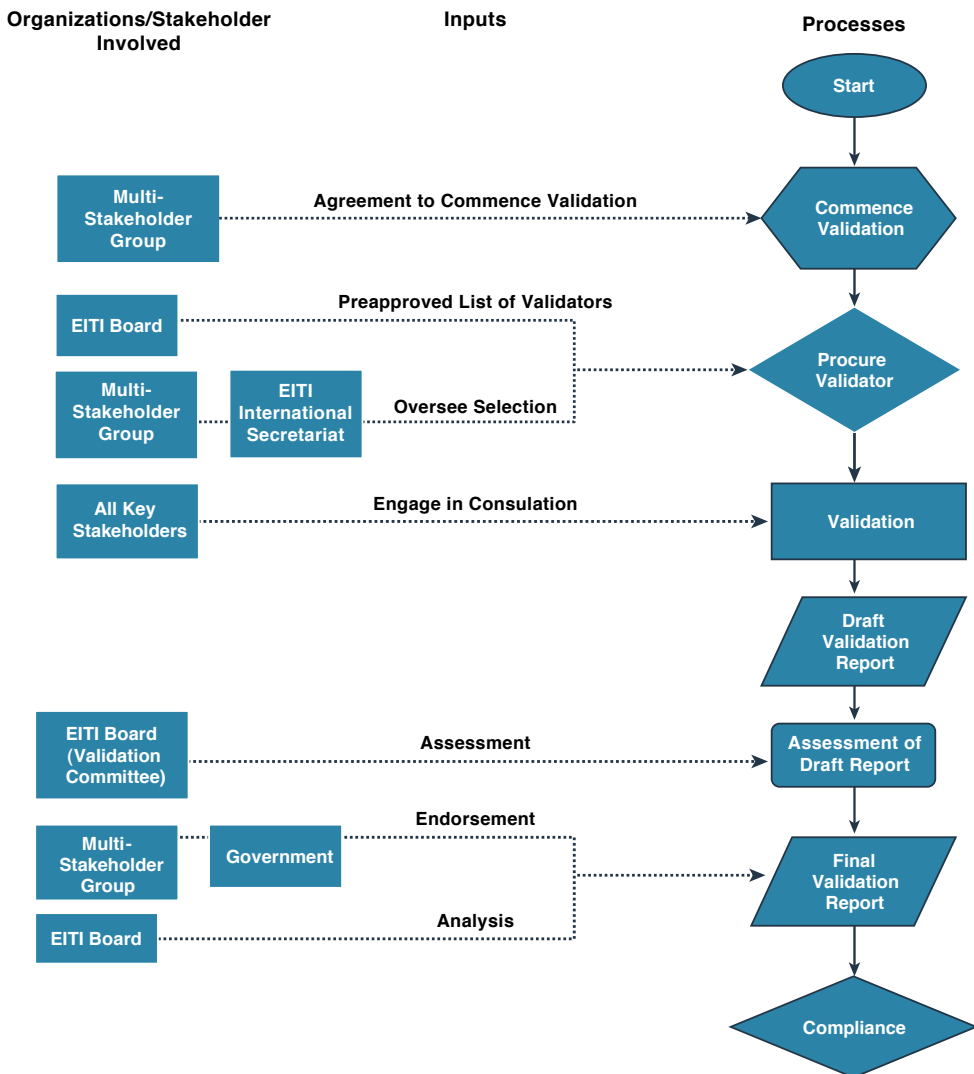
- a. The EITI Secretariat would enter into a Memorandum of Understanding with accredited Validators to further clarify the Validator's responsibilities and obligations to the EITI Board and International Secretariat.
- b. The Memorandum of Understanding would include guidance on:

*(Box 7.3 continued on the next page)*

(Box 7.3 continued from the previous page)

- Ensuring efficient information exchange between the EITI International Secretariat and the Validator during the Validation Process
- Reporting any difficulties or irregularities encountered in the Validation Process
- Dispute resolution mechanisms.

**Figure 7.1 Functional Flows within the Validation Process**



## Enforcement of EITI Rules and Standards

Noncompliance with EITI standards could be on either procedural or substantive grounds.

Noncompliance on substance of EITI occurs when the Candidate Country has completed the formalities of submitting the Validation Report within the specified deadlines, but the Validation Process raises questions on the quality or credibility of EITI implementation in that country. In such cases, EITI policy specifies that the EITI Board is empowered to remove the country from the list of EITI-implementing countries, including where the EITI Board judges that a country's Validation Process indicates a lack of an intention to implement the EITI in accordance with the Principles and Criteria and where no "meaningful progress" has been made toward achieving EITI Compliance.

Among the options available to the EITI Board and the country concerned are:

- If the EITI Board judges that although a Validation Report does not evidence "compliance" but shows "meaningful progress," then the Board would not delist the Candidate Country. Rather, it sets out remedial actions for the Candidate Country based on the findings of the Validation Report. The MSG then agrees to and publishes a work plan for the remedial actions—and acts on that work plan.
- In this case, a second Validation Process takes place after the implementation of the remedial actions. If this report finds that all relevant criteria are met, the Board designates the Candidate Country as EITI Compliant. If the Validation Report indicates to the contrary, or if it is not submitted within specified deadlines, the Candidate Country risks being delisted.
- The MSG may request a waiver from undergoing the second Validation if the remedial actions are not complex and can be quickly undertaken. However, such requests must be made well before the end of the maximum candidacy period of three-and-a-half years. The EITI Board may, at its discretion, approve such a waiver if it finds that the second Validation would not be required to identify Compliance. If the Board deems so, it then empowers the EITI Secretariat to prepare an assessment for the Board.

- During this entire process of remedial actions, the candidacy of the Candidate Country is extended where needed, provided the total candidacy period does not exceed three-and-a-half years.

In assessing “meaningful progress,” the EITI Board considers both (a) the EITI process—in particular the functioning of the MSG and a clear, strong commitment from the government; and (b) the status of EITI reporting—that is, the Board will take into consideration whether the requirements for regular and timely reporting have been met.

# PART III: Maintaining EITI Compliance

The Extractive Industries Transparency Initiative (EITI) has provisions for periodic review of compliance to ensure that the process is being carried out effectively and on a continual basis. Therefore, to successfully be part of the EITI, it is not sufficient that a country achieve EITI Compliance; it must also take appropriate measures to maintain its status as an EITI Compliant Country. It can do so by formulating and executing a strategic plan of action on how best to learn from and continually improve upon past actions, and to have a vision of how to integrate EITI into the mainstream agenda of good governance. Part III of the handbook delineates requirements and good practices for maintaining EITI compliant status, and provides guidance on how best to integrate EITI into the mainstream good governance agenda.

# Monitoring and Evaluation of EITI Processes

## Introduction

Monitoring and evaluating the results and impact of EITI processes is an important way of ensuring that a national EITI process stays on track and ultimately begins to deliver expected outcomes. EITI Rules (Requirement 20) encourage governments and multi-stakeholder groups (MSGs) (with inputs from civil society and stakeholders) to produce annual EITI Reports, review performance, and act on lessons learned. Requirement 21 requires EITI Compliance Countries to maintain adherence to all EITI requirements in order to maintain Compliance status. To do so, EITI Compliant Countries must constantly assess what they are doing and where they are going. Experience suggests that where such stock taking does not occur, weaknesses are not identified and can lead, in extreme cases, to a weakening of stakeholder support for the EITI process. Continuous stock-taking provides the opportunity to constantly improve upon the EITI process and yield the desired results.

### Box 8.1 EITI Requirements on Retaining Compliance

**Requirement 21** Compliant countries must maintain adherence to all the requirements as set out above in order to retain Compliant status.

## Monitoring and Evaluation

Most EITI-implementing countries have carried out stock-taking reviews of their EITI processes at various stages, and have often refined their work plans as a result, especially those that are now EITI compliant or have progressed to the stage of issuing one or more EITI Reports.



The starting point for stock taking—that is, monitoring and evaluation (M&E) analysis—is the work plan devised and agreed to by stakeholders, as a baseline of what was intended to be accomplished. The work plans are then adjusted as deemed necessary by the M&E analysis, and work steps are refined and rescheduled as needed.

M&E analysis is usually carried out by the EITI National Secretariat (or by an independent consultant hired for that purpose) and is typically overseen by the MSG and might be complemented by public surveys or polls, as needed. Other stakeholder groups have often also commissioned reviews of the EITI process as part of their own external feedback.

Ideally, and for optimal impact, M&E analysis should refer not only to the national EITI work plan, but also to the EITI Criteria and *EITI Rules* (2011).

## **Results and Measurement Framework— Impact of EITI**

Although the EITI country experience is still a work in progress, the overall results and outcomes of EITI processes have also begun to be discussed in EITI countries. The World-Bank-managed Multi-Donor Trust Fund (MDTF) has, for example, devised a results measurement framework that is beginning to be applied in certain countries. This framework is intended to help EITI countries measure results and outcomes of EITI processes over time, using agreed performance indicators. Over time, the use of this or similar results methodologies should enable a picture of the results of EITI to be documented. Annex 2 provides a sample of such a results measurement framework.

## **Emerging Results from EITI in Implementing Countries**

Because EITI is a relatively young process in most EITI-implementing countries, determining what impact national EITI processes have had in EITI countries in terms of specific outcomes other than in improving the transparency of oil, gas, and mining revenues and of providing a working forum for public-private collaboration with civil society engagement, is more an art than a science. However, the push for ongoing M&E arrangements and better measurement of results and impact of EITI will, in time, generate more comprehensive analytical data on the long-term impact of EITI processes.

Nonetheless, there are already the following interim results of national EITI processes:

- *Tangible demonstration of the commitment of governments and companies:* The growing momentum of EITI globally and within countries is an indication of the commitment to transparency of revenues and payments in the oil, gas, and mining sectors, and recognition of EITI as the global standard.
- *Important diagnostic of revenue collection systems:* The process of carrying out an EITI reporting cycle has, in some countries, identified significant weaknesses in revenue assessment and collection. Some EITI processes have identified an overreliance on company self-assessment of taxation and/or a lack of capacity in revenue agencies in monitoring company payments. In these cases, some EITI processes have either directly identified payments that should have been made but were not, or the additional scrutiny of the EITI processes has led to an increase in government revenues.
- *Collection and explanation of disparate sources of financial information:* In many EITI-implementing countries, the problem has been not so much the nonexistence of information on payments and revenues, but that such information is scattered in disparate locations and is not available, or is not presented in a way that is readily understandable by citizens. EITI processes have proved to be a very good mechanism for collecting such information in one place, verifying its credibility, and clearly explaining what it means.
- *Collaborative process:* The EITI multi-stakeholder process has been time-consuming, but it has also resulted not only in reduced tensions and risks, but in many EITI countries, it has provided the first and only opportunity in which all three parties—government, companies, and civil society—were able to systematically work together in an agreed structure to achieve common goals, thus creating trust among the parties. In many cases, stakeholders have developed a better appreciation of the operations and motivations of other stakeholders. This has led to greater contacts between companies and Civil Society Organization (CSOs), and between CSOs and government. It has also provided an opportunity for governments and companies to step outside of their respective roles as “regulator” and “the regulated” as they pursue a mutually advantageous process. These increased contacts can help to avoid conflicts and mitigate those that already exist.
- *Enabled civil society—and demand for accountability:* By focusing on one important sector and one important set of transactions, EITI

processes have often stimulated demand for greater transparency of, and accountability over, other aspects of the oil, gas, and mining sectors and how they are managed and revenues used. While EITI is not always the only (or even optimal) tool for meeting all citizen expectations, it is the first step in creating a culture of transparency and accountability over Extractive Resources.

- *A basis for systemic improvements and institution building:* As countries reach EITI compliant status, EITI has also stimulated follow-on actions (in the country context) for improvements in public financial management systems and other aspects of oil, gas, and mining regulations and policies. These have come about by launching remediation actions to address weaknesses identified in and recommendations made in EITI Reports and Validation Reports, with the EITI process playing a key convening role in ensuring that such remediation steps are taken.
- *EITI as a platform for continued reforms:* Especially in EITI-compliant countries, the success of the EITI approach is beginning to lead to multisector approaches and to building on EITI structures in other aspects of governance and management of the oil, gas, and mining sectors, as described in the introduction to this handbook (see *Part III, Chapter 11, Mainstreaming EITI*).

# Country-specific Case Studies of Results Achieved, Contributions, and Impacts of EITI<sup>26</sup>

## Introduction

By the end of 2011, approximately 35 countries had signed up to the EITI standard and were actively implementing EITI. Twelve have achieved EITI compliant status so far. Since becoming operational in 2006, EITI has garnered high-level and broad-based political endorsements for its principles and standard for transparent revenue management in the extractive industry sector. Case studies of two participating countries and a 2011 evaluation by Scanteam<sup>27</sup> reveal important outputs in the form of the establishment of national EITI systems, innovative reconciliation studies, legal foundations for the work, and public access to information.

According to the evaluation, positive outcomes include increased trust and more attention to public sector management. Little impact at the societal level, however, can be discerned at this point. This is due partly to EITI's relatively short existence and partly to the lack of links between EITI and the larger public sector reform processes and institutions. The limited impact on societal change is also a function of the narrow focus of EITI activities. If the EITI standard against which countries achieve compliance were more in line with its fundamental principles, and if it focused more on strategic partnerships other than transparency in the collection of taxes and revenues

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<sup>26</sup> This chapter was prepared by a team comprising Arne Disch (team leader) and David Gairdner of Scanteam, Norway. The team was also part of an external evaluation of the global EITI completed in 2011, and this chapter draws on some of the case studies and findings of that evaluation, a snapshot of which is presented in this chapter.

<sup>27</sup> Scanteam is an independent advisory group with extensive field experience in working with governments, development banks, UN agencies, NGOs, and private companies to produce improved results through application of "good practice" methodologies across activity cycles.

alone, EITI would be more likely to reach its societal objectives. Thus, a key recommendation is that EITI consider a performance standard that covers a greater part of the Extractive Industries Value Chain in the sector, combined with a flexible rating scheme that would grade actual performance rather than giving a Yes or No value. The evaluation also calls for EITI to develop a more rigorous and realistic results framework for the global and national levels.

