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IMPLEMENTING THE
**EXTRACTIVE
INDUSTRIES
TRANSPARENCY
INITIATIVE**

APPLYING EARLY LESSONS FROM THE FIELD



THE WORLD BANK

EITI is a global initiative established in 2002 to promote and support improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas, and mining. As a voluntary association of stakeholders with shared goals, the structure of the global EITI movement has been open and participatory with a broad range of stakeholders. An EITI Board oversees the initiative, along with an elected chair and members who represent resource-rich developing countries; donors and supporting countries; international and national oil, gas, and mining companies; civil society members; and investor representatives. International development agencies such as the World Bank, the International Monetary Fund, and the African Development Bank attend EITI Board meetings as observers.

A Secretariat based in Oslo, Norway, supports the work of the EITI Board and coordinates EITI work overall. More information on the Initiative, the Board, and Secretariat can be found at <http://www.eitransparency.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 Group's technical assistance and financial support to EITI-implementing countries and global knowledge activities on EITI.

As of November 2007, the supporting countries that have contributed to the MDTF were as follows: Australia, Belgium, Canada, France, Germany, the Netherlands, Norway, Spain, and the United Kingdom—the founding contributor. Funding from the MDTF in producing this report is gratefully acknowledged.



Important Note

This report seeks to distill some of the generic implementation issues and lessons learned in countries implementing the EITI. The report is meant to provide useful guidance and stimulate further discussion on implementation choices among government policy makers; civil society groups; oil, gas, and mining companies; donor agencies; and other stakeholders involved in the initiative.

It must be noted, however, that the EITI Principles, the EITI Criteria, and the "EITI Validation Guide" (and other pronouncements by the EITI Board)—not this report—are the sources of international EITI policy that establishes the agreed-upon standards that must be met by countries committed to and implementing the EITI.

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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org
E-mail: feedback@worldbank.org

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| | h. Nigeria |

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Vice President, Sustainable Development Network (SDN): Kathy Sierra
Director, Oil, Gas, Mining and Chemicals Department: Somit Varma
Manager, Policy and Operations Unit (COCPO): Paulo De Sa
Task Team Leader/Program Manager, EITI (COCPO): Anwar Ravat

EITI ACRONYMS AND GLOSSARY

ADMINISTRATOR/RECONCILER: An organization (usually an audit or consulting firm) appointed to reconcile payments and revenue data provided by companies and government. In this situation, the organization is not actually carrying out an audit, but rather is simply compiling and analyzing EITI data (both financial and, where appropriate, on production volumes) as submitted, and investigating and explaining any discrepancies (where they occur).

AGGREGATION: A method of reporting by which the payments made by individual companies are consolidated so that individual company payments are not identified in a published EITI report and/or where different types of payments made by a company are consolidated in a way that individual payment types are not identified.

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); the auditor determines 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 next page).

CANDIDATE COUNTRY: A country that has publicly committed to implement EITI and that has met the first four EITI (sign-up) validation indicators.

COMPLIANT COUNTRY: A country that has fully implemented EITI and has undergone a successful external validation in line with the EITI validation indicators.

CIVIL SOCIETY ORGANIZATION: A broad term used to describe non-governmental and noncorporate organizations—for example, the media, trade unions, religious groups, academia, think tanks, and so forth. Civil society is broad and diverse, often representing a wide variety of constituencies.

DISAGGREGATION: Method of reporting by which individual companies and/or types of payments (for example, taxes, royalties, and so forth) made to a government are disclosed and can be identified separately in an EITI report.

EITI: Extractive Industries Transparency Initiative.

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 groups.

EITI CRITERIA: The internationally agreed six criteria that describe the minimum outcome of a successful EITI program. They can be found at <http://www.eitransparency.org/eiti/criteria>.

EITI PRINCIPLES: The founding tenets of the Initiative. They can be found at <http://www.eitransparency.org/eiti/principles>.

EITI SECRETARIAT (INTERNATIONAL): The Secretariat based in Oslo, Norway, supports the work of the EITI Board and acts 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 — IAASB) for application by all IFAC members.

MATERIAL/MATERIALITY: A threshold amount or percentage used to determine if a company or a payment is significant to an outcome, that is, materially affects the outcome if included or excluded. EITI implementing countries often set materiality levels based on company or payment size. A materiality level for a company would define the size of company above which companies are required to participate in a national EITI process. A payment materiality level would define the size of payment above which those payments should be included in the EITI process.

MDTF: A multidonor trust fund (administered by the World Bank) to which a number of donor countries have contributed. The trust fund provides technical assistance and funding to countries that are implementing or intend to adopt the EITI.

STAKEHOLDER/STEERING GROUP: The key decision-making body in a national EITI process; it leads and oversees implementation of EITI in a country. This multistakeholder group is composed of 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 Criteria. Details on the validation process can be found at: <http://www.eitransparency.org/document/validationguide>.

INTRODUCTION

The Extractive Industries Transparency Initiative (EITI) was launched in 2002 to improve transparency and accountability in countries rich in oil, gas, and mineral (extractive) resources.¹ Since then several countries have committed to the Initiative, and many of these have produced and published their EITI reports.

Since 2004 the World Bank Group, supported by a multidonor trust fund to support EITI implementation, the EITI Secretariat, and other bilateral donor agencies, has been the primary source of technical and financial assistance for countries implementing EITI.

Countries that are rich in oil, gas, or mineral resources have found EITI to be useful in demonstrating a government's commitment to good governance, increasing scrutiny over revenue collection, and improving a country's investment climate.

PURPOSE OF THIS REPORT

This report provides information about some of the common² issues that have arisen and lessons that have been learned in countries implementing EITI, and to which the World Bank's EITI team has been exposed through its involvement in supporting EITI implementation. These are "early" or preliminary lessons, because implementation processes are evolving in most countries that have committed to EITI. Some countries have produced EITI reports, but analysis of

1. In the context of EITI, "resource rich" refers to a country that is relatively dependent on extractive industries. See appendix A.

2. In the main text of the report we do not identify specific countries that have implemented different aspects of EITI. The annexes to this report (compiled in electronic form in an accompanying CD-ROM) do, however, contain a selection of key documents as examples from countries implementing the Initiative.

these reports is still at an early stage. It is hoped that this report will stimulate further discussion on implementation choices that face government policy makers; civil society groups; oil, gas, and mining companies; and donor agencies involved in the Initiative.³

EITI COUNTRIES AS OF NOVEMBER 1, 2007

The countries that have publicly adopted EITI are listed in box 1.1 As of November 1, 2007, 29 countries around the world had publicly endorsed EITI, with 15 of these countries officially recognized as “EITI Candidate Countries” by the EITI Board (see discussion on validation below regarding categories of countries). A total of eight countries so far have advanced in the EITI process to the stage of having issued one or more EITI reports, disseminated findings, and

BOX 1.1 EITI COUNTRIES AS OF NOVEMBER 1, 2007

AFRICA

Botswana
Cameroon^{^*}
Chad
Congo, Dem. Rep. of
Congo, Rep. of
Côte d’Ivoire
Equatorial Guinea
Gabon^{^*}
Ghana^{^*}
Guinea^{^*}
Liberia[^]
Madagascar
Mali[^]
Mauritania^{^*}
Niger[^]
Nigeria^{^*}
São Tomé and Príncipe
Sierra Leone

EAST ASIA

Mongolia[^]
Timor-Leste

EUROPE AND CENTRAL ASIA

Azerbaijan^{^*}
Kazakhstan[^]
Kyrgyz Republic^{^*}

Norway

LATIN AMERICA AND CARIBBEAN

Bolivia
Colombia
Peru[^]
Trinidad and Tobago

MIDDLE EAST

Yemen[^]

IMPORTANT NOTE: Countries marked with a (^) have been determined by the EITI Board to be official “EITI Candidate Countries.” Countries marked with an asterisk (*) have produced one EITI report or more.

3. Any comments on this report would be welcome and can be sent to ogmc@worldbank.org.

promoted public debate. It is likely that the initial set of countries that will undertake validation will be from the latter group of countries.

EITI PRINCIPLES AND EITI CRITERIA

The “EITI Principles” were established in 2003 at the first conference of the Initiative, and set out the underlying tenets of the EITI. These principles were endorsed by all of EITI’s supporters.

As the common, mutually agreed upon, minimum requirements for all countries implementing EITI, the “EITI Criteria” were established in 2005 at the second EITI conference; they constitute a succinct description of the outcomes of an EITI process.

Box 1.2 EITI PRINCIPLES AND 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.

continued

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.

Source: EITI Source book.

"EITI SOURCE BOOK" AS GUIDANCE

To provide detailed guidance to countries seeking to implement, or already implementing, EITI, the EITI Secretariat published an "EITI Source book" in 2005; it includes the EITI Principles and Criteria. It should be noted that the EITI Criteria are a minimum standard. Some countries have opted to develop EITI programs that go above and beyond the Criteria. The complete source book is included on the accompanying CD-ROM as annex K.

“EITI VALIDATION GUIDE”

In 2006, an “EITI Validation Guide”⁴ was developed and agreed to. It defines in detail the standard indicators, expanding on the EITI Criteria, to be used by an independent external validator to assess how well EITI is being implemented in a country.

The EITI Board has determined that validation is an independent process that all EITI-implementing countries will need to undergo every two years in order to provide a consistent standard against which to assess EITI performance. A country’s validation results will be endorsed by the EITI Board in each case and will determine whether a country has successfully met all the EITI Criteria (and is EITI-compliant) or is still making progress (and is an EITI candidate).

Appendix B summarizes the validation guide and the related validation indicators. The complete validation guide is included on the accompanying CD-ROM as annex L.

THE ROLE OF THE WORLD BANK

The World Bank Group officially endorsed EITI in 2003, and has supported the global EITI Initiative and countries through various activities since 2004, including administering the Multi-Donor Trust Fund that provides technical and financial assistance to countries implementing or considering implementing the EITI. This support has included the following: making EITI advisers and consultants available to governments to assist them in implementation; sharing international best practices (including this report); and providing grants to governments to help support EITI implementation.

EITI is both part of the World Bank’s response to its own Extractive Industries Review,⁵ and also one of the many tools identified in the Bank’s recent Governance and Anti-Corruption Strategy. In this context, the Bank also works with governments on EITI issues as part of broader Bank-supported programs on extractive industries reform, natural resource management, and good governance/anticorruption. In addition to supporting governments involved in EITI, the Bank has also provided financial support from its own funds to a number of civil society groups involved in EITI implementation.

4. The “EITI Source Book” and the “EITI Validation Guide” can both be found at: <http://www.eitransparency.org/document/validationguide>.

5. <http://www.worldbank.org/ogmc>.

STARTING AN EITI PROGRAM

THE BENEFITS OF EITI IMPLEMENTATION

EITI is the global standard for promoting transparency of, and accountability for, payments and revenues in countries rich in oil, gas, and mineral resources. The nature of these industries—that often produce very large and concentrated revenue streams—means that countries sometimes have difficulties in managing the benefits from the sector. EITI programs help governments and other stakeholders—companies, civil society groups, investors, media, and so forth—to systematically report on, review, and assess what is being paid by companies to (and received by) government agencies. This transparency is a fundamental cornerstone of good sector management and broader good governance.

Involving all stakeholders in the development of such a program increases the accountability of governments and companies. The benefits to countries that implement EITI can include:

- *Demonstrating a national commitment to transparency:* Implementing EITI can send a clear signal to all stakeholders that a government is serious about the transparent and accountable payment and receipt of extractive industry revenues—perhaps within an overall program of governance reforms in these sectors. When an EITI program is given an explicit anticorruption focus, this helps to create an environment in which the “hidden tax” of corruption is harder to collect. Because EITI is an international standard, a country that is listed as being “EITI compliant” is meeting a series of internationally agreed upon criteria on improving transparency with performance independently monitored via validation.

- *More efficient revenue collection:* By increasing scrutiny over payments, revenues, and the flow of funds, EITI programs sometimes lead to more efficient tax collection from extractive industry companies. By making information on payments and revenues public, they can also make it easier to detect corruption.
- *A systematic framework for collaboration:* Greater accountability of governments, companies, and civil societies via EITI can improve trust among these groups. By providing a platform for communication among all stakeholders, EITI can facilitate the development of consensual solutions to problems. Doing this can reduce the risk of conflict and promote stability, which are essential to promoting a favorable investment climate and, ultimately, sustainable economic development.
- *Improving sovereign and corporate ratings:* By producing regular EITI reports on payments and revenues, a country may be able to improve the creditworthiness of the government and of companies. Sovereign credit ratings are based on a country's quality of governance and its medium-term ability to meet financial obligations. As information in the public domain about revenues becomes more reliable, the ability of financial institutions and rating agencies to assess a country's creditworthiness is enhanced. Improved creditworthiness will in turn enhance a country's likelihood of attracting loan and equity finance, and will lower the cost of such finance.
- *Promotes accountability:* When amounts paid to different government agencies (and in some cases to subnational levels of government) are clearly stated and known to the public, citizens can then better organize themselves to hold agencies accountable for how revenues are used in public expenditure programs. Government budget monitoring is an important activity that can complement an EITI program, but it is difficult to carry out meaningfully in the absence of reliable information on revenues.
- *Corporate risk management:* EITI can help reduce risks to extractive industry companies. By clearly showing what is being paid to a government and to communities, a company is also reporting the benefits that are accruing from its operations. In turn, this helps to place responsibility on governments for 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 countries. By lowering the costs to companies, countries are able to increase the amount of investment they attract.

Experience thus far suggests that more benefits accrue to governments that include EITI as part of a broad good governance/natural resource management program of reform. While EITI can deliver many benefits as a stand-alone initiative, it is likely to work particularly well when there is a long-term strategy

for mainstreaming EITI as part of broader reform efforts on issues such as improving budget scrutiny, developing an anticorruption strategy, or improving the governance of extractive industries (from the transparent issuance of exploration licenses to the efficient support and monitoring of existing operators).

COUNTRIES THAT IMPLEMENT EITI

All countries that are “resource rich” should be encouraged to implement EITI. In its *Guide on Resource Revenue Transparency*,⁶ the International Monetary Fund (IMF) 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 (see appendix A). Such countries are heavily reliant on the exports of, and revenues from, a small number of concentrated and volatile revenue streams, and, because of this, need to manage these revenues more carefully to avoid economic, social, and governmental distortions that have occurred in such resource-rich countries.⁷

There are also a number of countries that, although not presently defined as “resource rich,” may well be so at a later date, but have nonetheless committed to implementing EITI.

Developed resource-rich countries

The question has often arisen: Why do resource-rich, developed countries that support EITI financially and politically choose not to implement EITI in line with the EITI Criteria? Part of the answer is that, while many developed countries have important extractive industries, there are relatively few in which the extractive industries are the dominant source of government and export revenue. Another answer is that these developed, resource-rich countries have already, in effect, mainstreamed the key components of EITI—that is, transparency and disclosure—into their existing frameworks for managing and regulating the extractive sectors in their countries. Nonetheless, it should be noted that Norway, considered a “resource-rich” country, has recently announced its intention to implement the Initiative.

BUILDING A CONSENSUS ON EITI

When deciding whether to formally endorse EITI, governments almost always consult closely with those groups that would be affected by, or interested in, EITI implementation. The types of stakeholders involved in EITI (discussed further

6. For more details see <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf>.

7. This report 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,” “Paradox of Plenty,” and so forth), which have been researched extensively and are the source of considerable debate.

in *Chapter 2: Stakeholders and Governance Structures*) include, at a minimum, international and national extractive industry companies and business associations, local civil society groups, and other government agencies (and possibly subnational governments and traditional leaders). Experience to date shows that countries that have tried to implement EITI without active support from all of these stakeholders have found the task difficult. In addition, the absence of the support of these stakeholders is inconsistent with the EITI Criteria.

Many countries have held seminars or conferences on EITI in order to consult with stakeholders about the usefulness of adopting EITI and about ways to implement it.⁸ Some countries have also commissioned scoping studies to help identify key stakeholders and to identify the steps that would have to be taken to implement EITI. Key elements of a Terms of Reference used to carry out a scoping study in Zambia are available on the accompanying CD-ROM as annex A.

SIGNING UP TO EITI AND FIRST STEPS

Once a government has decided to commit itself to EITI, it typically undertakes the following steps⁹ in line with the EITI Criteria and the “EITI Validation Guide”:

1. Issue an unequivocal public statement of its intention to implement EITI;
2. Commit to work with civil society and companies on EITI implementation;
3. Appoint a senior individual to lead EITI implementation efforts; and
4. Publish a work plan (whose cost has been estimated) with measurable targets and an implementation timetable that has been agreed to by key stakeholders.

Public statements of commitment to EITI

Public statements of a government’s commitment to the implementation of EITI, and of its intention to work closely with civil society groups and extractive industry companies, will have the greatest impact if they are well publicized in the national media, and such statements should be made available to EITI Web sites. Some governments also write directly to key stakeholders (civil society groups and extractive industry companies) to inform them of their decision to begin EITI implementation. Some statements commit the government not only to implementing EITI, but also to placing the EITI program in a broader context

8. The World Bank Group’s EITI team (and other donors) frequently works closely with government and stakeholders at this stage, when EITI implementation is being considered—for example, by providing grants to support stakeholder consultation events and scoping studies. Both at this stage and throughout a country’s EITI cycle, the World Bank technical assistance and financing role is supported by the Multi-Donor Trust Fund (MDTF).

9. These are the first four steps, that is, the “sign-up phase” of the “EITI Validation Guide” indicators. Under the current EITI Board rules, when these steps are completed satisfactorily, countries would be designated as “candidate” countries and listed as such on the EITI Web site (www.eitransparency.org).

of economic and governance reform. Such statements are normally issued at the ministerial level. At the same time, the International EITI Secretariat and supporting donors and agencies (such as the World Bank, the IMF, and regional development banks) have been informed of the country's decision to implement the EITI, together with an indication of the planned actions taken or to be taken to implement the sign-up steps above.

Where applicable, these communications have also been the channel through which to seek assistance in implementing EITI; for instance, from the Multi-Donor Trust Fund administered by the World Bank.

Also, at an early stage, most EITI countries have held some form of formal “launch conference,” which helps to publicize the government's decision to adopt the Initiative and begins to build consensus on EITI. Such launch conferences are also used to bring together diverse stakeholders to discuss EITI issues and to begin identifying those organizations that might take part in a multistakeholder steering group to oversee the Initiative.

Choosing the EITI champion

To champion the effort and provide a single focal point, governments also appoint a senior individual to lead EITI implementation. This person is referred to as the “EITI champion.” In most EITI-implementing countries, these appointees have generally served at the cabinet level and been responsible for either a revenue agency (for example, as Ministry of Finance) or a sector agency (for example, as Ministry of Mines/Petroleum). In some cases, the appointee has been a senior adviser in the office of the head of state. Characteristics of country EITI champions include the following: they have the trust of national stakeholders involved in the Initiative because of their knowledge of the issues and sectors; they have the authority to coordinate action on EITI across different government agencies; they are able to initiate any necessary regulatory or legislative changes; and they can obtain resources to support implementation of the Initiative.

A key role for this individual in most countries is to chair or oversee the work of the multi-stakeholder steering group for EITI in the country, bringing together the various stakeholders.

Developing work plans

The last step in the EITI “sign-up phase” by governments (and/or the multistakeholder steering group) is outlining, refining, and agreeing to a national EITI work plan in consultation with stakeholders. These work plans normally identify:

- *Objectives:* The high-level goals of an EITI program.
- *Actions:* The specific steps that are required to meet each objective.
- *Sequencing of individual actions:* Some actions in the work plans can only begin once other actions have been completed.

- *Timetable*: Shows the date by which the action is expected to be completed.
- *Responsible party*: Shows which organization or individual is responsible for fulfilling the planned action.
- *Costs and funding sources*: Cost of the action and who will pay those costs.

In the early stages of EITI, these work plans are usually quite broad, but as the government works with the multistakeholder steering group to more clearly define the EITI program, and as implementation begins, the work plans become more detailed (as described in more depth in *Chapter 4: Developing an EITI Work Plan*).

Securing adequate funding for implementing EITI

Concurrent with assigning a lead role and initiating the EITI work plan, decision makers typically begin to actively secure the needed financial resources within government budget systems, and also to formulate strategies to mobilize resources and technical assistance from supporting countries, donor agencies, and international development agencies. Funding issues are covered in more detail later in this report.