## Achievements of and Challenges for International EITI

The case studies of EITI implementation in Mongolia and Nigeria (discussed below) exemplify several achievements that can be credited to the global EITI standard and structure in many current implementing countries, along with remaining challenges:

- *Tripartite partnership* as the foundation for a more open and transparent sector is now universally accepted, which opens public arenas for dialogue and joint decisions regarding issues in the extractive sectors. However, greater use could be made of the information now available, both in public policy debates and by oversight bodies.
- *Major improvements in quality and quantity of revenues and payments information*, now available publicly and reconciled by an external reconciler, adds independence and some degree of verification to transparency.
- *Weaknesses in public sector management* of strategic resources have emerged as a central issue in EITI, along with the need for clearer roles, more resources, and improved instruments for horizontal control by such public bodies as parliamentary oversight committees, central banks, and offices of the accountant-general and supreme audit institution.
- *Public authorities* have been provided additional tools for managing a strategic sector of the economy, have established partnerships with private sector and civil society actors to jointly find improved solutions, and are part of an international network that is systematically searching for better ways to learn lessons and improve performance in raising and managing revenues from extractive activities.
- *Civil society and media* have been provided legitimacy in engaging, questioning, and criticizing governments and private companies on matters that are of critical importance to these countries' development. A legally recognized and defended space for engaging in public

discourse is now in place, facilitating increased participation and a democratic voice regarding the sector's future.

- *The private sector* has been able to document the considerable financial and other contributions it makes to society; has seen more stable and predictable conditions based on international “good practice” standards; and has a platform to discuss longer-term policies such as more open, competitive processes and clearer standards for reporting and behavior that cover all actors in the sector, thus helping to “level the playing field.”

The Mongolia and Nigeria case studies (see below) identify additional challenges the global EITI standard and structure face, as do many of the current EITI-implementing countries. These challenges include:

- *Mainstreaming the focus of EITI to avenues other than revenue transactions:* While the EITI has been successful in addressing the concerns on revenue flows, its overall principles could be interpreted to support the need to address other upstream and downstream issues in the value chains of the mining and petroleum industries, including a suggestion to carry out Value for Money/unit cost studies on petroleum production. Choices on such mainstreaming will obviously vary from country to country, depending on local context, capacities, and priorities.
- *Civil society engagement for many EITI processes:* Civil society's capacity for meaningful engagement in the EITI processes faces several hurdles in terms of human, financial, and technical resources. Equally important is to determine whether the full range of civil society actors has been engaged, including unions, professional organizations, faith-based groups, and research and teaching communities. These stakeholders may provide important contributions to the public discourse on the extractive sectors.
- *Linking up with other actors and processes:* EITI's capacity to promote greater accountability will benefit from closer liaison with other international standards and programs that complement its work. For example, the Public Expenditure and Financial Accountability (PEFA) processes being carried out around the world may support the work EITI is doing on revenue mobilization and fiduciary transparency. Many other such possibilities may enrich local EITI efforts and may even be necessary if EITI is to be mainstreamed into broader governance processes.

- *Varied composition and effectiveness of national EITI bodies:* EITI is designed as a nationally owned process. The legal basis for its work, the protection of its independence, the scope of its responsibilities, and the available resources vary enormously across EITI countries. Key challenges for every national EITI governing body remain—ensuring their mandate is clear, their work is legally and administratively anchored, and they garner sufficient resources to carry out their tasks effectively. Robust institutionalization of EITI is the best way to protect the hard-won gains it has brought in implementing countries.

## Two EITI-Implementing Nations, at a Glance: Mongolia and Nigeria

The experiences of the two countries explored in the case studies—Mongolia and Nigeria—highlight the diversity of situations the global EITI standard must address in the quest for increased transparency. Mongolia is a mining country engaged in a transition from a centrally planned to a market-based economy, driven in large part by a political liberalization process. It was historically under the control of a communist party that provided few arenas for contestation and accountability. Nigeria’s market economy has relied heavily on petroleum for decades, as the African nation moved from authoritarian military rule to civilian control through elections in 1999. It has a history of major corruption, ranked among the worst countries in the 1990s on Transparency International’s Corruption Perceptions Index, although it boasts a vibrant civil society and a fairly free press.

Both countries have been enthusiastic and rigorous implementers of the EITI standard, tailored to meet their individual national circumstances. Both engaged multi-stakeholder working groups at the helm of their now-compliant EITIs, and both benefited from the support of the World-Bank-administered EITI Multi-Donor Trust Fund (MDTF) and other supporting agencies and international Civil Society Organizations (CSOs).

**Mongolia:** Mining is crucial to Mongolia’s national economy, accounting for 80 percent of industrial output in 2008. Thirty-six percent of its public revenues came from mining in 2009, up from 5 percent in 2002. The Mongolia Extractive Industry Transparency EITI (EITIM)—implemented in 2006 in the midst of the country’s political, economic, and cultural/demographic transformation—has demonstrated sustained progress in expanding the scope of reporting, reducing unresolved discrepancies, and strengthening Mongolia’s legal, regulatory, and institutional framework. For example, its first reconciliation report, in 2008, included 26 firms with a minimum

turnover of MNT 500 million (that is, 500 million Mongolian Tugruk, equivalent to US\$450,000); in comparison, its fourth reconciliation report included 101 companies with a threshold of MNT 10 million. Unresolved discrepancies have been reduced from 6 percent of total payments in the first report to 0.07 percent by the fourth.

EITIM has achieved an enormous increase in information publicly available on mining revenues and a genuine and open multi-stakeholder process with strong participation and commitment from government, civil society, and the private sector. At the same time, because the information now available has not been widely disseminated, EITIM's role as an agent of full transparency remains a work in progress, and challenges remain to make government entities and companies accountable for the quality of their reporting. In short, the Mongolian EITI has brought transparency regarding tax payments in the mining sector, but it does not address how or whether funds are channeled to meet the government's development priorities. Although this aim exceeds the stated scope of EITIM and of EITI globally, it remains a concern.

**Nigeria:** The largest oil producer in Africa and among the top 10 globally, Nigeria's petroleum sector played a role in the nation's history of corrupt military regimes. President Obasanjo's 1999 election ushered in stable civilian control. In November 2003, the president announced that the government and oil companies would make public oil and gas sector payments and revenues. The Nigeria Extractive Industries Transparency EITI (NEITI) was formally launched in February 2004.

Nigeria's reconciliation exercises have offered comprehensive data on tax payments and physical production levels and a structural analysis of the petroleum sector, including the various public agencies involved. NEITI reports have also called for improvements in metering, alleviation of the environmental and financial impact of gas flaring, clearer interpretation of tax laws and regulations, and the need for a Value for Money audit that would encompass Nigeria's National Petroleum Corporation. More work is needed to improve the quality of public administration of petroleum revenues and to respond to concerns voiced by CSOs. As one of the first countries to implement EITI principles and rigorous audits, Nigeria's validation exercise was bumpier than expected but ultimately successful. NEITI has raised important issues related to public sector performance, but has not been able to push forward on improvements. CSOs call for stronger engagement with the public and the research community regarding use of information now available through NEITI.



# Maintaining EITI Compliant Status—And Emerging Strategies Subsequent to Compliance

## Introduction

The EITI Rules (Requirement 20) encourage governments and multi-stakeholder groups (MSGs) to act on lessons learned, address discrepancies, and ensure EITI implementation is sustainable. In addition, the EITI Rules (Requirement 21) specify the actions countries need to take to maintain EITI compliant status. These include (a) adhering to the EITI Rules, EITI Criteria, and EITI Principles; (b) ensuring EITI Reports are issued on a timely and regular basis; (c) conducting Validations with the deadlines specified—normally five years; and (d) publishing a public report on the progress of EITI over the past year.

Governments and multi-stakeholder groups (MSGs) are also encouraged (by Requirement 21), to explore innovative approaches to deepen the comprehensiveness of EITI reporting and, hence, public understanding of revenues, and to encourage high standards of transparency and accountability in government and in the business sector.

## Emerging Post-compliant Strategies

In this respect, EITI (and its collaborative structures) offers an excellent platform for continued reform on better governance of the oil, gas, and mining sectors—especially in the case of EITI compliant countries.

With the EITI Requirements met, the experience so far is that governments and national MSGs in Compliant Countries are beginning to establish higher-order goals to both strengthen EITI and help build good governance

of the oil, gas, and mineral sectors in a way that leverages and builds upon the gains that their national EITI process have delivered thus far.

Unlike EITI itself, the contours of such EITI follow-on work will not generally follow any specific, preset path, but will differ by country according to their national circumstances, and could take one or more of the indicative paths below:

- *Actions that strengthen and consolidate EITI:* Taking actions such as (a) ensuring sustained political commitment to EITI and its ability to contribute to good governance of natural resources; (b) creating a legal basis for EITI to ensure its institutionalization and assure that EITI is adequately resourced; and (c) ensuring remedial actions to address systemic weaknesses identified or recommendations made in EITI Reports or external Validation Reports.
- *Actions to improve the quality of EITI reporting and engagement:* Continuous improvements in the quality and content of EITI reporting and strength of participation by civil society, affected communities areas, and stakeholders—and which meet expectations.
- *Actions that extend the coverage and scope of EITI:* Covering areas such as license awards, cadastre records, and EI payments by companies at subnational levels.
- *Actions to embed EITI into national systems:* Creating (a) public financial management systems for oil, gas, and mining revenues; (b) government budget processes; (c) tax collection and administrative systems; and (d) anticorruption mechanisms and institutions.
- *Actions to support social development and demand for accountability:* Taking actions such as (a) creating community forums and networks of communities affected by oil, gas, and mining; and (b) operations capacity building for civil society.
- *Actions to measure the impact of EITI:* Devising indicators and systems as a way to track the progress on transparency and good governance goals for the oil, gas, and mineral sectors.

In striving for these goals to mainstream EITI, and for efficiency, a key consideration for MSGs and policy makers would be to build systematic linkages with other existing EITIs operating in that field, for example, improvement of public financial management.

# Benefits of “Mainstreaming” EITI

## Benefits of “Mainstreaming” EITI

EITI helps achieve transparency and accountability in the payment and receipt of natural resource revenues. However, the EITI process, when integrated properly into mainstream governance reforms, can provide a firm base on which such reforms can be made, and mainstreaming EITI into national governance strategies provides EITI-implementing countries with added advantages (see box 11.1). “Mainstreaming” EITI builds on the process of

### Box 11.1 Benefits of “Mainstreaming” EITI

1. *Moving toward achieving EITI Principles:* It has been widely acknowledged, including by an evaluation report on EITI in 2011,<sup>a</sup> that although EITI ensures the fulfillment of EITI Requirements, which are a logical extension of the EITI Criteria, the EITI Principles (see Annex 1), which form the broad aspirations of EITI, are best achieved when EITI is integrated into a process of broader sector reforms.
2. *Explaining EITI’s contribution to societal transformations:* Mainstreaming EITI links it to broader governance reforms and national development objectives, thus providing a narrative that can be used to explain the positive impacts of such a mainstreamed EITI process on good governance, the domestic economy, and the social fabric. This would also positively impact the importance given to EITI and resource-revenue transparency as a part of the good governance agenda.
3. *Using EITI as an indicator for broader sector performance:* When viewed in isolation, the EITI standard has a limited focus, that is, revenue disclosure and verification. However, “mainstreaming” EITI into the broader sector governance agenda and into areas such as public financial management and taxation enables it to be used as a tool across the EI Value Chain, thus helping achieve better sector-based outcomes.

Source: a. Scanteam 2011.

EITI to benefit broader governance reforms. For instance, the multi-stakeholder approach and inclusive dialogue process that EITI establishes, along with the transparency that its implementation entails, can be leveraged and used in other governance processes across various sectors.

“Mainstreaming” refers to integrating EITI into other processes along the Extractive Industries (EI) Value Chain (see below) in order to deepen its impact and achieve its aspirations and goals, in the context of the desired sector outcomes of maximizing extractive resource-based development and diversification of economic activities. The greater the degree of “mainstreaming,” the greater the extent to which EITI, its organizational structure, and outcome-associated processes can be leveraged to facilitate administrative and regulatory reforms leading to good governance.

## The EI Value Chain Approach to “Mainstreaming” EITI

EITI, its national structures, and its associated processes and outputs are best leveraged when they are linked to the implementing country’s broader agenda for good governance, especially with regard to the sectoral governance of extractive resources and resource revenues. The “EI Value Chain” “chevron” approach (figure 11.1) is a practical way to organize the strategy and actions.

As can be seen, the EI Value Chain is a five-chevron process; that is, there are five stages of an integrated process. Such EITI linkages can extend, for example, to links to existing or planned programs to improve public financial management and tax collection and administration; to EITIs that strengthen legislative oversight of public finances; and to accountability EITIs, which promote a voice for communities affected by oil, gas, and mining.

**Figure 11.1 Extractive Industries Value Chain**



These changes can only occur with clear political commitment to reform, but also through well-performing institutions that manage the extractive industries sectors, including anticorruption mechanisms and instruments for promoting public and fiduciary accountability over EI resources. EITI can play a positive role in catalyzing and sustaining these changes and improvements over time by encouraging high standards of transparency and accountability in both public institutions and the business sector.

Box 11.2 provides a description of EITI processes across the EI Value Chain.

### **Box 11.2 Description of EITI Processes across the EI Value Chain**

#### **I. Process: Overall reinforcement of good governance and accountability across the entire EI Value Chain**

- ▼ EITI convenes and engages tripartite stakeholders (government, EI companies, and Civil Society Organizations) in an effective dialogue process, providing a model that could be used to inform continuing reforms leading to better governance across the entire EI Value Chain.

#### **II. Process: Chevron I—Award of Contracts and Licenses**

- ▼ The data obtained through EITI could be used to create informed contractual and licensing policies dealing with extractive industries and other associated sectors (such as infrastructure).
- ▼ Adopting a detailed physical audit to reconcile mining license holdings and awards.