STAKEHOLDERS AND GOVERNANCE STRUCTURES

INTRODUCTION

A fundamental principle of EITI is that it is implemented using a participative, multistakeholder approach. This means that stakeholders outside of government—such as extractive industry companies and civil society organizations—are not just consulted as the Initiative progresses, but are actively involved in designing, steering, and governing the process. This principle is reflected in the international EITI governance architecture.

Experience shows that multistakeholder involvement plays a central role in successful EITI implementation initiatives, and this chapter examines the involvement of stakeholders in national EITI processes.

STAKEHOLDERS TYPICALLY INVOLVED

The characteristics of the stakeholders involved in EITI implementation in different countries vary considerably, but normally stakeholders are representative of those groups affected by EITI (that is, government, civil society, and extractive industry companies), and they have credibility with regard to implementation at the national level.

Box 2.1 shows the kinds of stakeholders that are typically involved in an EITI process.

Box 2.1 **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, private-sector liaison, etc.
- Subnational levels of government
- Legislature, for example, budget, finance, planning, and/or natural resource committees
- Supreme audit institutions
- National oil or mining companies
- Traditional/customary leaders

PRIVATE SECTOR

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

ORGANIZATIONS CONTRACTED TO SUPPORT AN EITI PROCESS

- Reconciler/administrators (or auditors); other disclosure agencies

INTERNATIONAL PARTNERS

- EITI Board and EITI Secretariat

continued

Box 2.1 **STAKEHOLDERS TYPICALLY INVOLVED IN EITI** *continued*

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

Note: This list of stakeholders is indicative and is intended to illustrate some of the *possible* stakeholders in an EITI process. While all EITI-implementing countries include representatives from the three clusters (government, companies, civil society) shown, no country has included each type of entity listed above in its EITI steering group.

Box 2.2 **STATE-OWNED COMPANIES**

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 different ways:

- As an investment company that holds equity in a number of different companies involved in producing oil, gas, metals, or minerals in a country;
- As a company that (in the case of oil-producing countries) is responsible for collecting, marketing, and selling a government's share of production;
- As a partner in a joint venture company; and
- As the operator of a mine or oil field.

Furthermore, some state-owned companies are 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, and thus need to become involved 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, that they are sometimes recipients of payments or production share from other companies, and at the same time they make payments to the national budget.

continued

Some countries' state-owned companies 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. On the other hand, other countries have found that the EITI process needs to specify that the state-owned company (because of its mixed role) must provide considerably more information than other companies.

MULTISTAKEHOLDER STEERING GROUPS AND THEIR GOVERNANCE

Given the participatory nature of EITI, the selection of different stakeholder groups to oversee the Initiative has been a time-consuming and contentious process in some countries, especially at the start of the process. Nonetheless, all EITI-implementing countries have established multistakeholder steering groups of EITI Councils—referred to in this report simply as “steering groups.”

Important considerations related to steering groups and their governance have included:

- *Legal basis for forming the steering group:* In the context of national law, in some countries the stakeholder group was 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 a short law) was necessary to formally establish such a group.
- *Determining the size and membership of the steering group:* Practice has varied. In most countries these steering groups tend to have between 10 and 20 members. No single formula has emerged as to how different stakeholder groups are represented on the steering groups, and the issue of weighting has been debated extensively in several EITI countries. 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 to give greater weight to the participation of company and government representatives than to representatives from other sectors. In such cases, countries have needed to be particularly careful to ensure that civil society groups are adequately represented and involved in the process.
- *Civil society membership:* Regardless of size, civil society representation on steering groups usually is—and should be—meaningful. Civil society representation has been diverse—by its very nature civil society is not a homogenous group. Countries have also found it useful to allow civil

society to select its own representatives to a national EITI steering group so as to avoid any perception that a government has selected groups with little input from civil society itself. The issue of the involvement of civil society groups that are considered to be politicized (that is, are viewed as aligned with government or opposition political groups) has been controversial in some countries. (Some countries have as yet not been diligent in adequately involving civil society in their EITI programs, with the attendant risk of slow progress in implementing the Initiative and/or the risk of EITI efforts being judged as not credible—or possibly even as noncompliant with key EITI validation indicators.)

- *Company membership:* The steering groups have either all of the significant oil, gas, and mining companies operating in the country as members or, where this is not feasible due to the large number of companies, they have agreed to some form of representation through which to communicate the decisions of the stakeholder group to a broader constituency of companies.
- *Initiating and renewing membership of the steering group:* Membership in the steering groups is generally for one to two years. Methods for selecting members of steering groups have varied, but have included: (i) selection by the government; (ii) holding informal and formal meetings on EITI to explain the purpose of the program before stakeholders are asked to nominate their representatives; (iii) selection by different groups of stakeholders who are asked to nominate representatives (in many countries, civil society coalitions select their own representatives by caucus to join the steering groups, and companies do the same via the Chamber of Mines or a Petroleum Association, for example); and (iv) publication of public notices requesting nominees.

Countries with successful EITI programs are those that have allowed different stakeholder “constituencies” to select their own representatives. When governments directly appoint members of steering groups, it is more difficult for governments to demonstrate that civil society representatives are operating independently.

- *Designated individuals as members:* Steering groups are composed of individual members representing various organizations, but many countries have found it useful to ensure that a specific individual is nominated to make sure that there is consistency and continuity in how an organization participates in the EITI process. However, provisions for alternate members also exist in case the primary members are unable to attend.
- *The role of the chairperson:* Most steering groups have a nominated chairperson who is responsible (usually with help from a Secretariat or implementation unit of some kind) for calling and managing meetings. The chairperson is usually the government’s appointed “EITI champion.”

Box 2.3 MEMORANDUMS OF UNDERSTANDING/TERMS OF REFERENCE

In order to fully involve all stakeholders, and to be clear on the steering group's operations and rules, most countries have developed a type of Memorandum of Understanding (MoU) and/or Terms of Reference (TOR) for the steering group or for the national EITI Initiative as whole. Such MoUs are signed by steering group members (and by many other organizations, to demonstrate their commitment to the EITI) and commonly state:

- Signatories' commitment to the EITI Principles and Criteria;
- How the Initiative will be governed and taken forward;
- The rights and responsibilities of every organization that signs the MoU;
- A description of how the EITI report will be produced; and
- How the independent administrator or auditor (responsible for reconciling payments and revenue data) will be appointed.

An example of a Steering Group's Memorandum of Understanding from Azerbaijan is available on the CD-ROM as annex B.

- *Voting and other decision making:* Once steering groups have been formed, members agree to the rules and procedures by which the group will operate. These rules and procedures cover, among other things, voting and quorums necessary for making decisions; regularity of meetings; and the rules that will govern the conduct of such meetings (for example, the "Chatham House Rule," which assures participants that they may state opinions without fear of attribution). These rules could be incorporated into a Memorandum of Understanding or a Terms of Reference for the group as discussed below.
- *Funding and support:* In some countries, resources are made available to enable members of the group (for example, from different cities) to attend the meetings.

OTHER CONSIDERATIONS

Steering groups 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:

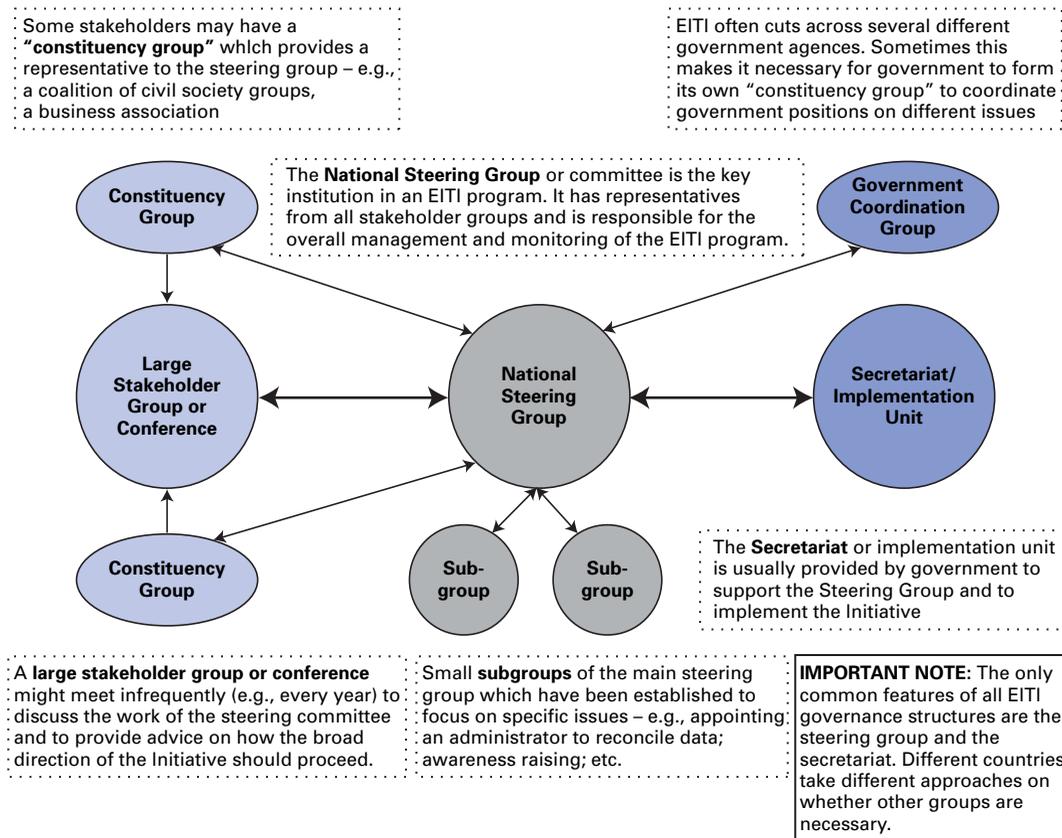
- *Constituency approach:* A constituency approach (where a member represents other, similar entities on a rotation basis) has both advantages and disadvantages. It ensures that all constituencies will be represented, and that the group will be of a manageable size. But it may also limit the various constituencies

to a “lowest common denominator” form of decision making, in which members are able to agree upon only a small number of opinions.

- *National EITI conferences:* In some countries, people who are not involved in the day-to-day work of the steering groups attend conferences so they may be consulted on the progress of the Initiative in the country; this enables broader groups of organizations and individuals interested in EITI to become engaged in the process.
- *National EITI implementation units:* EITI implementation relies on a Secretariat to coordinate actions on the Initiative. Some countries have sought to achieve greater buy-in from stakeholders by inviting company and civil society representatives to work in these implementation units. (For more details, see *Chapter 5: The Role of Government in EITI Implementation.*)
- *Specialist subgroups:* To provide a focus for technical work that steering groups must carry out, many countries have established smaller subgroups to handle specific tasks.

Figure 2.1 provides an example of how a steering group can be organized.

FIGURE 2.1 GUINEA EITI STEERING COMMITTEE ORGANIZATIONAL CHART



FUNCTIONS OF MULTISTAKEHOLDER STEERING GROUPS

One of the first tasks of a multistakeholder steering group is to define its specific functions in the context of EITI in that country. In most countries the functions of the steering group (along with details of its relationships with other groups, and rules and procedures for how it will operate) are set out in the MoU or Terms of Reference document for the steering group as agreed to by all members.

The normal functions of steering groups seen in practice are:

- *Overall strategic decision making:* EITI is often a complicated initiative that requires the close coordination of all the different stakeholders involved and the authority to make the decisions necessary to implement the Initiative.
- *Determining the scope of the EITI program:* Perhaps the most important role of steering groups is deciding (and, if necessary, reviewing and refining) the overall scope of the EITI program. This includes deciding which companies and revenue streams to include; the level of reconciliation or audit involved; whether subnational governments will be included in the program; and in what kind of detail the final report will be published. These issues are dealt with in *Chapter 3: Determining the Scope of an EITI Program*.
- *Developing or agreeing to a work plan and monitoring progress:* Developing a work plan for the Initiative is one of the EITI Criteria, and steering groups are usually involved in reviewing and approving the EITI work plan. Some groups work actively with a Secretariat or implementation unit to formulate the work plan themselves. Once a work plan is approved, some steering groups have exercised oversight over the commitment and use of funds, or obtained regular progress updates that include information about the use of funds.
- *Appointing and managing an auditor and/or a reconciliation organization:* In all countries, the steering group has been directly involved in the appointment of the reconciler/administrator (or an auditor) to reconcile the payments and revenue data submitted by the government and companies. In many countries, the steering group assigns this specific task to a smaller subgroup according to its Terms of Reference.
- *Technical reporting templates:* The steering group or subgroup is also responsible for working with the reconciler/administrator or auditor to: (i) develop reporting templates about the EITI process for government agencies and companies; (ii) develop guidance for government and companies on how to complete and submit those reports; (iii) determine how often EITI reports should be compiled and published; and (iv) resolve any other technical issues regarding the management of the contract with the audit and/or reconciliation organization.
- *Raising public awareness on EITI:* Most steering groups (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: for instance, through media programs, national “road shows,” Web sites, and so forth.)

- *Assessing and removing barriers to implementation:* Steering groups often identify and address barriers to implementing EITI, and in the work plan develop measures to remove them. A common issue, for example, is the need to create either voluntary, legislative, or regulatory provisions that enable the government and all companies to disclose their payment and revenue data. Steering groups also often help to identify any capacity constraints that will hinder implementation

An example of a government decree from Peru that establishes a steering group and outlines its membership and functions is available on the CD-ROM as annex D.

Finally, a word on a steering group’s likely role in the validation process. Although at date of writing no country has yet begun the validation process under EITI Board rules, a key future function of steering groups will be to review validator reports once they have been completed.

DETERMINING THE SCOPE OF AN EITI PROGRAM

INTRODUCTION

Although EITI has clear key criteria, as well as a defined validation framework, its implementation on the ground has taken a variety of shapes as EITI programs have been developed to address different countries' individual circumstances and sector conditions. This chapter presents the elements of the various kinds of EITI programs that have been developed by countries.

Note: As the issues presented in this chapter go to the heart of a country's EITI report, it is important to read this chapter alongside *Chapter 7: Producing an EITI Report*, which covers the technical processes used in compiling EITI reports.

Key scoping decisions

The EITI implementation experience to date indicates that one of the first things EITI countries have needed to do is make key decisions on the scope of EITI processes. Since different choices lead to very different types of EITI programs, the scoping decisions outlined below have needed in-depth analysis and stakeholder consultation and have been shown to be consistently the most debated issues faced by EITI steering groups.

These five core scoping issues in countries are as follows (each is discussed in more detail later in this chapter):

- *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 administrator),

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 level for payments or company participation:* Individual countries have set their own materiality limits for payments (that is, the size of payment below which it is excluded for reasons of efficiency from the EITI process) or for company participation (that is, the threshold size of company operations below which it is excluded from the EITI reporting process).
- *Degree of aggregation or disaggregation of data disclosure in EITI reports:* In addition to materiality, a key element of the scope of EITI is the degree of aggregation or disaggregation that an EITI report contains, with respect to separately identifying—or not identifying—total payments by reporting companies and the types of payments.
- *Including subnational or social/community payments:* Some EITI countries choose to report only on what companies pay to the national or federal government. Other programs, however, also cover and require reporting of payments made to subnational levels of government (for example, state, district, and traditional leaders) or to social/community groups.
- *Including other sectors and/or non-production-related transactions:* A very small number of countries have decided to include other resources (such as forestry) 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.

Overall, contrary to some analysis, EITI is not any less suited (or practiced) in mining countries than in oil and gas producing countries. The progress of EITI in mining countries simply does not support a view that EITI is only suited to the oil and gas sector.

ISSUES CONSIDERED WHEN DETERMINING THE SCOPE OF AN EITI PROGRAM

The common feature of the above five issues is that they are all concerned with how much information will be captured and disclosed by the EITI process. Decisions on these issues are arrived at after serious debate by all stakeholders as to what the optimum balance is between producing data, the cost of producing that data, the benefit derived from the process, and how the EITI program

Box 3.1 **DIFFERENT APPROACHES IN OIL AND GAS PRODUCING AND MINING COUNTRIES**

Since it was launched, EITI has always involved countries and companies involved in oil and gas production, as well as the mining of minerals. Some of the earliest EITI reports were from oil and gas producing countries, although more recently many mining countries have implemented EITI and have produced EITI reports.

Given the different nature of the oil and gas and mining sectors and their financial flows, differences do exist in the scope of EITI programs adopted for these sectors:

- 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, on the other hand, can be quite small in comparison. This has a bearing on the materiality threshold set for EITI participation; very few countries have excluded oil and gas companies from an EITI program, but some countries have found it useful to exclude very small mining companies for process efficiency.
- In many mining countries there are large numbers of “artisanal” or small-scale miners. Thus far there is very little experience among EITI-implementing countries as to how to include small-scale miners as part of an EITI program, though a few countries are just now beginning to consider the issue. One possibility, as yet untried, might be to focus only on exporters and dealers in minerals in the EITI process, since such trade is often dominated by just a small number of individuals or firms.
- 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 very significant payments to subnational levels of government, or a proportion of mining revenues are redistributed by central governments to mining districts; where material payments are being made to subnational levels of government, the scope of an EITI program might need to be expanded to capture those payments.

Indeed, some experience has been that because mining companies have a more obvious physical presence than oil companies, they are often more interested in ensuring that there is a good public understanding of their impact and of the payments they make to the government.

might link into broader sector management and good governance programs. An example of a document which outlines the scope of an EITI program from Ghana is available on the CD-ROM as annex E.

No “right” answer emerges to these issues: each EITI country does—and will—come up with its own decisions in line with EITI Criteria. Nonetheless, some core factors can be discerned in EITI country experiences regarding the scope of an EITI program:

- *Amount of data already publicly available:* In some countries very little information on company payments and government revenues is either publicly available or is consolidated in a single, easy-to-understand source. In other countries such revenues data already exists and are made 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 audited to international standards has a bearing on the EITI scope decision.
- *Public perception of the level of transparency in the country:* Notwithstanding the information made available by the government and companies, the perceptions of their reliability (trust) by the public at large have also been important.
- *Resources available to conduct an EITI process:* A core driver of the scope is sometimes simply the amount of human and financial resources available for the task, whether from government or from donor-provided funds that support the EITI program.

Assessments of these factors have generally helped stakeholders to shape the direction of the EITI programs in their countries. In countries in which very little information has previously been disclosed, and/or in which the quality of the data is questioned by the public, stakeholders in an EITI process may wish to consider opting for a wide-ranging and in-depth EITI program. In countries where high-quality data are in the public domain, a higher-level EITI program might be more appropriate in order to create a participative, multi-stakeholder EITI process and to bring EITI-reported data into one place.

Experience shows that the scope of an EITI program is kept under review and is refined and changed as appropriate—that is, some countries start off with a limited program and then, after additional consultation or after the production of a first EITI report, choose to expand the scope of their program. This phased approach allows for learning and for trust to be built up among stakeholders before scope refinements occur.

A key lesson

The experience of a number of countries as observed by the World Bank Group is that the countries with more extensive EITI programs have produced higher quality EITI reports and have tended to benefit more from EITI in the long run.

More information, as long as it is presented in an understandable manner, is ultimately better.

However, there is a clear cost/benefit trade-off: some countries have struggled to find a balance between the scope of the EITI program they want and the scope of the EITI program achievable through available resources. These countries are seeing that each expansion of the scope of an EITI program will require that more money be spent and that more time and effort be expended to complete a reporting process. In virtually all countries, the increased cost is easily paid for by the fiscal benefits (for example, more efficient revenue collection), but stakeholders need to be very clear on the trade-offs involved in determining the scope of the EITI program. EITI is also a process in which a lot is learned by stakeholders during the process of implementation. Thus, some countries have often found it useful to start an EITI program that is limited in scope, and then progress to a broader program after the first report has been produced.

EITI REPORTS AND RECONCILIATION AND AUDIT PROCESSES

The EITI Criteria require the reconciliation and publication of payment and revenue data that itself should have been audited to international standards. This ensures that the data used in EITI meets a common accepted standard of reliability. In practice, there are a variety of approaches to revenue/payment data collection, reconciliation, and, in some cases, audits in the different EITI-implementing countries. (This is especially true in countries with oil, gas, and mining operations, since different systems exist for accounting and reporting at the national level.) Examples of EITI reports are included on the CD-ROM.