#### **III. Process: Chevron II—Regulation and Monitoring of Operations**

- ▼ Where EITI reporting templates provide for data disclosure of production on the basis of individual projects or contracts, the production data obtained through EITI enables tripartite stakeholders to assess comparable project revenues.<sup>a</sup>

#### **IV. Process: Chevron III—Collection of Taxes and Royalties**

- ▼ By requiring the public disclosure of sector-specific payments (including taxes, royalties, and rents) made by extractive industries to governments, and the corresponding revenues received, EITI engenders transparency and increased efficiency in the collection of resource revenues by leveraging its tripartite structure to pressurize fiscal compliance.
- ▼ By ensuring a scope of audits and reconciliation that results not only in disclosure of revenues and payments, but also provides assurance that the reported payments and revenues are what they should be in relation to contracts and applicable taxes and other laws.

*(Box 11.2 continued on the next page)*

(Box 11.2 continued from the previous page)

#### **V. Process: Chevron IV—Revenue Management and Allocation**

- ▼ The data disclosed under EITI enable stakeholders (specifically, civil society and local governments) to assess and reform (as required) national budgets, as well as public financial management and revenue management systems, by assisting them in making informed decisions.
- ▼ Embedding EITI into national public financial management processes, building institutions, and extending EITI to areas like social transfers and subnational payments (see *Part I, Chapter 1, Subnational Payments and Revenue Decentralization*; and *Part I, Chapter 1, Reporting Social Payments under EITI*).

*Note:* a. It is not a mandatory requirement that data disclosure under EITI be disaggregated project-wide. Indeed, arriving at such a consensus in the MSG might prove onerous. However, the domestic and regional transparency and disclosure legislation of some countries proposes having mandatory data-reporting processes on a projectwide basis (for example, the Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010, Title XV, S. 1504 [United States]; and the proposed directive of the European Parliament and Commission [draft version] to amend Directive 2004/109/EC), accessed November 28, 2011, [http://ec.europa.eu/internal\\_market/accounting/docs/other/20111025-provisional-proposal\\_td\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/other/20111025-provisional-proposal_td_en.pdf).

### **“Mainstreaming” EITI Impacts all Processes across the EI Value Chain**

The process of “Collection of Taxes and Royalties” (chevron III in the EI Value Chain) and subsequently “Revenue Management and Allocation” (chevron IV in the EI Value Chain) are inherently distinct from the others in that they can be measured directly. The data disclosed through EITI can be used to inform cost-benefit analyses of monies received compared to liabilities incurred as a result of extractive activities and associated processes. By achieving transparency in the collection of resource revenues, EITI is first introduced at the heart of the EI Value Chain, in a chevron where the results and outcomes are easily measurable. Measurements (a) help show measurable positive outcomes in chevron III as an indicator of the ability and intention of the government to achieve broad-based sector reforms across the EI Value Chain, and (b) help evaluate the effectiveness and efficiency of all processes across the EI Value Chain.

When viewed in isolation, public reporting of EI revenues, although extremely valuable, represents only one step in improving sector governance and maximizing development outcomes throughout the EI Value Chain. However, EITI, the processes associated with it, and the resulting data disclosure can play an important role in all other dimensions of the EI Value Chain, as box 11.2 illustrates.

Note that the examples outlined above are for illustrative purposes only. At the time of writing this handbook, the EITI International Board and stakeholders were engaged in a strategic review of EITI and its future direction, in particular, of ways to motivate and encourage EITI-implementing countries to mainstream EITI into national systems to enhance the impact of EITI (see below).

## **“Mainstreaming” EITI as a Means to Achieve Sustainable Development in Extractive Industries**

Sustainable development of oil, gas, and mineral endowments of wealth offers many developing countries a pathway to sustained economic development and growth. Above all, sustainable development requires (a) a long-term commitment to reforms, (b) a political system that embraces good governance and transparency, and (c) sound management of Extractive Resources in a way that benefits all citizens. Optimal expenditure and savings decisions are required to be made within the context of an overarching multiyear fiscal framework that recognizes the cyclical nature of commodity prices and the exhaustibility of oil, gas, and mining resources. Public expenditure needs to be developed in accordance with, and in support of, the priorities expressed in the country’s poverty reduction and development strategy. Such a standard is best maintained by ensuring strong scrutiny and appraisal of public investment choices.

Sustainable development at the regional/subnational level is about rational spending choices that communities and regions make through informed consultation, including with the most vulnerable classes such as women and the underprivileged segments of society, and local participation. Good spending choices rely on good governance reinforced by improvements in public expenditure management, transparent reporting and regular auditing of expenditures, and public accountability.

Governments, state-owned and private EI companies, and civil society each have a role and responsibility to ensure that all efforts are made to devise and implement appropriate and sustainable development policies based on good practice and international standards. By focusing on an integrated approach to improved governance and transparency in the oil, gas, and mining sectors, the Value Chain forms a crucial step toward achieving sustainable development.

As described in box 11.1, by encouraging greater transparency in reporting of Resource Revenues, “mainstreamed” EITI seeks to help implementing countries achieve the twin goals of maximizing development and enabling

diversification of economic activities by impacting processes along the EI Value Chain, by reinforcing it along with the EITI Principles. Through the verification and publication of payments made by companies, and of revenues received by governments from oil, gas, and mining companies, EITI also helps to address corruption to a certain extent. It also provides a powerful platform for voluntary engagement and effective dialogue among tripartite stakeholders (including governments, industry, and civil society) in order to establish a locally implemented global standard.

## **Selected Illustrations of “Mainstreaming” EITI**

As mentioned, at the time of writing this handbook, a strategic review was underway by the International EITI Board with the help of stakeholders, with a view to ensuring that EITI is both strengthened and integrated into various facets of oil, gas, and mining sector governance, over and above the reporting of payments and revenues. The aim is to help transform the EITI process from being a narrowly focused revenue transparency and stakeholder-participative EITI into a vehicle for higher-order goals including overall good sector governance and public financial management, as a means of responding to higher expectations of what EITI is intended to achieve and to increase the impact of EITI by mainstreaming it into national systems over time.

The current strategy and thinking of the international EITI Board is to seek consensus for feasible options for EITI policies to achieve the above goals—and leave the operational choices to EITI-implementing countries to decide how best to “mainstream” EITI.

## **Selected Aspects of the Strategic Debate around the Major Issues**

What follows are illustrations of selected aspects of the strategic debate around the major issues, by which EITI might be mainstreamed into national systems to support the EI Value Chain framework, as outlined in the Introduction to this handbook.

### **The debate about contract transparency**

The issue of contract transparency, wherein the underlying contracts and license terms are publicly disclosed, relates to transparency in the first three chevrons of the EI Value Chain, that is, Award of Contracts and Licenses, Regulation and Monitoring of Operations, and Collection of Taxes and Royalties.



The argument made by proponents of greater contract transparency is that when underlying contracts on the basis of which extractive industries operate (“primary contracts”) are publicly disclosed, there is greater triggering of awareness and debate among stakeholders of their contents, which acts as a positive “bottom-up” feedback process that informs the licensing policies with greater demand for accountability.

It also ensures that the ensuing public scrutiny of contractual terms and conditions acts as a checks-and-balances mechanism to ensure that the regulation and monitoring of operations are effectively carried out and may positively impact the collection of taxes and revenues—the basic aspect of EITI—by making stakeholders aware of the amounts of revenues that ought to be collected compared to those that actually are in accordance with contracts. In this view, therefore, contract transparency helps deepen and widen the impact of EITI.

Nonetheless, contract transparency has long been a contentious issue, including among EITI stakeholders. While governments, companies, and civil society generally agree on the benefits of greater transparency, including on the mutual benefits from participating in EITI, there has not been the same consensus on ways to achieve transparency and public disclosure of contracts, mainly for reasons of commercial sensitivities and the potential impact (as seen by the parties to the contracts) on competitiveness and unfair benefits that competitors might derive (see table 11.2).

**Table 11.2 Indicative Listing of Key Contractual Terms and their Relation to Primary Contracts**

Specific Terms of Development	Possibility of Commercial Harm if Disclosed	Presence in a Primary Contract
References to future transactions	Yes	Unlikely
Trade secrets	Yes	Unlikely
Work obligations	Unlikely	Likely
Local content	Unlikely	Likely
Employment and training	Unlikely	Likely
Financial terms of the deal (terms and payment rates)	Potentially, in some contexts	Almost always
Parties to the contract	Unlikely	Almost always

## Potential for advancing transparency in license/concession allocations through EITI

If the scope of EITI and EITI Reports in a country were to be enhanced to include the disclosure of details of licenses and other concessions, including details on their allotment, subsequent transfer (if any), and summary of financial terms, it could be very effective in mainstreaming the EITI process and increasing the effectiveness of EITI as an accountability and anticorruption EITI (see box 11.3).

### **Box 11.3 Indicative Examples of Information that could be Disclosed for Strengthened Transparency in Licensing**

An EITI reporting template seeking to create transparency in licensing could benefit from containing the following types of information and actions:

- **Type and Location of License and Type of Commodity:**
  - ▼ A brief description of the type of license/concession, and/or contracts through which the extractive company is permitted to function
  - ▼ The name, identification number, or other designation given to the license/agreement by the government
  - ▼ Locational identification of the license in the form of geodata and concession maps in order to enable its accurate identification
  - ▼ Identification of the administrative unit within whose jurisdiction the licensing area is located
  - ▼ Make all extractive contracts available and easily accessible to the public and specify the location of their availability
  - ▼ The type of commodity permitted to be extracted.
- **Date and Type of Allocation and Interest:**
  - ▼ Date on which licensing application was made and date on which license was granted
  - ▼ Date on which interest in license was acquired (if different from allotment date)
  - ▼ Type of application and corresponding allocation of concession
  - ▼ Information on each time the license is transferred.
- **Signature Bonus Due/Paid:**
  - ▼ Report signature and other bonuses paid for each license, and any other payment made by the company in advance of production
  - ▼ Report on in-kind payments, infrastructure development agreements, and so on, that are concluded before production.

- **Operator and/or other Partners' Percent Interest and Beneficial Interest:**
  - ▼ The name of the initial company and subsequent company (if any) operating the license, its size, and nature of interest in the license or concession
  - ▼ If more than one company are partners in a consortium, or otherwise exercise control over the license, the nature of each such interest and extent (as a percentage of the whole), and the name or names of the ultimate beneficial owners or companies.
- **Other Factors Affecting the License and Financial Terms:**
  - ▼ Other factors such as legal disputes or financial and technical difficulties that impact the license.

The concept of disclosing information about the initial licensing processes, fees, and allotments, (and also subsequent transfers of concessions) can help assure transparency around a key aspect of the EI sector. When dates for application and allotments are made public, it ensures that any time-bound processes are followed accurately, minimizing the potential for favoritism (for instance, the misuse of first come-first-serve processes of allotment of licenses or concessions, which apparently occurs in some countries).

## Systematic reporting on local content and benefits

Extractive Industries often spend a significant amount of financial resources on the procurement of raw material and other inputs for their functioning. Often, a portion of these procurements comes from domestic upstream suppliers. The scope of EITI, and EITI Reports, would benefit by the government and companies systematically informing the readers and stakeholders of the benefits that oil, gas, and mining operations provide to the overall economy of the country. Disclosing such information has a direct impact on the fifth chevron of the EI Value Chain, that is, Implementation of Sustainable Development Policies and Projects, because it validates the role of extractive industries in achieving the twin goals of development and diversification, and transparently informs readers on how effective the industry has been in meeting their contractual and stated commitments to increase local content in their oil, gas, and mining operations.

## **Options for Ensuring EITI is Irreversible once Adopted, Mainstreamed into National Systems, and Fully Owned by Government**

Ultimately, EITI is successful when the EITI is strong and fully owned at senior levels of government, and is an integral part of a national strategy for transparency and accountability, and good governance of oil, gas, and mineral resources in a country—even across changes of governments.

There is no one, preset path to achieve such broader national goals. But the goal should be to ensure that EITI is fully integrated into national institutions, political programs, and administrative priorities of governments—and has a high level of participation by stakeholders. Examples of actions by government and multi-stakeholder groups to achieve such goals may include:

### ***Ownership by the executive:***

- Clear placement of EITI as an integral part of the executive function, adequately resourced to ensure EITI mainstreaming goals are met.

### ***Framing of laws:***

- A legal framework and mandate for EITI and for the structures that manage EITI.
- A legal and regulatory framework to enable broader sector transparency and openness.

### ***Civil society voice and legislatures:***

- A strong voice for civil society in EITI and in transparency and accountability processes.
- Legislative oversight of EITI and sector transparency.

### ***Continued efforts to ensure action on reported weaknesses—linked to ongoing reforms:***

- Effective systems to address any recommendations concerning the EITI process.
- Continued efforts made to strengthen EITI implementation; that is, progressively comprehensive EITI reporting and stronger stakeholder engagement.
- Close liaison with and linkages to all the relevant parts of oil, gas, and mining sector functions.
- Close liaison with revenue flow/taxation/public financial management systems involved.

***Continued improvement in EITI stakeholder engagement and participation:***

- Improved working of multi-stakeholder working groups (MSWGs), for example, by facilitation and training to create well-functioning MSWGs and peer-to-peer learning among MSWGs.

***Continued efforts to achieve higher-quality EITI reports and disclosure:***

- Attention to the audit of EITI-reported data in a way that improves data reliability.
- Improving the quality and extending the content of EITI Reports in areas such as details on production volumes associated with the revenues reported, financial details relating to state-owned entities, resources-for-infrastructure deals, payments in-kind and sales of production entitlements in oil-producing countries, payments and transfers to subnational levels of government, social and voluntary payments by companies, key details of license awards and contracts concluded, information on local content of supplies and equipment, and beneficial ownership of companies.
- As much detail as possible (in disaggregated form) on revenue and payments data by company, mineral, and type of payment.
- Adopting the use of automated or web-tagged EITI reporting for ease of analysis and review.
- Potentially, including information on the national budget allocation and spending of EI revenues.

***Platform for deeper communication with citizens—including at the community level:***

- Using the platform that EITI provides for deeper and far-reaching programs of transparency about the overall national resource sectors, to help inform and initiate public dialogue on the trade-offs in developing and extracting mineral and hydrocarbon resources.
- This outreach may include systematic processes of engagement with communities in mining-affected districts about the specifics of oil, gas, and mining operations in their districts.

# **PART IV: Roles of Stakeholders and International Governance of EITI**

The Extractive Industries Transparency Initiative (EITI) is a multi-stakeholder process in which each stakeholder plays a vital role in ensuring its success, both nationally and internationally. Part IV of the handbook delineates the roles and responsibilities of the major stakeholders in EITI, thereby providing clarity on how they can contribute to EITI effectively. The national ownership of EITI was addressed in the previous parts of the handbook, and Part IV addresses the organizational structure of EITI at a global level and on how to contribute to it.