Before reviewing the lessons of these different approaches, it is useful to be clear on the terminology that is used in EITI processes in this regard. Currently, EITI-implementing countries have clustered around four variants of reconciliation and/or audit underlying their EITI reports, summarized as follows:

- *Reconciliation:* In many countries, companies, state-owned enterprises, and government agencies are already obliged to produce annual financial statements that are audited to international standards. In these cases, a multistakeholder process that simply reconciles and publishes the available data may be enough to meet the EITI Criteria. Under this approach, companies submit completed EITI data templates; their own auditors may state that they are based on, and drawn from, the company's audited financial statement, audited to international standards. A reconciler/administrator receives these data submissions and compares and analyzes them to see if the data match. The reconciler/administrator would seek specific information from a company or from the government (if a discrepancy is identified between the two reported amounts) and ask for

additional data to explain the discrepancy. The submitted data and/or any unexplained differences—along with recommendations for improvements—are reported in the EITI report by the reconciler/administrator.

- *Reconciliation supplemented by limited audits:* A variant of the above reconciliation approach which some countries have used is for the reconciler/administrator (or a separate firm) to—in addition to the reconciliation—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 quality of the financial statements of reporting companies is mixed, with some audited to international standards and others 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 and/or government accounts that are the basis of the information provided for the reconciliation process. (For example, the audit company may examine the validity of costs claimed for tax deductions by companies, thus 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 line with international auditing standards. This process is by its nature in-depth. It involves substantiating revenues and payments and their underlying contractual accuracy and completeness; it also involves verifying assets and funds flows. The EITI audit company thus needs sufficient financial resources to complete its task; it also needs a Terms of Reference that allows full access to company and government financial statements and records to compile the audited EITI data and report.

Given its cost and extensive nature, this full-audit approach has been used in only a small number of countries. This is because the amount of information that a company needs to provide as part of a reconciliation process is significantly less onerous than the amount of information that needs to be provided for any additional audit. Such audits have increased transparency and accountability, and countries that have undertaken them most often more than pay for the cost of the audit with improved fiscal returns and payments. The EITI process, and the in-depth verification of reported EITI data in these cases, 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 their contracts and tax laws?”

Where EITI programs include these kinds of extensive audits, countries have found it useful to think very clearly from the start about the process

through which 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 rather than something that only occurs as part of an EITI program.

Box 3.2 OTHER KINDS OF AUDITS

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 revenue flows. Some countries have chosen to implement more extensive audits. Such audits can include:

- 1. PHYSICAL AUDITS:** These are audits that are used to measure the actual quantity and quality of the physical output of an oil, gas, or mining operation, 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 which is passed to the government) and where it is suspected that the amount of actual production is higher than that which is 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 actually produced. They are also used to detect where the quality of output is being altered or misrepresented—for example, where a high-quality oil is being mixed with a lower-quality oil, or where the purity of a mineral ore is either over-reported or under-reported.
- 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 which is not that country's central bank, the agency that collects that 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 space of 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.

continued

3. **AUDITS 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 immensely 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, would be riskier, 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” in order to ensure that companies are paying the right amount of tax and production share.

An observation on other kinds of audits

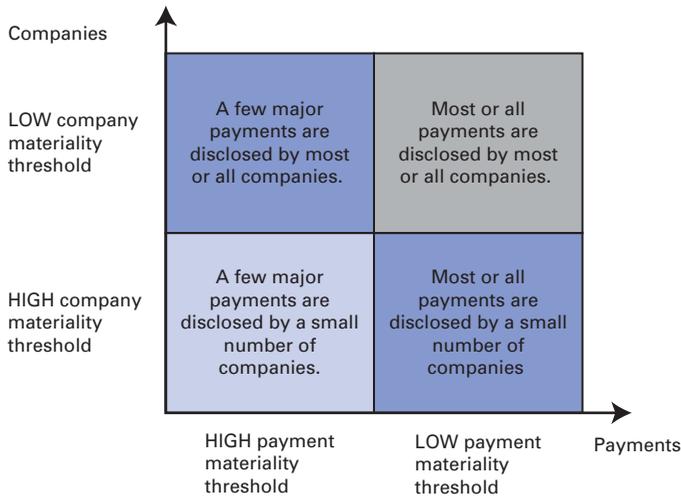
In many countries implementing EITI, there is a public perception that corruption or fraud in the sector involves physical theft of oil, gas, minerals, or metals—and the scope of EITI reflects this concern.

In some countries (for example, in countries with exposed pipeline infrastructure or where gemstones are illegally handled), this may well be the case, and additional physical audits may well be helpful. However, experience demonstrates that corruption or fraud in extractive industries is just as often a financial theft, such as unjustified inflation of costs, transfer pricing, related-party sales at below-market prices, and so on. This suggests that process audits or audits against contract are as effective at detecting corruption or fraud as physical audits. In the long term, it may also be advisable to enhance the ability of sector management revenue collection authorities to more accurately assess compliance with contracts and tax payment obligations.

A DISCUSSION ON MATERIALITY

All companies operating in a country would normally be part of the process of reporting payments data to a reconciler/administrator. But the “EITI Source book” sets out an exception to this rule whereby, for cost-efficiency, implementing countries can set a materiality level on the size of payments or the size of companies operating in a country (thus excluding very small payments or companies), as explained in figure 3.1.

FIGURE 3.1 COMPANY AND PAYMENT MATERIALITY THRESHOLDS



- *Payment materiality:* Some reportable payments made by companies may in fact be relatively small, and the process of gathering additional data on these very small transactions may exceed its benefit. A country therefore sets a materiality level that excludes the need to report payments below a certain level by a company.
- *Company materiality:* Since the size and output of companies operating in a country varies, a country, for reasons of cost efficiency, sets a materiality level based on physical output or on previous taxation payments below which a company would not have to report at all under EITI.

Applying judgment

Determining materiality levels can often lead to difficult debates. The definition of what is material and what is immaterial is a matter of judgment and one that varies among different countries, and also among different stakeholder groups within countries. Ultimately, countries have chosen to set materiality levels for efficiency because it allows the process to proceed relatively quickly without incurring the extra cost and time that would be required to deal with small transactions and/or small companies.

There is no pre-fixed materiality level that is prescribed for all countries implementing EITI. And experience shows that multistakeholder steering groups in countries need to keep materiality under review to ensure cost or process efficiency, and also to guard against the reputational effect of a national EITI process that is perceived as 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 that EITI report.

Types of payments

Some countries chose to deal with the issue of payment materiality by excluding specific revenue streams that contribute very little to the overall revenue received by the government. One type of taxation, for example, may account for 20 percent of all extractive industry revenues, while another type may only account for 0.1 percent. In these circumstances, it is possible to exclude the latter without having an undue impact on the overall process. It is important that both the stakeholder group as well as the administrator or auditor appointed to compile the EITI report are confident that all material payments included in contracts 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 administrator/auditor on a confidential basis.

Stratifying operating companies

Another way in which to set a company materiality level would be to determine which companies pay the bulk of extractive industry revenues, and to then exclude all the companies that did not fall within that percentage. For example, five large companies might be responsible for paying 99 percent of all extractive industry revenues, while the remaining 1 percent is paid by 10 small companies. A materiality level set at 99 percent of revenues would capture the vast majority of revenues paid by a small number of companies, but exclude the very small amount of revenues paid by a large number of small companies. Many countries address this issue across the board (that is, not just in the extractive industries) by having large taxpayer units that focus specifically on the major contributors of government revenues.

A DISCUSSION ON AGGREGATION/ DISAGGREGATION

In addition to materiality, a key element of the scope of EITI is the degree of aggregation that a published EITI report contains, with respect to separately identifying—or not identifying—payments by individual reporting companies and the types of payments. It should be noted that the issue of aggregation/disaggregation is only about how much detail is provided in the final published EITI report. As part of the reconciliation or audit process, companies will have to provide fully disaggregated statements to the administrator/auditor so that they are able to accurately compare company data with government data.

As with materiality, there is no international EITI policy in this respect; it is up to individual countries to decide which approach to take, in a way that would meet Validation Guide criteria. 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 controversial discussed by

stakeholders. Experience does show that countries that tend toward more, rather than less, information disclosure are able to generate more trust among all stakeholders, but that, while a full discussion of the issue is crucial, it should not be used as an excuse to delay the implementation of the Initiative.

The different approaches taken by countries are shown in figure 3.2.

The figure illustrates that company and/or revenue type can be reported at varying levels of detail, according to the EITI scope decisions of the steering group:

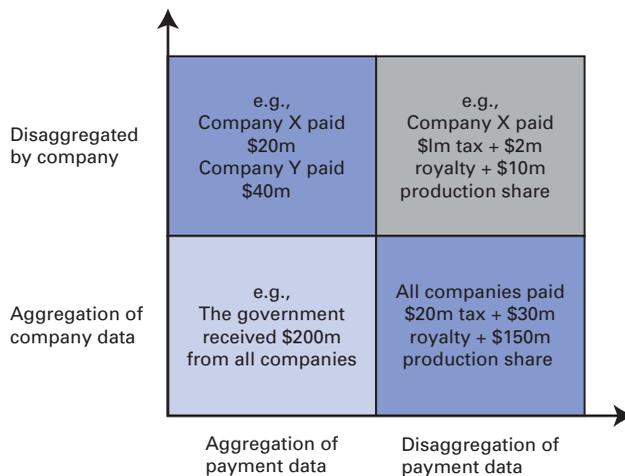
- *Aggregation/disaggregation by revenue type:* Certain EITI countries have chosen to disclose payments and revenues detailed by revenue type (for all companies); for example, that the government has received (a total of) \$X in royalties, \$Y in production share. Other EITI countries have aggregated payments across all revenue types so that what is disclosed is (the total of) all payments made by a company to a government—for example, Company X paid \$Y to the government across all revenue types.
- *Aggregation/disaggregation by company:* Some countries chose to disaggregate company information so that payments by individual companies, by revenue types, are disclosed.

No EITI country has chosen the highest level of aggregation—totals for all companies for all revenues—which would only show that the government has received \$X (from all revenue types) from all companies.

SUBNATIONAL PAYMENTS AND REVENUE DECENTRALIZATION

In some EITI-implementing countries, significant payments are made to subnational levels of government (including regional, state, district, and

FIGURE 3.2 COMPANY AND PAYMENT DATA AGGREGATION



municipal authorities, as well as traditional leaders). The methods for such payments to subnational governments typically are:

- *Discretionary payments or projects by companies:* Some companies voluntarily choose to make payments to subnational governments in areas in which they operate, or they carry out (sometimes extensive) community development programs that may provide public goods (for example, schools, training centers, health clinics, roads, and so forth) to people in areas affected by their operations.
- *Discretionary payments or projects by national governments:* Some national governments use some of the revenues that they collect to provide ad hoc (that is, there is no fixed formula as to how much or how often) payments to subnational governments, or additional public goods to people in areas in which extractive industry companies are operating.
- *Mandatory payments by companies:* In some countries, either by law or by the terms of individual contracts, companies are required to make certain payments directly to subnational levels of government, or provide certain public goods to communities in the areas in which they operate. In many countries there are certain revenue streams (for example, road taxes or ground rents) that are only collected by subnational governments.
- *Mandatory payments by national governments:* Some countries have laws or constitutional arrangements that require a national government to pass on a fixed percentage of certain taxes paid by companies to the subnational levels of government that host extractive industry companies.

EITI at the subnational level

The issue of whether discretionary or mandatory payments to subnational levels of government should be included in an EITI process is normally decided on the basis of an assessment of materiality—that is, are the payments made so significant that to omit them would mean that the EITI program did not provide an accurate reflection of what a company was paying in a country.

While only a few countries have included subnational payments in their EITI programs, many are considering it. Central government revenues are generally indistinguishable once they enter the general budget and it is therefore difficult to link extractive industry revenues to specific expenditures by the national government. With payments (or redistribution) to subnational governments, there is a better possibility of making such a link.

Issues related to payments to subnational governments in EITI programs have included:

- *Where payments are discretionary* (that is, they are not bound by any set level of taxation or formula), it is harder for an administrator or auditor to assess whether the data provided by a company or subnational government are accurate or complete.

- *Where payments are made as spending by companies on public goods, either voluntarily or contractually, questions of proper valuation of costs sometimes arise.*
- *Capacity in subnational governments is sometimes insufficient to deal with the reporting requirements of an EITI program at that level*

ANCILLARY SECTORS AND OTHER OIL, GAS, OR MINING-RELATED TRANSACTIONS

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, fisheries), or to aspects of oil, gas, and mining not related to exploration or production (for example, refining or processing and transport)—or, indeed, to key transactions that have, by design, been left out of the scope of the EITI Criteria (for example, the awarding of extractive licenses or the public expenditures side of national budgets).

In almost all EITI programs, these transactions are outside the scope of the EITI Initiative. Countries have found that valid reasons exist for keeping EITI focused on oil, gas, and mining:

- *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 sectors.
- *Expanding to other sectors means expanding the number 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 is kept manageable. Expanding an EITI program risks having to bring together larger numbers of stakeholders with diverse interests.
- *The extractive industries are nonrenewable:* By their very nature, extractive industries are involved in managing a finite resource, unlike other sectors.

Other oil, gas, and mining revenues

Within the extractive industries sector, some countries implementing EITI have debated whether to include other transactions beyond exploration and production such as payments and revenues relating to transportation (for example, pipeline fees that 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 transactions that go beyond exploration and production, certain (though not all) countries have included such revenues in the scope of EITI (for example, payments by an oil refining company). Although including these revenues is a complex undertaking and not required by EITI Criteria, a country

may find it useful to cover these “downstream” oil, gas, and mining transactions in order to gain a better understanding of overall sector financial flows, and possibly to obtain a better understanding of the link between the value of downstream transactions and original, upstream transactions (exploration and production-related).

Experience suggests that stakeholders considering the expansion of an EITI program beyond its primary exploration and production focus might consider (i) whether the core EITI program itself delivered satisfactorily, including satisfactory external validation and (ii) whether such an expansion in the scope of an EITI Initiative risks creating an overly complicated initiative whose costs exceed its benefits. Equally however, experience also suggests that increasing transparency in one sector and set of transactions creates, in itself, increased demand for greater transparency in other sectors and transactions.

Moreover, in some countries (mainly oil producing countries) “production sharing agreement—PSA” systems are in place under which the oil or gas produced is apportioned into shares between the producing company and government (“cost oil” and “profit oil” to cover production costs and profit, and the government’s share of production).

The government share is often disposed of by the producing company selling it on the government’s behalf, by a government company or marketing agency selling it, or by another intermediary. In these cases, care needs to be taken in the EITI process to be sure that the government production share is appropriately “monetized.”

While certain countries have sought to include monetized values of PSA operations in the scope of their EITI programs, the practice in most EITI countries has been to report on physical volumes only. Producing companies (nonstate-owned) believe 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.

Finally, there are some countries that have both significant oil and gas industries and a significant mining industry. These countries have often stated an intention to cover both industries in their EITI work plans, but they sometimes start the process by concentrating initially on the most dominant sector. This has allowed such countries to proceed at a manageable pace and to apply lessons learned in the implementation of EITI in one industry to another, smaller industry at a later time.

DIFFERENTIATING BETWEEN CORE EITI AND “EITI PLUS”

Because of the diversity of EITI programs that have been implemented by different countries, stakeholders new to EITI sometimes find it difficult to distinguish between core EITI and “EITI plus.” Core EITI consists of steps taken by countries to simply be compliant with the international EITI Criteria and validation

indicators. “EITI plus” consists of steps that countries have taken that go beyond the regular EITI Criteria and validation indicators.

Table 3.1 attempts to clarify the choices that decision makers in countries face. It is particularly important to note that there is no clearly defined international EITI “policy” on many of these issues, and different countries have taken different approaches. Therefore, this table does not attempt to establish or address EITI policy in these respects.

TABLE 3.1 DIFFERENTIATING BETWEEN CORE EITI AND “EITI PLUS”

| ISSUE | REQUIREMENT OF CORE EITI CRITERIA/VALIDATION INDICATORS | EXAMPLES OF EXTENSION BEYOND CORE EITI—THAT IS, “EITI PLUS” PROGRAMS |
|--|--|--|
| Audit of company and government data to international standards | Where companies have already been audited to international standards, they do not generally need to be audited a second time in the EITI process. (Audits may be necessary if some companies do not have financial statements audited to international standards.) | Some countries have chosen to re-audit part or all of the EITI data submitted by companies. |
| Additional physical or process audits or audits of payments against underlying contracts | Not required under EITI. | One country has chosen to carry out these kinds of audits as part of their EITI programs. |
| Number of companies required to report | All companies that make material payments to a government are required to report under EITI. | Some countries have decided to require all companies—regardless of size or levels of payments—to report as part of the EITI process. |
| Revenue streams that need to be reported under EITI | All “material” revenue streams must be reported as part of the EITI process. (The steering group needs to decide which revenue streams [or size of payments] are considered “material.”) | Some countries have decided to include all payments, regardless of size or revenue stream, as part of their EITI process. |

continued

TABLE 3.1 **DIFFERENTIATING BETWEEN CORE EITI AND “EITI PLUS”** *continued*

| ISSUE | REQUIREMENT OF CORE EITI CRITERIA/VALIDATION INDICATORS | EXAMPLES OF EXTENSION BEYOND CORE EITI – THAT IS, “EITI PLUS” PROGRAMS |
|--|---|---|
| Whether an EITI report is presented in an aggregated or disaggregated manner | There is no requirement to present an EITI report in either format. An administrator/auditor will, however, need to be provided with fully disaggregated data in order to allow them to fulfill their role and properly produce an EITI report. (The steering group needs to decide on the scope of the final EITI report and the degree of aggregation.) | |
| Inclusion of payments to subnational levels of government | Neither the EITI Criteria nor the validation indicators comment on whether payments to subnational governments should be included. “Government” is not defined, so it could include or exclude subnational governments. | (An issue for steering groups in countries: if significant <i>material</i> payments are made to subnational governments, then steering groups will consider how to include such payments as part of the EITI process to report a full picture of company payments.) |
| Including transactions beyond exploration and production | “EITI Source Book” focuses on payments and revenues that are generated by “upstream” or exploration and production activities only. | A small number of countries have expanded their EITI programs to include companies and/or payments that are not directly related to the immediate exploration and production of oil, gas, minerals, and metals. |
| Including other sectors beyond oil, gas, and mining | Not required by EITI. | One country has included forestry within the overall structure of its EITI program. |

DEVELOPING AN EITI WORK PLAN

INTRODUCTION

At the national level, countries need to develop a comprehensive work plan for implementing EITI (and its requirements for political commitment and funding). Such a work plan is required by the EITI validation criteria and allows an implementing country to:

- Set out clearly the different tasks that need to be carried out to fully implement an EITI program;
- Identify dependencies between different tasks and determine the sequencing of different steps;
- Reach a clear agreement with all stakeholders as to how the EITI program will be implemented; and
- Use such a plan as the basis for seeking external technical support and funding—if required—for the national EITI program.

STRUCTURING AND CONSULTING ON EITI WORK PLANS

Work plan design

Implementing countries' experience with developing the EITI work plan shows that it is both a consultative and iterative process: in other words, it is shaped in large measure by the kind of EITI program being implemented. The prior discussion among all stakeholders of the scope of the EITI program

(see *Chapter 3: Determining the Scope of an EITI Program*) is therefore an important element of the work program preparation, including the consideration of issues such as whether payments to subnational levels of government are to be included; carrying out a reconciliation or a variant thereof or a full audit; materiality levels; and so forth. Finally, the degree of urgency of implementation and the resources available will also shape the work plan.

In most countries, the entity responsible for producing the draft EITI work plan is the national EITI Secretariat or implementation unit. The draft work plans are typically shared widely in a consultative process. They are most effectively implemented when the multistakeholder steering group has worked through, understood, and officially adopted them. Those countries that have used work plans dictated by the government have often found that the plan slips or becomes irrelevant because it only describes the steps that government sees as being important, while ignoring important actions that may be seen as important by company or civil society stakeholders.

The experience is that 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 than they started with. Usually certain actions and sequencing protocols are identified only when the EITI process has actually begun. A good test of whether a work plan is complete, however, is to carry out a process of mapping the objectives and actions of the work plan to the EITI Criteria and the EITI validation indicators. A good work plan will have actions that enable a country to implement all of the EITI Criteria successfully and meet all of the EITI validation indicators.

The work plans are publicly available documents that can be easily found on a Web site or in other places that are accessible to members of the public.

As noted, EITI-implementing countries' experience with EITI work plans varies greatly depending on the scope of their EITI programs and the stakeholders. However, the combined experiences of implementing countries and the guidance in the "EITI Source Book" collectively indicate that certain items (or issues) always need to be addressed in any work plan. Box 4.1 provides details.