# The Role of Government in EITI Implementation

## Introduction

While EITI is a multi-stakeholder process, it is clear that it is ultimately governments that must act as the main driving force for implementation in countries. This chapter considers the issues governments have addressed—and need to address—to successfully implement the EITI. In addition to making a clear statement on the decision to implement EITI, ensuring adequate human and financial resources, and appointing a senior-level champion for the EITI process, the broad categories of work that governments are required to focus on in the EITI process are:

- *Providing political leadership and support:* In all countries, governments are required to provide the political lead and the means (secretariats or implementation units to support the MSG, developing work plans) and resources to take EITI forward (Requirements 1–3).
- *Establishing multi-stakeholder groups (MSGs):* The government plays a critical role in the formation of the MSGs, which form the basis of the workings of EITI (Requirement 4).
- *Providing a legal basis and removing obstacles to EITI implementation:* In some countries, there have been contractual or legal barriers that affect EITI implementation, which has required new or amended regulations or legislation to allow, for example, release of EITI-related data. EITI-implementing countries are required to first identify legal, regulatory, and other policy-related barriers to EITI implementation and remove them. The next step is to then provide a legal framework for EITI reporting, by executive or legislative action (Requirements 5 and 8).
- *Ensuring civil society and company participation:* The government must ensure that company and civil society participation in EITI is effective. It is also required to ensure that companies disclose their data

periodically as mandated by the EITI reporting template (Requirements 2, 6, 7, and 11).

- *Establishing Auditing Standards:* The auditing standards, while disclosing data, directly affect the quality and relevance of the entire EITI process. The government must take action to ensure that the auditing standards followed by both companies and government entities are based on international best practices (Requirements 12 and 13).
- *Releasing details of government revenues:* As part of the data reconciliation or audit process, governments and governmental entities need to provide data on revenues received from extractive industries and assurance on the reliability of the data provided (Requirement 11).
- *Comprehensible and widely disseminated EITI Report:* The government, along with the MSGs, must ensure that the EITI Report is comprehensible and publicly accessible in such a way that its findings contribute to public debate (Requirement 18).
- *Acting on lessons learned:* The government must enable a review of the EITI processes and lessons together with the MSG following the submission of the Validation Report, with a view of ensuring that EITI implementation is sustainable. The government is also required to make any modifications to EITI implementation as indicated in the Validation Report (Requirement 20).

## Providing the Political Lead and Support for the EITI Process

Running a multi-stakeholder process like EITI requires dedicated government resources to support the work of different stakeholders. It requires high-profile commitment from governments and active and influential political champions. In all countries implementing EITI, this has required the government to create a National EITI Secretariat or Implementation Unit to drive EITI.

In the early phases of EITI (at least the first year), this almost always has required at least two to five dedicated full-time staff, apart from the person required by the EITI Rules to lead EITI implementation. These teams have been larger in countries that adopt a more extensive scope (see *Part I, Chapter 1, Setting the Scope of an EITI Process*) or in countries with considerable extractive resources.

The functions of National EITI Secretariats typically include:



- *Supporting the MSG and EITI Champion:* The implementation units coordinate the overall progress of EITI, including (a) convening meetings of the MSG, (b) distributing agendas, meeting papers and minutes, and (c) providing support to the MSG and Champions on decisions and follow-up.
- *Coordinating the government's position:* EITI often requires the involvement of multiple government ministries or agencies. Implementation units often consult across government to come up with a consolidated position on various EITI issues.
- *Drafting and consulting on an EITI work plan:* Developing and consulting on the EITI work plan (see *Part I, Chapter 2, Requirements and Good Practices Relating to the Formation and Functioning of MSGs*).
- *Resource mobilization:* EITI implementation units advocate for the required financial and human resources to deliver on the EITI work plan—in particular, the cost of the implementation unit and its work program, the cost of a Reconciler or auditor's work to reconcile or audit payments and revenue data, and a communications program to consult with stakeholders and disseminate the results.
- *Help identify and address regulatory or legal barriers to implementation:* In some cases, this has required the implementation unit to draft and consult on new regulations or legislation.
- *Managing the tendering and contracting of the Reconciler or audit company:* While the Reconciler's or audit company's work is overseen by MSGs, it is always the government that ultimately must fulfill the tender process and sign a contract and pay for the required services.
- Introducing the Reconciler and facilitating its relationships with extractive industry companies and government agencies.
- *Coordinating government revenue figures for reconciliation:* Implementation units often coordinate across government ministries and agencies that receive revenues from the extractive industries, to produce either a statement of government revenues for a Reconciler or to allow access to the data that will allow an auditor to produce the statement itself.
- *Communicating and consulting on EITI:* Throughout the EITI process, implementation units consult widely with stakeholders, including those outside of the MSG, and are the focal point for providing information on EITI to stakeholders, running workshops, conferences, and press briefings on EITI, as well maintaining EITI websites (see *Part II, Chapter 6, Communicating EITI*).

Different EITI countries have adopted different approaches to locating the National EITI Secretariat (that is, as an independent entity or part of a government ministry), but in either case they are accountable to the government and to the MSG.

## Capacity Building for the National EITI Secretariat and Government Agencies

In most countries, EITI implementation has needed ongoing capacity building for the teams concerned to carry out the EITI process, although availability of resources is inevitably a factor. Some capacity building can be carried out through short training programs. Many countries beginning their EITI processes have been able to learn from other countries in their region already implementing EITI, either by arranging for a study visit to that country, or for stakeholders involved in EITI implementation to visit the country that is just beginning its EITI process. Box 12.1 lists good practices in established EITI secretariats.

### Box 12.1 Good Practices in Establishing EITI Secretariats

Experience has shown that successful EITI Secretariats are those that:

- Have adequate incremental human and government financial resources at an early stage
- Have easy access to members of the MSG and are responsive to the decisions of the group
- Are led by an individual capable of working cooperatively with companies and Civil Society Organizations
- Have easy access to the EITI Champion and to government ministries concerned with EITI
- Are based in an agency that either has its own resources to implement EITI or is familiar with the fiduciary processes involved in managing externally sourced funding
- Have staff with a broad mix of the skills and experiences required to implement EITI. In some countries, this has been achieved by seconding staff from different government agencies or from other stakeholders to the implementation unit.

There can also be a trade-off between independence and access to political decision makers that governments and MSGs need to consider when deciding where to locate the secretariat.

## Providing a Legal Basis and Removing Obstacles to EITI Implementation

### Creating a legal basis for EITI implementation

In legal terms, in some countries EITI has been carried out entirely as a non-legal, participative mechanism that has been agreed to by all stakeholders. In other countries, amendments to existing regulations and/or legislation, or new regulations and/or legislation have been needed to launch and implement EITI.

In the latter case, providing the correct regulatory or legislative basis for EITI implementation has been a time-consuming process in some cases, but has helped address issues such as process sustainability (that is, providing the resources to ensure that EITI reports are produced regularly) and ensuring that all companies work on a “level playing field” on EITI matters.

Those countries that have invested time in providing a regulatory or legislative basis and/or requisite waivers for EITI have often been able to implement the standard more rapidly because regulations or legislation clarify the roles of all parties involved in the process. An example of legislation (from Indonesia) that establishes EITI is available online in the compendium of sample documents.

Some countries without such a legal basis have suffered delays in implementation (for example, due to an inability to ensure that all companies will report data or to assure that the appointed Reconciler or auditor will have access to payments and revenue data.

The issues that have most commonly been addressed by EITI regulations or laws in different countries include:

- *Establishing key principles* including the importance of the principle of transparency in reporting company payments and government revenues and the importance of multi-stakeholder oversight (through MSGs) over extractive industry payments and revenues
- *Allocating responsibility* for the support and management of an EITI process to a designated government ministry or agency (or MSG)
- *Making provisions for a budget line* to be allocated specifically to support the cost of EITI-related operations carried out by that ministry or agency
- *Mandating disclosure* of all payments by all companies and all revenues received by government, often invalidating any elements of

confidentiality clauses in agreements that would prevent this from occurring

- *Reporting standards* establishing the standard for data submitted under EITI, for example, to be based on financial statements audited to international standards
- *Mandating participation* in EITI by all oil, gas, and mining companies
- *Requiring the appointment of an independent Reconciler or auditor* by MSGs to reconcile or audit payments and revenue data, and guaranteeing access for the Reconciler or auditor to company financial records
- *Establishing the scope of the work of the Reconciler or auditor*—that is, whether the organization is to reconcile existing data and investigate discrepancies or carry out more intensive audit work, or carry out a full audit of all payments and revenues—and how the final report of the Reconciler or auditor is to be published and in what detail the data will be presented.

## Removing obstacles to EITI implementation

The effective implementation of EITI requires an environment that is conducive to transparent data disclosure. A precursor activity to ensuring such an environment is making sure that obstacles to such disclosure are removed (box 12.2). More often than not, these obstacles are legal or regulatory in nature. Common legal obstacles include confidentiality clauses in government and company contracts and conflicting government departmental remits.

### **Box 12.2 EITI Requirements on Removing Obstacles to Implementation**

**Requirement 8** The government is required to remove any obstacles to the implementation of EITI.

There is no fixed method on how to remove obstacles to EITI implementation, because methods and obstacles differ in each country. However, governments and MSGs are encouraged to consider some or all of the following steps, as appropriate, to remove obstacles:

- Conduct a review of the legal framework
- Conduct a review of the regulatory framework

- Perform an assessment of obstacles in the legal and regulatory framework that may affect implementation of the EITI
- Propose or enact legal or regulatory changes designed to enable transparency
- Issue a waiver of confidentiality clauses in contracts between the government and companies to permit the disclosure of revenues
- Communicate directly with companies and relevant government agencies to seek acceptance of data publication
- Reach an agreement on a Memorandum of Understanding setting out agreed transparency standards and expectations between government and companies.

## Ensuring Company and Civil Society Participation

A key role of government in EITI is to enable meaningful participation by all stakeholders. This is especially true for companies and civil society, which often find themselves at opposite ends of the spectrum in their perspective on EITI implementation. Differences between these stakeholders often arise from the initial stages of formulating the EITI reporting template through final validation and the follow-up processes. Steps to ensure the meaningful involvement of civil society in EITI and in MSGs were noted earlier (see *Part I, Chapter 2, Good Practices in the Formation and Functioning of MSGs*).

But EITI also requires active company participation in the process, such as by government taking concrete steps to ensure good communication with companies on EITI and ensuring that all companies operating in a country report all material payments. To do so, it is important to address any confidentiality concerns government agencies or companies might have that act as barriers to data disclosure.

Incomplete participation by companies or the omission of information on key revenue streams would derail a country's EITI process due to nonfulfillment of EITI Requirements. Countries have taken different approaches to ensure active company participation; however, MSGs are required to have an enforcement mechanism to ensure reporting by relevant entities irrespective of the methods followed. These are essentially three approaches:

- *Nonlegal*: All companies agree to participate in the EITI process in the absence of any contractual or legislative obligation to do so.

- *Negotiated, for example, a letter of comfort:* Some countries have negotiated agreements (such as Memorandums of Understanding and waiver of confidentiality clauses under “production sharing agreements,” or “letters of comfort”), which reassure companies that their involvement in the EITI process and disclosure of data to a third party will not be considered by the government to be in breach of any elements of their contracts or of legislation.
- *Mandatory:* Some countries have issued decrees or new regulations, or have passed new laws that mandate the participation of all companies in the EITI process.

## Providing Details on Government Revenues

EITI Requirement 15 deals with requirements on governmental agency reporting (box 12.3).

### Box 12.3 EITI Requirements on Governmental Agency Reporting

**Requirement 15** Government agencies comprehensively disclose all material revenues in accordance with the reporting templates.

The type and volume of financial data governments produce for their national EITI process vary considerably according to the scope of their EITI process (see *Part II, Chapter 4, Setting the Scope of a National EITI Process*). Where countries have adopted the “reconciliation only” EITI approach, typically a government’s implementation unit or tax authority is required to provide the government data reports to the Reconciler of all of the payments different government ministries and agencies have received from extractive industry companies (including, where the EITI scope covered these, distributions received by subnational levels of government). Any discrepancies found by the Reconciler between the data provided by the government and the data provided by a company had to be taken up with both parties and, if necessary, explained or corroborated by additional evidence of individual transactions (for example, payment records).

In cases where a country has adopted a more extensive EITI model (in which the EITI data are audited), the government is required to provide the auditor with access to the accounts of government ministries and agencies involved in the extractive industries.

Experience shows that broader involvement of the supreme audit body of countries in the EITI process (which goes further than having possibly audited government data on revenues) is still at a nascent stage, although given their centrality to revenue flows in most countries, such bodies can make an important contribution to EITI processes.

Finally, countries have found it useful, as part of this discussion with companies, to include tax authorities in discussions early in the EITI process, because it is reasonably common for there to be generic tax confidentiality laws—that is, laws mandating that details of tax payments cannot be revealed to a third party without express actions taken under the applicable laws of the country concerned to allow such release of information for EITI purposes.

## **Governments Supporting EITI in other Countries**

Governments may also decide to endorse EITI even though they might not be implementing it. Governments of countries are required to make a clear public statement endorsing EITI in order to gain recognition as a “Supporting Country.” Being a “Supporting Country” would mean that the particular country endorses EITI and its benefits to implementing countries. This has been used as an important tool in international relations, with developed countries typically using it to show their commitment to improving the quality of life in developing countries. Box 12.4 lists good practices for countries supporting EITI.

### **Box 12.4 Good Practices for Countries Supporting EITI**

There are many ways for a country to support EITI, including:

- Supporting and promoting EITI in international and multilateral forums, for example, the UN General Assembly Resolution on EITI.
- Encouraging companies operating within their territory to become supporters of EITI.
- Undertaking outreach events to promote awareness of EITI domestically, especially with companies and civil society.