An example of a complete work plan—from Timor Leste—is available on the CD-ROM as annex F.

The structure that many countries have used when developing their work plans focuses on:

- *Objectives:* These are the high-level goals of an EITI program—the broad, key components of the Initiative.
- *Actions:* Under each objective there are a number of specific actions that are required in order to meet that objective.
- *Sequencing:* Some actions in the work plan will not be able to be carried out until actions elsewhere in the work plan have been successfully completed.

Box 4.1 TYPICAL WORK PLAN CONTENT

1. **BRINGING TOGETHER STAKEHOLDERS:** The work plan will need to have actions that specifically address the issues of how stakeholders will be identified and brought together—and how a steering group will be appointed and how its work will be supported

2. **REMOVING BARRIERS TO IMPLEMENTATION:** The work plan will need to have actions which specifically address the issues of:
 - 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 will engage in the process.

3. **BUILDING CAPACITY IN GOVERNMENT:** The work plan will need to have actions that specifically address the issues of:
 - 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 which it has received.
 - Are there other countries in the region which are also implementing EITI from whom the government could learn?

4. **BUILDING CAPACITY IN COMPANIES AND CIVIL SOCIETY:** The work plan will need to have actions that specifically address the issues of:
 - 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.
 - How civil society will be engaged in the process.
 - How issues of capacity building for civil society groups will be addressed—do they, for example, have a good understanding of the extractive industries and of the different kinds of payments and revenues?
 - Are there other companies or civil society groups in other countries in the region who are involved in EITI implementation from whom local groups could learn?

continued

- 5. PRODUCING AN EITI REPORT:** The work plan will need to have actions that specifically address the issues of:

 - What process of consultations will be carried out to determine the scope of the EITI program?
 - 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.

- 6. COMMUNICATING THE EITI PROGRAM:** The work plan will need to have actions that specifically address the issues of:

 - 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 will the information on the EITI process and the EITI reports 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.

- 7. MONITORING AND EVALUATING THE EITI PROGRAM:** The work plan will need to have actions that specifically address the issues of:

 - How the entire program will be monitored and what the success criteria for the program will be.
 - At what points the program will be reviewed in order to determine whether it is working well, and if not, how changes to the program will be made.
 - How and when the program will be validated and a validation report produced.

- 8. DEVELOPING AND FUNDING THE WORK PLAN:** The work plan will need to have actions that specifically address the issues of:

 - How the work plan itself will be developed and reviewed.
 - 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.

- *Timetable*: Shows the date by which an action is expected to be completed.
- *Responsible party*: Shows which organizations or individuals are responsible for carrying out that action.
- *Cost and source of funds*: Shows any expected costs of carrying out an action as well as the funding sources for the overall work plan or individual actions therein.

IMPLEMENTATION TIMELINE

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

On average it has taken most countries 18–24 months from the first commitment to the Initiative to production and dissemination of the first EITI report—and longer in some cases with particular local circumstances. In some countries, for example, EITI programs have been delayed by elections, changes of government, or changes of senior officials and ministers.

Even then, the nature of EITI implementation is that there are very few EITI countries that have not had to review their EITI progress and make refinements to the process. This is not a bad thing—EITI is a technical process that involves many different stakeholders, and most countries learn how to implement it only by having a first go at it. Factors that can increase or decrease the speed of implementation include (i) the scope of the EITI program that is to be delivered (with more complex programs requiring longer time to implement); (ii) commitment of the EITI champion (the single-most important factor in the smooth progress of EITI); (iii) engagement of companies and civil society; and (iv) adequacy of human and financial resources deployed.

FUNDING AN EITI PROGRAM

In countries implementing the EITI, the oil, gas, or mining sectors are often multibillion dollar industries. Because of this, even a very small investment in improving their transparency can often have a very considerable return on investment.

The main cost of implementing the Initiative is in the obligations and time that different stakeholders have to commit to overseeing and managing the EITI program. In addition to sustainable and assured government budget funding,

other sources of funding and/or technical assistance that implementing countries have used include the following:

- *World Bank-managed multidonor trust fund for EITI:* A multidonor EITI trust fund (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. To maximize its impact, the trust fund tends to focus its resources on countries that (i) have clearly demonstrated their commitment to the EITI process and are likely to be able to deliver EITI reports within a reasonable time; (ii) have developed a comprehensive EITI work plan; and (iii) 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 civil society groups:* 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 civil society groups involved in EITI implementation.
- *Extractive industry companies:* In some countries, companies have committed to helping defray the local costs of EITI implementation and of multi-stakeholder steering groups, though obviously 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 are no accusations of improper influence over the EITI process.

Countries that have received financial support for their EITI programs from multiple donors have often found it useful for all donors to meet regularly with the implementation unit and the steering group 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 across many years. For that reason, most EITI countries look to eventually provide funding for their EITI programs from their own budgets so that the program becomes a normal part of government operations.

Table 4.1 shows a highly simplified example of an indicative budget for an EITI program. In reality, the cost of EITI programs varies considerably depending on the scope of the program a country adopts. The figures provided, therefore, are estimated averages only. 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 4.1 EXAMPLE OF A GENERIC AND SIMPLIFIED INDICATIVE EITI BUDGET (PER ANNUM)

| ITEM | COST | PAID BY |
|---|------------------------|---|
| Supporting the work and operations of the multi-stakeholder steering group (for example, providing transport for members so they can meet in different cities when necessary; provision of refreshments; stationery; and so forth). | \$5,000 | Government |
| Establishment and maintenance of an implementation unit (for example, paying salaries of staff; provision of IT and communications equipment; stationery; transport and so forth). | \$60,000 | 75% by government 25% by grant from EITI trust fund |
| Hiring of audit company to advise on production of reporting templates, and to reconcile payments and revenues data for two years. | \$200,000 | 60% government 40% grant from EITI trust fund |
| Communications and outreach program (development of EITI materials; setup of an EITI Web site; running EITI conferences and road shows). | \$50,000 | Funded by grant from a Bilateral Donor A |
| Capacity building and training programs for government agencies, companies, and civil society groups involved in EITI implementation. | \$50,000 | 25% from grant EITI trust fund 50% from government 25% from international civil society |
| Consultancy assistance to help draft new regulations/legislation to enable EITI reporting to go ahead. | \$20,000 | Funded by grant from Bilateral Donor B |
| Hiring of an independent validator (every two years) | \$30,000 (per year) | Government |
| Total funding provided by external donors | \$190,000 | External donors |
| Total funding provided by government | \$225,000 | Government |
| GRAND TOTAL | US\$415,000 | TOTAL |

THE ROLE OF GOVERNMENT IN EITI IMPLEMENTATION

INTRODUCTION

While EITI is a multistakeholder process, it is clear that it is ultimately governments that must act as the main driving forces for implementation in countries. This chapter considers the issues that governments have addressed—and need to address—in order to implement EITI successfully. 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 (see *Chapter 1: Starting an EITI Program*), there are three broad categories of work that governments have normally focused on in the EITI process:

- *Providing political leadership and support:* In all countries, governments provide the political lead and the means (secretariats or implementation units to support the multistakeholder steering group and develop work plans) and resources to take EITI forward.
- *Providing a legal basis for 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, as an example, release of EITI-related data.
- *Releasing details of government revenues:* As part of the data reconciliation or audit process, governments need to provide data on revenues received from the extractive industries and assurance on the reliability of the data provided.

PROVIDING THE POLITICAL LEAD AND SUPPORT FOR THE EITI PROCESS

Running a multistakeholder process such as EITI has required government resources dedicated to supporting the work of different stakeholders. It has required high-profile commitment from governments and active and influential political champions. In all countries implementing EITI, this has required the government to create an EITI Secretariat or implementation unit to drive the Initiative. In the early phases of the Initiative (at least the first year), this almost always has required at least a full-time person dedicated solely to EITI implementation. These teams have been larger in countries that adopt a more extensive scope or in countries with considerable extractive resources. (See *Chapter 3: Determining the Scope of an EITI Program.*)

The functions of EITI implementation units are typically:

- *Supporting the multistakeholder steering group and EITI champion:* The implementation units coordinate the overall progress of EITI, including convening meetings of the steering group; distributing agendas, meeting papers, and minutes; and providing support to steering groups and champions on decisions and follow-up.
- *Coordinating the government's position:* EITI often requires the involvement of multiple government ministries or agencies, and 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.
- *Mobilizing resources:* 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 an administrator or auditor's work to reconcile or audit payments and revenue data; and a communications program to consult with stakeholders and disseminate the results.
- *Helping 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 of an offer to, and the process of contracting with, the administrator or audit company:* While the administrator's or audit company's work is overseen by steering groups, it is always the government that ultimately must tender an offer, sign a contract, and pay for the required services.
- *Introducing the administrator and facilitating the relationships* with extractive industry companies and government agencies.

- *Coordinating government revenue figures for reconciliation:* Implementation units often coordinate across the government ministries and agencies that receive revenues from the extractive industries to either produce a statement of government revenues for an administrator or provide access to the data that will allow an auditor to produce that statement.
- *Communicating and consulting on EITI:* Throughout the EITI process, implementation units consult widely with stakeholders, including those outside of the steering group, and are the focal point for providing information on the Initiative to stakeholders; running workshops, conferences, and press briefings on EITI; as well as maintaining EITI Web sites (see *Chapter 8: Communicating EITI*).

Different countries have had varying approaches as to whom the implementation unit should be accountable. In some countries they are accountable to the EITI champion; in other countries, to a particular government agency. In some countries, they are accountable to the multi-stakeholder steering group. An example of the Terms of Reference of a national EITI Secretariat, in Mongolia, is available on the CD-ROM as annex G.

CAPACITY BUILDING FOR THE IMPLEMENTATION UNIT AND GOVERNMENT AGENCIES

In most countries, the implementation of EITI has required the implementation unit, as well as government agencies involved in the reporting process, to implement a clear plan of capacity building to allow them to carry out the EITI process. Some of this capacity building is inevitably a function of financial resources—for example, to pay for the salaries of staff members who are involved full-time in EITI implementation. Some capacity building can be carried out through short training programs. Many countries beginning their EITI programs have been able to learn from other countries in their region that are already implementing EITI. This is accomplished either by arranging for a study visit to that country or by arranging for stakeholders involved in EITI implementation to visit the country that is just beginning its EITI program.