*(Box 12.4 continued on the next page)*

*(Box 12.4 continued from the previous page)*

- Encouraging resource-rich countries, through diplomatic and commercial channels, to implement the EITI.
- Considering providing technical support in resource management to implementing countries that have low technical capacity. Where the supporting country is comparatively well placed to provide this assistance, ensure that this technical support is well coordinated with other efforts.
- Commit to high standards of transparency in the domestic extractive sector.
- Finance the international management of the EITI and the World-Bank-administered Multi-Donor Trust Fund, which supports EITI implementation.



# Role of the Legislature in Supporting EITI

Especially in parliamentary democracies, the legislature and government work in tandem to support EITI. EITI provides legislatures, political parties, and individual legislators with an opportunity to establish themselves as relevant and credible leaders on extractive industry transparency issues, about which citizens often care deeply. EITI can serve as a venue for building expertise and partnerships with other actors on extractive industry issues. Legislators who work closely with other actors on EITI may be able to use their engagement as a platform for engaging on other important issues related to improving extractive industry management. Finally, information obtained through EITI reporting can serve as an important tool for expanding and strengthening budget monitoring and oversight activities by the legislature.

A legislature effectively carrying out its three core functions—oversight, representation, and lawmaking—is critical to the success of EITI, for the following reasons:

**Oversight:** Legislatures are empowered to scrutinize government activities, to ensure that programs are implemented effectively and legally, and that allocated funds are accounted for. By skillfully using the question period, conducting public hearings, and inviting ministers, business people, and others to testify before committees, legislators can help make certain EITI is managed well and that EITI reports are issued on time, that they are accurate, and that they are published widely. Once a report has been released, legislators can ensure that the results are widely publicized and that the government addresses discrepancies and shortcomings.

**Representation:** Carrying out their representation function, legislators can help shape the EITI process and make certain it reflects a broad range of interests. They may become involved in EITI multi-stakeholder groups (MSGs), and can help ensure that Civil Society Organizations (CSOs) committed to resource transparency are involved and active in the MSG. Through public hearings, interviews with the media, constituent outreach, and other methods, legislators can build public awareness about EITI and the

problems it identifies, and influence public opinion for holding the government accountable.

**Lawmaking:** Finally, acting in their lawmaking capacity, legislatures can ensure that their governments sign on to and participate meaningfully in the EITI process. Several countries have run into legal obstacles to EITI implementation, and a revision of the laws has been required. Legislators can ensure these laws are changed in a way that reflects and reinforces the transparency required through EITI. In addition, although not a part of EITI requirements, some countries have strengthened EITI by enshrining the process itself in law.

See box 13.1 for an example of EITI legislation from Nigeria.

### Box 13.1 Example of EITI Legislation

To provide a formal legal foundation for EITI in Nigeria, the country's legislature passed a law in May 2007 commonly known as the "NEITI Act,"<sup>a</sup> making Nigeria the first country to have a legal basis for EITI reporting. The salient provisions of the NEITI Act are as follows:

**Para 1–2(a):** The NEITI ... shall be an autonomous self-accounting body, which shall report to the President and the National Assembly.

**Para 2:** The primary objectives of the NEITI are (a) to ensure due process and transparency in the payments made by all extractive industry companies to the Federal Government and statutory recipients; (b) to monitor and ensure accountability in the revenue receipts of the Federal Government from extractive industry companies; (c) to eliminate all forms of corrupt practices in the determination, payments, receipts and posting of revenue accruing to the Federal Government from extractive industry companies; (d) to ensure transparency and accountability by government in the application of resources from payments received...

**Para 3:** For the purpose of realizing its objectives under this Act, the NEITI shall perform the following functions: (a) develop a framework for transparency and accountability in the reporting and disclosure by all extractive companies of revenue due to or paid to the Federal Government; (b) evaluate without prejudice to any relevant contractual obligations and sovereign obligations the practices of all extractive industry companies and government respectively regarding acquisition of acreages, budgeting, contracting, materials procurement and production cost profile in order to ensure due process, transparency and accountability; (c) ensure transparency and accountability in the management of the investment of the Federal Government in all extractive industry companies; (d) obtain, as may be deemed necessary, from any extractive industry company an accurate record of the cost of production and volume of sale of oil, gas, and other

minerals...; (e) request from any company in the extractive industry, or from any relevant organ of the Federal, State and Local Government, an accurate account of any money paid by and received from the company at any period...; (f) monitor and ensure that all payments due to the Federal Government from all extractive industry companies, including taxes, royalties, dividends, bonuses, penalties, levies and such like, are duly made; (g) identify lapses and undertake measures that shall enhance the capacity of any relevant organ of the Federal, State or Local Government having statutory responsibility to monitor revenue payments by all extractive industry companies to the Federal Government...; (j) ensure that all fiscal allocations and statutory disbursements due from the Federal Government to statutory recipients are duly made.

Source: The full text of the NEITI Act is available at <http://www.neiti.org.ng/sites/default/files/documents/uploads/neitiact.pdf>.

Note: a. NEITI = Nigeria Extractive Industries Transparency Initiative.

## Legislative Tools and Strategies to Implement EITI

Legislative tools and strategies to implement EITI can be classified into four major categories:

- *Coordinated efforts with CSOs:* Some CSOs are very active on extractive industry issues and have links with other international CSOs that provide them with financial support and information about both the sector and EITI. These CSOs can provide legislators with useful information on EITI and the extractive industries, be helpful advocates in encouraging the government to adopt or improve EITI, provide informed ideas for developing a policy to strengthen or complement EITI, and help hold the government accountable for unaccounted or mismanaged revenues.
- *Incorporate EITI into constituent communication:* Citizens often care very deeply about whether the proceeds of natural resource extraction in their country are benefiting them, but know little about what the government receives or how it spends extractive industry revenues. Legislators can transmit this information through their regular contact with citizens.
- *Strengthen and utilize the committee system:* Legislatures with effective committee systems divide their work, accomplishing much more than those without effective committees. Committees with jurisdiction over

EITI-related issues can develop specific EITI expertise and are often better able to work across party lines, making the small compromises necessary to reach agreement on legislation and policies. Through public hearings, committees are also a useful, and often the only, venue where public input is included in the policymaking process. Since EITI involves issues that are typically covered by several committees—natural resources, budget and finance, public accounts, anticorruption—effective oversight requires that the activities of these committees be coordinated and that information be shared among them. Legislatures also establish ad-hoc, select, or investigative committees to study or deal with specific issues. Creating such a committee is probably most useful once a report has been released. Then the committee could investigate shortcomings or discrepancies identified by the Reconciler and which the government has failed to address or correct.

- *Build relationships with other EITI actors:* Legislators can become better informed and more effective overseers of the EITI process by working with their peers in other EITI countries, in regional EITI networks, in international legislative networks, and with international donors.

For additional information on how legislators can support and implement each aspect of EITI, see “EITI Guide to Legislators,” <http://eiti.org/document/mpguide>.

# The Role of Companies in Implementing EITI

## Introduction

The EITI Requirements with regard to companies are contained in Requirements 7, 14, and 19, as described in box 14.1

### Box 14.1 EITI Requirements with regard to Companies

**Requirement 7** The government is required to engage companies in the implementation of EITI.

**Requirement 14** Companies comprehensively disclose all material payments in accordance with the agreed reporting templates.

**Requirement 19** Oil, gas, and mining companies must support EITI implementation.

Companies in EITI-implementing countries can contribute to the process in the following areas:

- *Helping to jump-start an EITI process and steering EITI:* Many countries have begun an EITI process partly through the active advocacy by companies in encouraging governments to commit to EITI.
- *Helping to shape the EITI scope:* Through membership of multi-stakeholder groups (MSGs) in a country, companies are required to play a role in determining the scope of an EITI process (Requirement 5).
- *Data reporting and reconciliation:* Companies are required to always be involved in appointing the Reconciler or audit firm, and individual companies must disclose details of payments to government, audited to international standards (Requirements 10, 11, 12, 16).
- *Role played in Validation Process:* When the Validation Process begins, the Validator contacts the “relevant companies” to fill out and return

a company form. In addition, the Validators ask the companies for lessons learned and their comments on best practices, to which the companies could respond either in writing through the self-assessment forms provided to them, or verbally when the issue is of a sensitive nature (Requirement 20).

- *Communicating EITI results:* Companies play an important role in communicating the EITI results and process to other CSOs, companies, and the public at large.

## Helping Jump-start the EITI Process and Steer EITI

The experience in a number of cases is that governments have considered and then decided to implement the EITI partly because companies have been persuasive in the decision and made the case for the benefits of EITI implementation.

All companies operating in relevant sectors could express public support for EITI through a public statement by the chief executive or an appropriately delegated representative.

For steering, companies are required to be involved in the national EITI process through the MSGs (see *Part I, Chapter 2, Requirements and Good Practices in the Formation and Functioning of MSGs*).

## Helping Shape EITI Scope, Reporting, and Disclosure

Chapter 4 (see *Part II, Chapter 4, Setting the Scope of an EITI Process*) presented the ways in which the scope of individual EITI processes vary. These key scoping decisions are taken early in an EITI process, with all stakeholders (in the MSGs) having to decide on the kind of EITI process they agree to pursue. Companies are inherently part of this process, especially since the question of EITI scope is the most debated and controversial issue in EITI implementation.

Similarly in all countries, companies have been involved in appointing and managing the service firms that reconcile or audit payments and revenue data, via the MSG, for example, in assessing the different bids received from such service firms and helping in their selection.

Depending on the scope of EITI adopted, each participating company operating in a country is required to submit payment data and, if applicable,

with certifications that the data submitted in the reporting templates are based on company financial statements audited to international standards; explanations to the reconciler if there are any unexplained discrepancies; and, as applicable in countries with a more in-depth EITI scope, additional details or access to records, as required.

## Communicating EITI Results

Companies play an important role in communicating EITI in the broadest sense in the country and globally (see *Part II, Chapter 6, Communicating EITI*). Companies have carried out a variety of communications activities, including conferences for other companies and stakeholders to explain EITI, statements of support for EITI in the media and/or on their websites, and in speeches by civil society and corporate leaders.

## Capacity-building Considerations

In most countries, the EITI process has included provisions for capacity building and EITI-specific training for smaller companies and CSOs and for government. Some local companies, for example, know little about EITI and may not keep financial information in an easily accessible way, or may not understand what is required of them as part of the EITI process. Removing barriers to EITI implementation by addressing capacity constraints in companies is also an EITI Requirement.

## Issues for Industry Leaders to Consider during the Review Phase

Leadership companies would be best served by considering the following actions subsequent to the submission of the EITI Report:

- Seek to make more data publicly available on a disaggregated basis—even if this is not required by the EITI process
- Seek to involve more stakeholders, for example, smaller companies, ancillary sectors, and representatives from other natural resource industries such as fishing and forestry
- Seek to include subnational payments and social payments
- Seek to include contract transparency, information on licenses and license holders, and arrangements with state-owned companies

- Seek to cover nonproduction-related transactions in the EITI process such as pipeline transit fees
- Seek to build more capacity, if required, including for smaller companies or for Civil Society Organizations
- Seek to create greater public understanding of what happens to extractive industry payments and revenues through effective communications programs
- Contribute to broader discussions about how the socioeconomic benefits of resource extraction can be more widely shared (an example of how companies are doing this can be seen in the mining and metals sector, through the International Council on Mining and Metals' Resource Endowment.<sup>28</sup>

For more information on the potential roles of companies in EITI, see the "EITI Business Guide," <http://eiti.org/document/businessguide>.

## Company Benefits from Implementing EITI

Apart from the benefits accruing to companies already mentioned, there are other related ways that a company benefits from participating in and supporting EITI nationally. They are:

- *Providing an improved business climate* for the industry as a whole subsequent to the participation of the major players
- *Reduced tensions* between industry and other stakeholders, such as local populations
- *Ensuring a level playing field* for all players in the industry by facilitating increased transparency.

Supporting EITI internationally (see *Part IV, Chapter 16, Supporting Institutions and their Role in International EITI*) would yield the following benefits:

- *Demonstrating international credibility*: EITI is underpinned by internationally agreed structures and good practice from countries around the world. Extractive Industry companies seeking to operate according to international standards benefit from participating in EITI.
- *Delivering on business principles*: If a company has a stated commitment to anticorruption measures or transparency as part of its general

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<sup>28</sup> EITI Toolkit, [www.icmm.com/document/630](http://www.icmm.com/document/630).



business principles, EITI provides a practical way to help meet this commitment.

- *Showing industry leadership:* EITI is emerging as a global standard for transparency. By participating in EITI, company management is viewed in a positive light by external stakeholders as a beacon of industry leadership.

# Role of Civil Society in Implementing EITI

## Introduction

Civil society, as a major stakeholder in the EITI process, plays an important part in establishing, reviewing, and supporting the implementation of the EITI process, both as part of and outside of the multi-stakeholder group (MSG). It is required that the government ensure that civil society participate meaningfully in the EITI Process (Requirement 6) (see box 15.1). To ensure compliance, the EITI Rules put the onus on the government to ensure civil society participation rather than on the civil society itself. Indeed, the diverse and heterogeneous nature of civil society, along with its essential characteristic of often being apolitical, would make it difficult to fix responsibilities on civil society directly. Nevertheless, civil society must be meaningfully engaged in the entire EITI process, although how it chooses to do so is up to them.

### Box 15.1 EITI Requirements on Engaging Civil Society

**Requirement 6** The government is required to ensure that civil society is fully, independently, actively, and effectively engaged in the process.

## Main Areas of Contribution by Civil Society

Similar to companies, civil society can make the following contributions to implementing EITI:

- *Helping to jump-start an EITI process and steering EITI:* Many countries have begun an EITI process partly through the active advocacy by civil society in encouraging governments to commit to EITI.
- *Helping to shape the EITI scope:* Through membership in MSGs, civil society is required to play a role in determining the scope of an EITI

process (Requirement 5). In addition, stakeholders, including Civil Society Organizations (CSOs) that are not members of the MSG, may still contribute to the scoping process by providing valuable inputs.

- *Data reporting and reconciliation:* Civil society, through the MSG, is involved in appointing the Reconciler or audit firm, and through active campaigning, in ensuring that the individual companies and governmental agencies disclose details of payments and corresponding revenues, as applicable, audited to international standards (Reinforcing Requirements 10–16).
- *Communicating EITI results:* Civil society also plays an important role in communicating the EITI results and process to other CSOs, companies, and the public at large.

## Preparing for EITI through Capacity-building Measures

It is common for CSOs that know about EITI to assist in the capacity building of CSOs that are less knowledgeable about it. This is especially common in EITI processes developed and implemented by MSGs. In most countries, few people understand the full range of technical issues of revenues and payments in the extractive sector, and guidance<sup>29</sup> for users and stakeholders is often needed.

Capacity-building programs for CSOs have typically included:

- Explaining how extractive industry companies work on a day-to-day basis, fiscal systems and revenue flows, and the legal obligations of companies and government to monitor various aspects of company operations
- Explaining the different kinds of taxes companies pay and how those taxes are assessed and collected
- Explaining company audited financial statements including production costs, revenues, gross margins, and tax, and other production-share payments to governments
- Ways for different CSOs to agree on strategies for effectively engaging in EITI implementation, such as by forming local civil society coalitions dedicated to revenue transparency issues.

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<sup>29</sup> Guidance for CSOs that work on EITI issues already exists and is being developed globally by CSOs like the Publish What You Pay coalition and Revenue Watch Institute.

## Additional Steps to be taken by Civil Society in Preparing for EITI Implementation

Apart from their role as a part of the MSG, CSOs are advised to keep the following steps in mind when participating in the EITI process.

**Getting organized:** Every country has a different kind of civil society, and people typically organize around different issues using varying methods. Some countries may have strong nongovernmental organizations, or even civil society coalitions, which can provide an anchor for building a larger coalition. It can be very helpful to form an EITI coalition. Different CSOs can contribute different strengths. Some may be familiar with the extractive industries, others may follow budget accountability, and still others may focus on human rights or the environment. By banding together, CSOs can increase their influence, deter governments from playing one group against another, and have a better chance of achieving a broader geographic coverage.

**Delineating desired outcomes:** Before engaging with government officials, CSOs should develop a clear idea of the priorities and desired outcomes of EITI, detailed in box 15.2.

### Box 15.2 Possible Outcomes from EITI Implementation as Desired by Civil Society

- Publication of company payments and government revenues (that is, the publish-what-you-pay concept that led to the development of the EITI)
- Restoration of public trust in government institutions that manage extractive industries
- Verification of the physical quantities of oil, gas, or minerals extracted by companies
- Clarification of the share of revenues taken in by local and regional governments
- Publication of the amount of money companies spend in support of local communities
- Education of people about where the country's extractive industries revenue goes
- Improvement in the government's system for collecting and managing information about extractive industries
- Improvement of local content rules
- Improvement of the way the government manages its investment in extractive industries.

**Connecting with international CSOs:** Civil society members would benefit from connecting with international groups that are active in the global EITI process, such as the Publish What You Pay Coalition, Revenue Watch Institute, Global Witness, and Transparency International. These organizations are integrally involved in influencing the EITI, and their understanding of the issues can be beneficial to the civil society membership in getting

organized. In addition, an affiliation with such organizations can be useful in increasing the visibility, credibility, and potential influence of the local civil society. These organizations can also play the role of external adviser, giving impartial advice to the domestic CSOs and to the MSG at large, and ensuring that the MSG's work is performed in a manner consistent with international standards.

***Engaging the EITI Lead:*** Once the government has publicly named the senior official in charge of the EITI process—a required step in becoming an EITI candidate—the CSOs should promptly meet this official. The objective is to develop a relationship, discuss the process for implementing the EITI, communicate the CSOs' priorities as part of EITI implementation, identify obstacles to participation, and provide input on the Country Work Plan.

***Participate in the selection of CSO representatives on the MSG:*** Each stakeholder constituency is entitled to elect its own representatives to the MSG according to the EITI Rules (Requirement 4). The EITI requires that civil society is represented, that the representation is fair and independent, and that the invitation to participate is open and transparent. When choosing their representatives to the MSG, CSOs would benefit from considering that while there are no formally required qualifications under EITI Rules for being elected a representative in the MSG, there are several practical considerations that merit understanding.

For example, it is important that the representatives to the MSG be people who can participate in and contribute effectively to a group meeting. They should have the ability to listen and speak well, be problem solvers, have time to go to meetings, and ideally have some knowledge of the extractive industry. They should know when to compromise in order to allow work to start, but also when to stick to their principles to preserve the quality of the outcome. MSG representatives should make a commitment to be in touch with other civil society members through some agreed mechanism before and after meetings.

CSOs also play an important role in ensuring that each of the EITI Requirements is met, and in determining the scope, outcomes, and review of the reporting process. For a detailed description of the contribution of CSOs to each EITI Requirement, see *Drilling Down: The Civil Society Guide to Extractive Industry Revenues and the EITI* by David L. Goldwyn (2008).

# Supporting Institutions and their Role in International EITI

## Introduction

Besides the major tripartite stakeholders that are involved in the implementation of EITI domestically (see *Part IV, Chapters 12 and 13, Role of Government and Legislators*; *Part IV, Chapter 14, Role of Companies*; and *Part IV, Chapter 15, Role of Civil Society*), the international EITI governance structure also receives support from a variety of financial institutions, institutional investors, and companies. These institutions, with their financial and/or technical inputs, cannot only help support the EITI process internationally, but also have the potential to deepen the impact of EITI in countries where it is implemented. This chapter explores the mutually beneficial relationship that arises from such institutions' engagement with the EITI process.

## Institutional Investors Supporting EITI

Institutional investors are officially recognized by the EITI Board, invited to participate in EITI conferences, and receive regular updates about the progress of EITI implementation and related issues.

## Benefits from Supporting EITI

Institutional investors benefit significantly from supporting EITI. Institutional investors with exposure to extractives companies have an interest in encouraging the implementation of the EITI as a means to contribute to improvements in governance and transparency. They also benefit from the increased transparency, which has the potential to promote greater economic and political stability, thus leading to better returns on investment. Support of the EITI can also serve as a useful tool when investors evaluate companies'

management of corporate responsibility issues. Investors that support and implement the EITI in the countries where they operate, demonstrate that they are actively combating corruption, thus increasing the “social” license, that is, the societal acceptance, of their investments. Institutional investors are not required to follow any reporting requirements in order to support EITI. Box 16.1 discusses the role of institutional investors.

### **Box 16.1 Role of Institutional Investors**

- To become a “Supporting Institutional Investor,” the following requirements must be fulfilled:
  - ▼ A public statement must be issued endorsing the EITI Principles and Criteria and made available on its website
  - ▼ The Investor Statement on Transparency in the Extractives Sector must be signed
  - ▼ A contribution must be made to raising awareness about the EITI with companies and other investors.
- The Supporting Institutional Investor may provide feedback and guidance from investors on how the EITI can improve its profile, relevance, and support among investors and companies.
- The Supporting Institutional Investor may make annual financial contributions to the operating costs of the EITI International Secretariat.

## **Financial Institutions Supporting EITI**

International financial institutions, insurers, and credit agencies recognize that they have an important role to play in contributing to transparency and accountability in the extractives sector. The broad range of activities undertaken by different types of financial institutions and insurers in the global extractives industry make these organizations potentially powerful advocates for transparency and good governance. As primary facilitators of capital mobilization and international trade for all points along the Extractive Industries Value Chain, their policies on governance and transparency have a direct influence on the business activities of their client governments and companies.

## **International Financial Institutions**

EITI has been endorsed by several international financial institutions (IFIs). The involvement of these IFIs in large-scale projects is often seen as a vote of confidence by private investors and plays a key role in leveraging financing,

which is vital for project development. A number of IFIs have committed to incorporating the EITI into their lending and technical assistance activities, while some have adopted compulsory disclosure requirements for extractive industries projects. The necessary financing for many extractives projects in higher-risk environments would likely have not been raised without IFI involvement either as equity holder or guarantor. Box 16.2 presents a list of IFIs that support the EITI.

### **Box 16.2 International Financial Institutions that Support EITI**

African Development Bank (AfDB)  
Asian Development Bank (AsDB)  
European Bank for Reconstruction and Development (EBRD)  
European Investment Bank (EIB)  
Inter-American Development Bank (IADB)  
International Finance Corporation (IFC)  
International Monetary Fund (IMF)  
KfW Bankengruppe (KfW)

## **IFI Support of and Benefits from EITI**

Financial institutions, including IFIs, can support EITI by taking the following steps:

- Communicating the benefits of EITI implementation by client countries by holding EITI-based seminars and issuing relevant publications
- Providing technical assistance to governments in implementing EITI in client countries including by holding training and sensitization workshops for ministries and MSGs
- Financing EITI at the international level and participating in EITI's policy-making and governance process
- Encouraging other investors to adopt similar standards.

The benefits IFIs receive from EITI include:

- Increasing lending and financing standards by increasing transparency
- Increasing client and counterpart governance by strengthening reporting systems



- Increasing Corporate Social Responsibility in the fields of sustainable development, community development, and poverty reduction
- Supporting the participation of civil society to ensure government and company accountability.

## Companies Supporting EITI

Companies that are not involved in implementing EITI, such as international extractive industry companies or companies engaged in non-extractive-industry sectors in a country where EITI is being implemented, may nevertheless choose to support the international EITI governance structure and attain “Supporting Company” status by following the measures presented in box 16.3.

### Box 16.3 Companies Supporting International EITI Governance

**I. International EI Companies:** This refers to companies operating in the extractive industries sector outside an EITI implementing country (internationally)

- ▼ Extractive industries desiring to attain the status of “Supporting Companies” are required to (a) publicly declare their support and help promote EITI through a public statement (available on the company’s website) endorsing the EITI Principles and Criteria, and (b) support EITI internationally and in countries where they operate.
- ▼ Subsequently, the company will be granted the status of “Supporting Company” by (a) being officially recognized by the EITI and invited to participate in the EITI Global Conference held every second year; (b) be a part of the international governance of the EITI; and (c) receive regular updates about the progress of EITI implementation and the fight against corruption.
- ▼ Supporting Companies may make an annual contribution to the international management of the EITI.
- ▼ Being a Supporting Company does not require any additional reporting or data disclosure, except for the international-level self-assessment form that such companies are required to fill out within a year after attaining “Supporting Company” status, to enable them to fulfill the requirements mentioned therein.

**II. Companies Operating in Non-Extractive Industries Sectors:** All other companies except those operating in sectors that are required to report under EITI; incorporated, and/or operating within the jurisdiction of an EITI implementing country. Typically,

*(Box 16.3 continued on the next page)*

*(Box 16.3 continued from the previous page)*

domestic non-extractive-industry companies that benefit from and support EITI are (a) service companies that provide much of the hardware and logistics to extractive industries, and have service agreements with extractive industries and a strong interest in the stability and transparency of their operations; (b) industrial and commercial mineral manufacturers (secondary sector) that have supply agreements with the extractive industries, have a strong interest in ensuring that their long-term contracts are on a sustainable footing, and that production is in accordance with good governance; and (c) logistical, human resource, information service, transportation, security, public relations, management, and accountancy and auditing companies all having similar interests.

- ▼ Such companies are subject to the same requirements as the companies in section I, above, in order to attain “Supporting Company” status.
- ▼ Subsequent to the fulfillment of these requirements, such companies are entitled to (a) receive regular updates about the progress of EITI implementation and the fight against corruption in the extractive industries sector, and (b) be officially recognized by the EITI Board and be invited to participate in EITI conferences held every second year.
- ▼ Unlike companies that operate in the extractive industries sector (see section I, above), these companies do not play a role in the international governance structure of EITI (see *Part IV, Chapter 17, International EITI Governance and Management Structure*).
- ▼ Such “supporting companies” may make an annual contribution to the international management of the EITI Association.
- ▼ Such “supporting companies” can negotiate EITI implementation as part of their service and supply contracts.
- ▼ They can also adhere to the transparency principles in all of their operations in-country and seek to undertake supportive measures for the sector, building on their own core business skills. Examples include:
  - ▶ IT and accounting companies providing support for the production of the EITI reporting templates
  - ▶ Management consulting companies offering support with government and civil society capacity building
  - ▶ Oil service companies offering their hardware and manpower to provide other infrastructure to the government.

*Note:* For a detailed analysis of the roles, requirements, and good practices that companies may follow in EITI, see “EITI Business Guide,” <http://eiti.org/document/businessguide>.

# International EITI Governance and Management Structure

## Introduction

While the discussion in this handbook has mostly been on the Extractive Industries Transparency Initiative (EITI) at the country level, the international EITI architecture that oversees the EITI globally is equally important for (a) setting standards for, and supporting implementation in, EITI-implementing countries; (b) developing EITI strategy and policy globally; (c) providing advice and resources to organizations and individuals involved in EITI implementation; and (d) regularly bringing all of EITI's stakeholders together to share experiences and agree on policy.

The global EITI architecture also has responsibility for overseeing a Validation Process in accordance with the EITI Criteria, EITI Principles, and EITI Rules, as discussed further below.

In deciding to implement an EITI process, countries are not only implementing a national-level process, but are also becoming part of global governance EITI under the EITI Board.

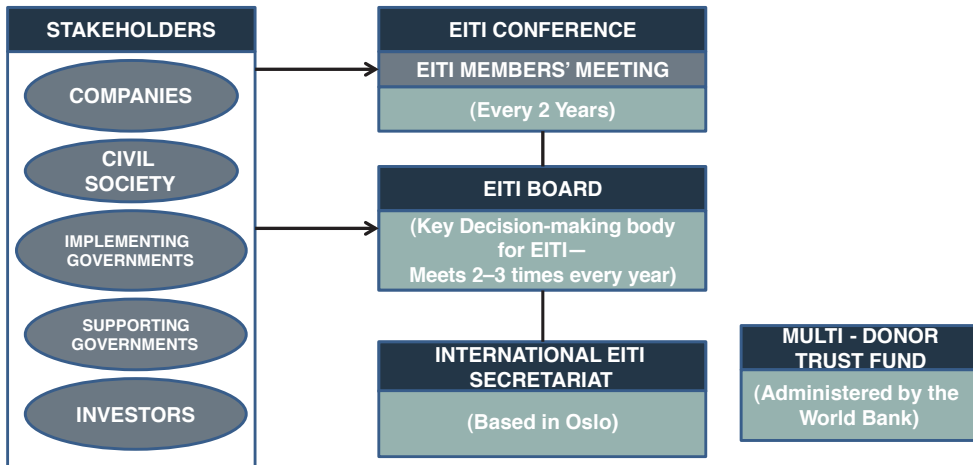
## EITI's International Governance Structures

Figure 17.1 illustrates the international governance structure of the EITI. The key underpinning tenet of this structure is that it is a multi-stakeholder process involving implementing governments, extractive industry companies, Civil Society Organizations, supporting governments, investors, and international financial institutions. The EITI Articles of Association<sup>30</sup> provide the basic framework for the participation and functioning of the various elements of global governance of EITI.

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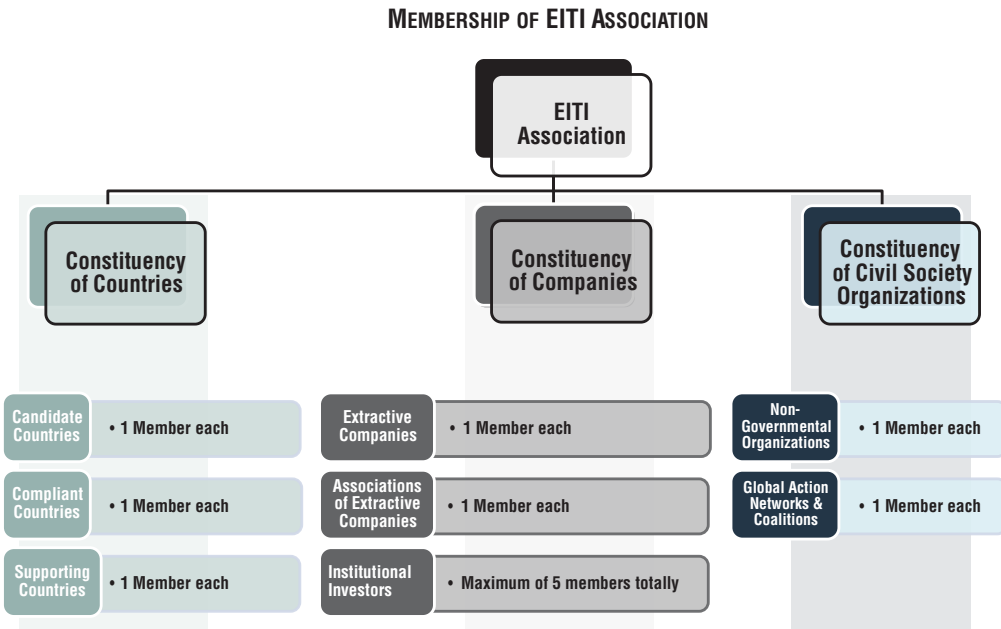
<sup>30</sup> Adopted on February 16, 2009, and as amended from time to time.

**Figure 17.1 EITI's International Governance Structure**



The EITI international framework is organized under the umbrella of the “EITI Association,” a limited liability, nonprofit organization established under Norwegian law (see figure 17.2).

**Figure 17.2 Membership of the EITI Association**



As shown in figure 17.2, membership of the EITI Association is organized into three constituencies:

*Countries*, comprising:

- EITI candidate countries and EITI compliant countries
- Supporting countries that support the objective of the EITI Association.

*Companies*, comprising:

- Companies in the extractive sector that have committed to supporting the objective of the EITI Association and associations representing these companies
- Asset management companies and pension funds (collectively called “Institutional Investors”) that have committed to support the objective of the EITI Association.

*Civil Society Organizations*, comprising:

- Nongovernmental organizations
- Global action networks or coalitions that support the objectives of the EITI Association.

Each constituency decides on the rules to elect its members to the EITI Association. The membership of each constituency is limited as follows (Article 5, EITI Articles of Association):

- i. From the Constituency of Countries, up to one representative from each Implementing Country and each supporting Country (or their unions);
- ii. From the Constituency of Companies, up to one representative from each company and associations representing them, and a maximum of five representatives from Institutional Investors;
- iii. From the Constituency of Civil society Organizations, up to one representative from each Civil Society Organizations.

The EITI Association is comprised of the following institutional bodies, which collectively comprise the international governance of EITI:

- *The EITI Members’ Meeting*: The Members’ Meeting is the governing body of the EITI. It determines the broad direction that EITI will take and is normally convened once every second year in tandem with the EITI Conference (below). An Extraordinary Members’ Meeting may also be held at times after providing adequate notice to the Members. It serves as a forum where the EITI Members’ resolutions relating to EITI governance are passed, preferably by consensus, but if not, by vote. Functions of the Members’ Meeting include to (a) approve the activities report, the accounts, and the activity plan of the EITI Board; (b) elect the members of the EITI Board and their respective Alternates (who deputize for the member) subsequent to nomination from Constituencies; (c) elect the EITI Chair on a proposal from the EITI Board; and (d) consider other matters pursuant to requests from a Member.

- *The EITI Board:* The EITI Board is the key executive and decision-making body for EITI, and is headed by an elected Chair. Its membership, determined at the EITI Members Meeting, comprises (a) the EITI Chair; (b) eight Board Members from the country's constituency, with a maximum of three Board Members representing supporting countries and the remainder drawn from implementing countries (of which preferably at least three are EITI compliant countries); (c) six Board Members from companies' constituency (including one representing institutional investors); and (d) five Board Members representing the civil society constituency.

The EITI Board also works with a number of key subcommittees covering issues such as validation, candidacy, outreach, finance, and governance. The key roles of the Board are to (a) provide leadership for the EITI and protect its standard and methodology; (b) articulate and define EITI strategic goals and policies; (c) in consultation with stakeholders, make decisions on the overarching policy that determines how EITI functions internationally, and set standards for governments and companies implementing EITI; (d) oversee the work of the EITI International Secretariat; (e) ensure that adequate resources are available to support EITI globally; (f) support the work of the Secretariat; and (g) oversee the Validation Process (which is outlined at Annex 2). For specific functions of the Board, see Article 13, EITI Articles of Association.

- *The EITI International Secretariat:* The Secretariat, based in Oslo, Norway, supports the EITI Board and its subcommittees in their respective functions and is first point of contact for all countries and stakeholders involved and interested in the EITI. Led by a full-time Head of Secretariat, it serves as the Secretary to all EITI Board Meetings, Members' Meetings, and EITI Conferences. The key functions of the Secretariat are to (a) oversee the day-to-day management of global EITI; (b) research and develop draft policy and guidance on issues the Board is considering; (c) manage all international communication on EITI; (d) be the focal point for interactions with all EITI stakeholders and supporters; (e) work to increase the number of countries, companies, and other groups that support the EITI; (f) organize the periodic EITI conferences; (g) coordinate with donors and agencies such as the World Bank, which provide technical assistance and implementation support to countries; and (h) liaise with the donors, the World Bank, and the Management Committee of the

EITI Multi-Donor Trust Fund to ensure adequate support is provided to countries implementing the EITI.

- *The EITI Conference:* The EITI Conference is held once every two years and is the major international gathering of all stakeholders involved in the EITI globally. The key roles of the Conference have included to (a) discuss key strategy and policy proposals made by the EITI Board; (b) showcase EITI implementation experiences and knowledge; (c) review progress of global EITI based on the EITI progress report for the preceding two-year time period and make suggestions to the EITI Board for the next two years; and (d) serve as a forum for communicating the goals and accomplishments of the EITI and mobilizing support and resources from stakeholders not currently within the EITI process.

## **International Development Agencies' Role on the EITI Board**

International development agencies such as the International Monetary Fund, the African Development Bank, and the World Bank Group attend meetings of the EITI Board as observers and participate in EITI Conferences.

In addition, and along with other bilateral donor agencies that provide in-country technical support to EITI countries, the World Bank coordinates closely with the EITI Secretariat in providing technical assistance and financing support to countries and civil society. As noted, this financing is supported by a EITI Multi-Donor Trust Fund (MDTF), which is managed by the World Bank and overseen by a Management Committee of the donors and the World Bank, which meets twice yearly to review progress and the MDTF work plans.

Under a separate fiduciary instrument between donors and the World Bank, the MDTF is not a formal part of the EITI Board or Secretariat as such, but works in close liaison with (and closely coordinates its work with and provides regular reports to) the international EITI structure, to support the goals of the EITI and further mutual goals. A Memorandum of Understanding between the World Bank and MDTF donors and the EITI Board guides this relationship.

Note that the MDTF is a significant—but not exclusive—source of technical assistance funding for EITI-implementing countries and civil society. Many bilateral donors (such as the Australian Agency for International Development [AUSAid] in Australia, the Canadian International Development Agency [CIDA] in Canada, the Department for International

Development [DFID] in the United Kingdom, the German Agency for International Cooperation [GIZ] in Germany, the Norwegian Agency for Development Cooperation [NORAD] in Norway, the State Secretariat for Economic Affairs [SECO] in Switzerland, and the United States Agency for International Development [USAID] in the United States) also provide direct funding and technical support to EITI-implementing countries and international and domestic CSOs. Some CSOs, such as Publish What You Pay, Revenue Watch Institute, and Global Witness, also provide funding and technical assistance to CSOs involved in EITI implementation.



# Conclusion—Key Factors In Successful EITI Implementation

## Overarching Lessons and Themes

Throughout this report, we have attempted to describe the experience of EITI-implementing countries.

Based on this knowledge, it is possible to identify several themes that the World Bank Group believes countries will find useful, whether the countries are implementing EITI, reviewing their own experience with EITI, or are still considering implementing EITI.

These lessons and themes include:

- *Political leadership matters:* The countries that have most successfully implemented the EITI have been successful because, among other things, there has been consistent, dedicated, and high-level leadership. This has normally meant that EITI has been championed at a senior level, perhaps by a cabinet minister with the influence to ensure that all government agencies affected by EITI are able to deliver. This champion has often been well positioned to be able to resolve deadlocks and acquire the resources required to fully implement EITI.
- *Effective multi-stakeholder processes are essential:* Highly successful national EITI processes have at their core effective multi-stakeholder processes, where the constituent stakeholders have equal weight and voice and are free to contribute and be heard, with no single constituency being overly dominant.
- *Active civil society participation and engagement are key:* While some countries have needed to adjust to a collaborative EITI process that includes civil society, in most cases, CSOs have contributed actively. However, in other cases, for various reasons, this civil society role has

not been allowed to be an active one (although in some cases it has taken time for civil society to adjust from a position of advocacy to one in which they are actively engaged in EITI). It is clear that where civil society has been actively involved, countries have been successful at delivering a comprehensive EITI process that benefits all involved and meets the spirit of the EITI.

- *Effective decision making by stakeholders early in the process:* Some of the most important decisions regarding the scope of the EITI process are made early in the process. Successful EITI implementers are those countries in which stakeholders have been able to educate themselves about EITI quickly, and are able to make the needed decisions on the scope of the EITI process (see below).
- *Government capacity needs to come online quickly:* Some governments have been timely in launching their EITI processes and in establishing MSGs, and have also needed to rapidly assign the human and financial resources to manage implementation—and to do so early in the process.
- *Getting the scope of EITI right from the start:* An important determinant of the quality of EITI Reports, and hence their utility, is the collective decisions taken on the scope and content of the EITI Reports. As described in more detail in earlier chapters, this includes issues of materiality and the inclusion of all material companies and revenue streams; audit assurance of underlying data; format of reporting, both detailed and aggregated, and so on. Collective buy-in is essential at this stage.
- *Effective and broad communications is essential:* EITI processes can be technical and not always of broad interest among different stakeholders. For these reasons, the countries that have had the most successful EITI processes are those that have developed communications programs to inform, consult with, and engage with communities, citizens, and all other stakeholders so that the EITI is not simply a process of better accounting and disclosure of revenues, but also one that tangibly promotes better accountability to citizens and meets expectations.
- *Knowledge sharing, especially regionally:* Many countries beginning their EITI processes have found it particularly useful to learn from other countries in their region that are more advanced in their EITI implementation, and in this respect, informal regional groupings of governments and CSOs involved in EITI have emerged.

- *Making a start is important—EITI as an iterative process:* Experience has shown that beginning an EITI process that is initially limited in scope (but consistent with EITI Requirements) is better than having no EITI process at all. Moving ahead even on this basis has helped create mutual understanding and generated demand to then move to a fuller EITI process.
- *Countries that publish more, higher-quality information benefit more from their EITI processes:* Countries have implemented EITI processes that have varied in the amount and quality of information produced by the process. There has been considerable variation around the types of reconciliation or audit processes adopted, the number of transactions and companies covered by the process, the degree of aggregation or disaggregation of data, and whether subnational government is involved in the process. Country experience has shown that the more successful programs are those that allow as much useful quality data as possible to be released into the public domain and help create a greater climate of trust among stakeholder groups. The more extensive EITI process does need more resources, but the extra cost could help generate considerable benefits.
- *Regular reviews of progress:* As the implementation process unfolds, countries have found it useful to conduct in-depth reviews of their EITI process on a regular basis, such as after the production of every EITI report in order that the EITI process can be refined and improved over time.
- *Follow-up: EITI as the first step or a part of a broader reform program:* EITI has succeeded in many countries because of its focus on transparency. But this also allows countries to build on EITI accomplishments to institute broader reforms in oil, gas, and mining sector governance. Ultimately, the optimal impact of the EITI process in countries will be that it has become embedded in the day-to-day business of government and sector management.
- *Finally, legislation can help create greater certainty—but it is not essential:* There has been much debate on the “voluntary” nature of EITI. In so far as it is up to countries to decide whether to implement EITI, EITI is voluntary. But once EITI is adopted in a country, the EITI Requirements do require the participation of all material companies and disclosure of all material payments. Such participation and disclosure may be achieved, however, with or without legislation requiring it.

## **Annex 1**

### **EITI Principles and EITI Criteria**

## EITI Principles and EITI Criteria

### The EITI Principles (2003)

1. We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.
2. We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
3. We recognize that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
4. We recognize that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
5. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.
6. We recognize that achievement of greater transparency must be set in the context of respect for contracts and laws.
7. We recognize the enhanced environment for domestic and foreign direct investment that financial transparency may bring.
8. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.
9. We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business.
10. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and use.
11. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.
12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make—including governments and agencies, extractive industry companies, service companies, multilateral organizations, financial organizations, investors, and nongovernmental organizations.

### **The EITI Criteria (2005)**

1. Regular publication of all material oil, gas, and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas, and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
2. Where such audits do not already exist, payments, and revenues are the subject of a credible, independent audit, applying international auditing standards.
3. Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator’s opinion regarding that reconciliation including discrepancies, should any be identified.
4. This approach is extended to all companies including state-owned enterprises.
5. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes toward public debate.
6. A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

## **Annex 2 Sample EITI Results Monitoring Template (and Indicators)**

Specific activities to achieve EITI results	Progress indicators to measure progress	EITI results—intermediate outcomes achieved	Progress indicators to measure progress	Progress toward EITI Results—impact/outcomes
<p><b>a) EITI consensus/capacity</b></p> <ul style="list-style-type: none"> <li>Capacity Building and Outreach               <ul style="list-style-type: none"> <li>public information campaigns</li> <li>training for government officials</li> </ul> </li> <li><b>Technical Assistance</b> <ul style="list-style-type: none"> <li>implementation capacity created</li> <li>financial support for EITI process from national budget or partners</li> </ul> </li> </ul>	<p><b>a) EITI consensus/capacity</b></p> <ul style="list-style-type: none"> <li>number of participants</li> <li>user feedback</li> <li>number of supported activities</li> <li>quality of EITI Reports</li> <li>country achieves EITI-compliant status via validation</li> <li>concrete follow-up steps underway to implement recommendations in EITI Reports and external Validation Reports</li> </ul>	<p><b>a) EITI consensus/capacity</b></p> <ul style="list-style-type: none"> <li>MDTF can be linked to country intermediate outcomes, specifically to sustainable EITI</li> <li>MDTF-funded work plan completed successfully on time and on budget—helping country to be EITI-validated</li> <li>Country phase-out from reliance on MDTF-funded TA support—mobilizing of incremental resources for EITI</li> </ul>	<p>Improved TI Rankings (separating absolute changes and technical changes relative to composition of TI list)</p> <p>Better CPIA Ratings</p> <p>Increased flow of FDI</p>	<p>Better accountability and improved social compact with citizens on resource revenues and use for common benefit</p> <p>Better investment climate for extractive industries sector</p>
<p><b>b) Specific EITI activities:</b></p> <p><b>EITI sign-up</b></p> <ul style="list-style-type: none"> <li>government intention publicly announced</li> <li>MSG formed</li> <li>Work plan published</li> <li>senior official to lead EITI designated</li> </ul> <p><b>EITI Reports</b></p> <ul style="list-style-type: none"> <li>EITI data collected</li> <li>EITI Report issued</li> <li>Outreach on EITI</li> </ul> <p><b>EITI validation</b></p> <ul style="list-style-type: none"> <li>EITI validation done</li> <li>EITI follow-up steps including on quality of process and Reports</li> </ul>	<p><b>b) Specific EITI activities:</b></p> <ul style="list-style-type: none"> <li>decree issued to launch EITI</li> <li>MSG formed—details of participants</li> <li>work plan agreed/published</li> <li>lead role allocated</li> <li>EITI reports issued</li> <li>EITI process successfully validated by external Validator</li> <li>EITI quality/improvement steps</li> <li>concrete steps to ensure EITI is embedded in national systems</li> </ul>	<p><b>b) Specific EITI activities:</b></p> <ul style="list-style-type: none"> <li>EITI Reports produced / disseminated satisfactorily</li> <li>broad consensus on EITI including all stakeholders</li> <li>Improved EIT tax and revenue collection (calculation)</li> <li>Trend in reported discrepancies, if any, in successive EITI Reports published by the country</li> <li>EITI validation is successful</li> <li>EITI process is sustainable (people, funding, legal basis—i.e., irreversible with strong CSO role)</li> </ul>	<p>Greater corporate uptake of EITI</p> <p>Better country credit score ratings (credit agencies)</p>	<p>Platform for governance and public financial management—building on EITI</p> <p>Improved management of EI resources (leading to economic growth and poverty reduction)</p>

Note: CPIA = Country Policy and Institutional Assessment. FDI = Foreign Direct Investment. TA = Technical Assistance.



## Sample Monitoring Indicators—EITI Results Framework

Indicators for EITI activity monitoring	Indicators of results—intermediate	Indicators of results—impact/outcomes
<p><b>a) EITI consensus/capacity</b></p> <p><b>Initial technical assistance</b></p> <ul style="list-style-type: none"> <li>• Political consensus achieved to adopt EITI</li> <li>• Feedback on quality/usefulness (quality of TA)</li> </ul> <p><b>Implementation TA/capacity building for Government/CSOs</b></p> <ul style="list-style-type: none"> <li>• Number of workshops/conferences (count)</li> <li>• Number of participants in training (count)</li> <li>• Number of visitors to public information centers (count)</li> <li>• Number of cross-country EITI best-practice events (count)</li> <li>• Feedback on quality/usefulness on training</li> </ul> <p><b>Financial flows and TA supervision</b></p> <ul style="list-style-type: none"> <li>• Trust Fund disbursement rates (in comparison to plan)</li> <li>• Additional donor/country resources mobilized for EITI (leverage ratio calculation)</li> </ul> <p><b>Quality of TA activities</b></p> <ul style="list-style-type: none"> <li>• QAQ quality review ratings, if sampled (QAQ rating)</li> <li>• Periodic MDTF program evaluation (external evaluation)</li> </ul>	<p><b>a) EITI consensus/capacity</b></p> <ul style="list-style-type: none"> <li>• Increased capacity of country to strategize and design/manage EITI process (assessment)</li> <li>• Country phase-out of reliance on MDTF-funded TA support (assessment)</li> <li>• Country “graduates” and consolidates EITI—and perhaps helps newer EITI countries (assessment)</li> </ul> <p><b>b) Specific national EITI work plan activities:</b></p> <p><b>EITI process to stage of validated as EITI-compliant</b></p> <ul style="list-style-type: none"> <li>• Wide consensus/buy-in by stakeholders (assessment)</li> <li>• Active engagement by companies and civil society in EITI (extent of participation — count and quality/trust)</li> <li>• EITI criteria met effectively in the EITI Reports process (quality assessment of EITI Reports)</li> <li>• Satisfactory findings in EITI Reports produced satisfactorily (wording of EITI Report findings)</li> </ul>	<p><b>Better accountability and improved social compact with citizens on EI revenues and use for public good:</b></p> <ul style="list-style-type: none"> <li>• Wide media coverage and informed public debate (assessment)</li> <li>• Improved public understanding of EI revenues—and usage (public surveys)</li> <li>• Stronger demand-side capabilities and voice among citizens for government actions on EI revenues/use</li> </ul> <p><b>Better investment climate for EI sectors:</b></p> <ul style="list-style-type: none"> <li>• Changes in volume of FDI in EI sector (published data)</li> <li>• Strength of corporate commitment to EITI by international oil companies /mining houses (assessment)</li> </ul>

(Sample Monitoring Indicators continued on the next page)

<p><b>b) Specific National EITI work plan activities:</b></p> <ul style="list-style-type: none"> <li>• Government lead role allocated (political commitment)</li> <li>• Effective multi-stakeholder working groups in place and meeting regularly</li> <li>• EITI strategies and work plans adopted—candidate</li> <li>• National work plans milestones met/on budget</li> <li>• Enabling legislation and/or executive decrees issued</li> <li>• Capacity building for government and CSOs</li> <li>• Scope of EITI and participation by companies ensured</li> <li>• EITI reconciliation/audit firm hired and appointed</li> <li>• EITI Report(s) issued and disseminated widely</li> <li>• Validation undertaken successfully</li> <li>• Ongoing communications and outreach</li> <li>• Quality-enhancement activities—improvements</li> <li>• Follow-up on recommendations in EITI/Validation Reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved EI tax and revenue collection on like-for-like fiscal systems (calculation)</li> <li>• EITI validation is successful—declared compliant (assessment)</li> <li>• EITI process is well rooted/sustainable—people; funding; legal basis (assessment)</li> <li>• Trend in reported discrepancies, if any, in successive EITI Reports published by the country</li> <li>• Concrete steps to follow-up on recommendations in EITI/Validation Reports (quality improvement)</li> </ul> <p><b>Strengthened institutions and civil society</b></p> <ul style="list-style-type: none"> <li>• Strengthened oil, gas, and mining regulatory capacity (assessment)</li> <li>• Strengthened oil/gas/mining fiscal systems + tax management capability (assessment)</li> <li>• Greater number of NOCs applying IFRS standards in financial statements and financial reporting (count)</li> <li>• Stronger CSOs and CSO capabilities within EITI.</li> </ul>	<p><b>Platform for improved governance/PFM—Building on EITI :</b></p> <ul style="list-style-type: none"> <li>• Changes in TI ratings (published data)</li> <li>• Government plan for reforms that build upon EITI (CAS; PFM improvement strategies)</li> <li>• Increased capacity to manage petroleum and mineral resources (assessment)</li> <li>• Changes in CPIA ratings (published data)</li> <li>• Changes in credit risk ratings (credit agencies data)</li> </ul> <p><b>Improved management of EI resource (ultimately for growth and poverty reduction):</b></p> <ul style="list-style-type: none"> <li>• Economic growth indicators (published)</li> <li>• IDA sectoral indicators (e.g., EI-related infrastructure)</li> <li>• Poverty and income distribution indicators.</li> </ul>
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# References

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The World Bank. 2011. *The Extractive Industries Source Book*. Washington, DC. World Bank.

## Websites

EITI website: [www.eiti.org](http://www.eiti.org).

For a list of developing countries that have implemented EITI:  
<http://eiti.org/countries>.

For an analysis of the roles, requirements, and good practices that companies may follow in EITI, see “EITI Business Guide”:  
<http://eiti.org/document/businessguide>.

For an analysis of the steps needed to fulfill each EITI Requirement, see EITI Communications Guide:  
<http://eiti.org/document/communicationsguide>.

For details on *EITI Rules 2011*: <http://eiti.org/document/rules>.

For details on the Validation Process:  
<http://eiti.org/document/validationguide>.

For information on general World Bank Group’s governance and accountability policies, see <http://worldbank.org/gaccouncil>.

For information on good governance and sound management of natural resources, see the “Natural Resource Charter,” which presents a set of principles on how best to harness the opportunities created by natural resources for development: [www.naturalresourcecharter.org](http://www.naturalresourcecharter.org).

For information on how legislators can support and implement each aspect of EITI, see “EITI Guide to Legislators”:  
<http://eiti.org/document/mpguide>.

For information on the potential roles of companies in EITI, see the “EITI Business Guide”: <http://eiti.org/document/businessguide>.

For information on prioritizing stakeholders, defining stakeholder categories, and stakeholder mapping, see “EITI Communications Guide”:  
<http://eiti.org/document/communicationsguide>.

For information on the Sustainability Development Framework, formulated by the International Council on Mining and Metals (an industry body), which identifies key issues relating to mining and sustainable development: ([www.icmm.com](http://www.icmm.com)).

For information on the work of the World Bank and the EITI MDTF: [www.worldbank.org/eiti-mdtf](http://www.worldbank.org/eiti-mdtf).

For its “Guide on Resource Revenue Transparency: <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf>.

For proposed directive of the European Parliament and Commission regarding transparency disclosure legislation: [http://ec.europa.eu/internal\\_market/accounting/docs/other/20111025-provisional-proposal\\_td\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/other/20111025-provisional-proposal_td_en.pdf).

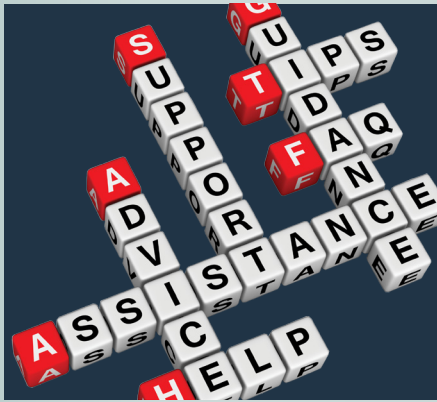
For Revenue Watch Institute information on EITI that is especially useful for civil society: <http://data.revenuewatch.org/eiti/>.

For specific functions of the EITI Board, see Article 13, EITI Articles of Association: <http://eiti.org/articles>.

For the EITI Toolkit: [www.icmm.com/document/630](http://www.icmm.com/document/630).

For the electronic version of the *Extractive Industries Source Book*, [www.eisourcebook.org/index2.php](http://www.eisourcebook.org/index2.php).

For web-based interactive and networking platforms, such as “GOXI” ([www.goxi.org](http://www.goxi.org)), have provided a common digital platform for stakeholders to share, learn, and better coordinate while taking steps toward greater accountability, in turn, ensuring better development outcomes from extractive industries.



Oil, natural gas, and mineral deposits (“Extractive Resources”) offer the potential to generate significant financial benefits and help countries fuel their economic growth and development, employment, business opportunities, and incomes, ultimately leading to a better life for the citizens of those countries through sustained poverty reduction and inclusive growth. Leveraging these Extractive Resources to attain such beneficial outcomes requires accountability and transparency in governance.

The Extractive Industries Transparency Initiative (EITI) was launched in 2002 in an effort to improve public accountability of governments. It provides a pathway to better managed Extractive Resources that benefit the people of a country. EITI is a global standard designed to improve transparency in the sector by publication of reconciled payments by companies and revenues received by governments from oil, gas, and mining exploration and production operations. It helps to promote and support improved governance, especially in resource-rich countries.

This handbook builds upon an earlier publication, “Implementing EITI: Applying Early Lessons from the Field” (Darby 2008), issued by the World Bank Oil, Gas and Mining unit (SEGOM) and the EITI Multi-donor Trust Fund. Using the Extractive Industries Value Chain as an analytical tool, this handbook holistically analyzes the importance of EITI to domestic economies, governance structures, and local populations, and suggests measures to leverage its potential to ensure inclusive growth and sustainable development.

The basic purpose of this handbook is to provide:

- Guidance to stakeholders (including policymakers, industry, and civil society) in countries currently implementing, or seeking to implement, EITI;
- Guidance on the measures required to launch and implement EITI successfully; and
- Guidance to EITI implementing countries in “mainstreaming” EITI into the good-governance agenda by recommending global good-fit practices that build on the EITI standards and practices.

EITI stakeholders and implementing countries will benefit greatly from this handbook.