Experience has shown that successful implementation units are those that:

- Have adequate incremental human and government financial resources at an early stage;
- Have easy access to members of the multistakeholder steering group 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 as well as government ministries concerned with EITI;
- Are based in an agency that either has its own resources to implement the Initiative or is familiar with the fiduciary processes involved in managing externally sourced funding; and
- Have staff with a broad mix of the skills and experiences required to implement an initiative such as EITI. In some countries this has been achieved by seconding staff from different government agencies, or from other stakeholders, to the implementation unit.

ENSURING FULL COMPANY PARTICIPATION AND ADDRESSING CONFIDENTIALITY CONCERNS

Two key issues that are consistently faced by all EITI implementing countries are (i) how to ensure that all companies participate in the process and (ii) how to address confidentiality concerns that government agencies or companies might have. These issues are important ones to consider early in an EITI process because ensuring that all companies operating in a country report all material payments are required by the EITI Criteria. They are also important issues because incomplete participation by companies or the omission of information on key revenue streams can severely undermine the credibility of a country's EITI program. Following are some of the various approaches that countries have taken:

- *Voluntary disclosure*: All companies voluntarily agree to participate in the EITI process.
- *“Letter of comfort”*: Some countries have provided “letters of comfort.” These letters reassure companies that their involvement in the EITI process, and their 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 disclosure*: Some countries have passed decrees, issued new regulations, or passed new laws that mandate the participation of all companies in the EITI process.

Voluntary approaches have worked in some countries, but in other countries it has been found that voluntary approaches to company participation have led to incomplete participation by companies. While companies in some countries have expressed concern about regulations or legislation that mandates disclosure, those countries that have been able to go down this path have generally found that it creates a fairer and more consistent environment for companies. Every company is able to provide exactly the same amount of information as their competitors are required to disclose. Finally, countries

have found it useful 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 prohibit a third party from receiving information pertaining to the details of tax payments.

PROVIDING A LEGAL BASIS FOR IMPLEMENTATION

In some countries EITI has been carried out entirely as a voluntary, participative mechanism to which all stakeholders have agreed. In others, modifications to existing regulations and/or legislation or new regulations and/or legislation have been needed in order to launch and implement the Initiative.

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

Those countries that have invested time in providing a regulatory or legislative basis for EITI have often been able to implement the Initiative more rapidly because regulations or legislation clarify the roles of all parties involved in the Initiative. However, some countries without such a legal basis are shown to have suffered delays in implementation (for example, due to an inability to ensure that all companies will report data or that the appointed administrator or auditor can have access to payments and revenue data).

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

- *Establishing key principles*—outlining the importance of the principle of transparency in reporting company payments and government revenues and the importance of multistakeholder oversight (through a steering group) 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 steering group).
- *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 of all revenues received by government—often invalidating elements of confidentiality clauses (in agreements) that would prevent this from occurring.
- *Establishing reporting standards* for data submitted under EITI (these could 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 administrator or auditor* by multistakeholder steering groups to reconcile or audit payments and revenue data; guaranteeing the administrator’s or auditor’s access to company financial records.
- *Establishing the scope of the work of the administrator or auditor*—that is, determine whether the administrator or auditor is to reconcile existing data and investigate discrepancies or carry out more intensive audit work, or conduct a full audit of all payments and revenues, and also determine how the final report of the administrator or auditor is to be published and in what detail the data will be presented.

An example of an EITI law from Nigeria is available on the CD-ROM as annex H.

PROVIDING DETAILS OF GOVERNMENT REVENUES

The type and volumes of financial data that governments produce for their national EITI processes vary considerably according to the scope of their EITI program (see *Chapter 3: Determining the Scope of an EITI Program*). Where countries have adopted the “reconciliation only” EITI approach, typically a government’s implementation unit or the tax authorities have provided the government data reports to the independent administrator of all of the payments that different government ministries and agencies have received from extractive industry companies (including subnational distributions where applicable). Any discrepancies found by the administrator between the data provided by the government and data provided by a company have been discussed with both parties and, in some cases, have been explained or corroborated by additional evidence of individual transactions (for example, payment records).

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

To date, broader involvement by the supreme audit body of countries engaged in the EITI process (beyond their 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.

THE ROLE OF COMPANIES AND CIVIL SOCIETY GROUPS IN EITI

INTRODUCTION

Multinational oil, gas, and mining companies, as well as international civil society organizations, have participated in EITI implementation in many countries; but many companies and civil society groups are new to EITI. The degree of involvement by these companies and groups has varied, but there are four main areas to which they have contributed:

- *Helping to jump-start an EITI process and steering the Initiative:* Many countries have begun an EITI process partly through active advocacy by companies or civil society organizations which encourage governments to commit to EITI.
- *Helping to shape the EITI scope:* Through membership in the EITI steering group, companies, and civil society groups help to determine the scope of an EITI program.
- *Data reporting and reconciliation:* Companies and civil society groups are always involved in appointing the organization that reconciles or audits payment and revenue data, and individual companies disclose details of payments to government.
- *Communicating EITI results:* Finally, companies and civil society play an important role in communicating the EITI results and process to other civil society groups, companies, and the public at large.

HELPING TO JUMP-START THE EITI PROCESS AND STEER THE INITIATIVE

The experience in a number of cases is that governments have considered and then decided to implement EITI partly because companies and civil society groups have been jointly persuasive about the benefits of EITI implementation. Although relationships among companies and civil society groups can sometimes be difficult, the experience has been that the two groups have closely collaborated to achieve mutual goals in promoting EITI, notwithstanding their different perspectives.

Further, both companies and civil society groups are involved in the national EITI process through the multistakeholder steering groups. (See *Chapter 2: Stakeholders and Governance Structures*.)

HELPING TO SHAPE THE EITI SCOPE, REPORTING, AND DISCLOSURE

An earlier chapter (see *Chapter 3: Determining the Scope of an EITI Program*) examined the ways in which the scope of individual EITI programs varies. These key scoping decisions are made early in an EITI process with all stakeholders (in the multistakeholder steering groups) involved in deciding which kind of EITI program to pursue. Companies and civil society are inherently part of this process, especially since questions about EITI scope have been shown to be the most debated and controversial issues in EITI implementation.

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

Finally, depending on the scope of EITI adopted, each participating company operating in a country submits the following: payments data; if applicable, certifications that the data submitted in the reporting templates are based on company financial statements audited to international standards; explanations to the reconciler/administrator 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 and civil society groups both play important roles in communicating EITI results both in-country and globally (see *Chapter 8: Communicating EITI*). Companies and civil society groups have carried out a variety of communications activities: they have sponsored conferences about EITI for other companies or civil society groups; issued statements of support for EITI in the media and/or on their Web sites; and given speeches about EITI to a variety of audiences.

CAPACITY BUILDING CONSIDERATIONS

In most countries, EITI programs have included provisions for capacity building and EITI-specific training for smaller companies and civil society groups, as well as for government. Some local companies, for example, know little about EITI and may not keep financial information in a way that is easily accessible; also, they may not understand what is required of them as part of the EITI process.

Capacity building by civil society groups that know about EITI for other civil society groups that are less knowledgeable on the issue is a common feature of most EITI programs developed and implemented by national EITI steering groups. In most countries, few people understand the full range of technical issues involving revenues and payments covered by EITI, and guidance¹⁰ for users and stakeholders is often needed.

Capacity building programs for civil society groups have typically included:

- Information about 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;
- Information about the different kinds of taxes that companies pay and how those taxes are assessed and collected;
- Information about companies' audited financial statements, including production costs, revenues, gross margins, and tax and other production-share payments to governments; and
- Ways for different civil society groups to agree upon strategies for effectively engaging in EITI implementation—for example, by forming local civil society coalitions dedicated to revenue transparency issues.

10. Note that guidance for civil society groups that work on EITI issues already exists and is being developed globally by civil society groups like Revenue Watch Institute and the “Publish What you Pay” coalition. The guidance for companies is being developed by the EITI Secretariat.

PRODUCING AN EITI REPORT

INTRODUCTION

This chapter examines the emerging experience on the process of compiling EITI reports. As noted earlier, this process depends on the scope of the EITI program (see *Chapter 3: Determining the Scope of an EITI Program*). Throughout this chapter the term “administrator” is used to describe the role of the service firm at the heart of the EITI data reconciliation process (or in some cases audit process) and the EITI reporting process.

Experience shows that one of the most common tensions in an EITI process arises from differing expectations or levels of understanding as to what the EITI report will or will not contain. For that reason, those countries that have had more successful EITI programs tend to be those that have worked hard to get clear multistakeholder agreement on the scope of the process, and in which the stakeholder group understands exactly what work the administrator/auditor will be doing and what the EITI report will look like.

SELECTING A RECONCILER/ADMINISTRATOR (OR AUDITOR, IF THAT IS THE CASE)

In all EITI countries, the responsibility for selecting the administrator (or auditor, if that is the case) rests with the multistakeholder steering group (or a subgroup thereof), even though the actual process of tendering an offer to, and contracting with, the service firm is handled by governments, who also bear the cost of the work.

Within the scope of EITI that is adopted, countries have handled the selection of this service firm by defining the service Terms of Reference

and issuing tender documents that seek proposals from service firms, usually public accounting firms or specialist consulting firms. Steering groups 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 detailed knowledge about the fiscal and tax systems in the sector;
- Good skills and the 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; and
- A level of independence, integrity, and objectivity that is respected by all members of the multistakeholder steering group.

TERMS OF REFERENCE FOR A RECONCILER/ ADMINISTRATOR (OR AUDITOR) AND EITI REPORT CONTENT

As noted, countries' EITI reports, while generally adhering to EITI Criteria, do vary in their format and detailed content; they are dependent on the scope of the adopted EITI program, and in particular on the choice of the extent of the work that will be done beyond the required reconciliation (see *Chapter 3: Determining the Scope of an EITI Program*).

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:

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 such a 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, at issuance of final reports, and so forth).
- *Oversight of the work of the reconciler/administrator (or auditor):* In most countries, day-to-day guidance has been provided by the multistakeholder

steering group (or a subgroup thereof); guidance includes answering technical questions that the reconciler/administrator (or auditor) raises.

- *Responsibility for preparatory work:* In some countries, draft templates are developed by the implementation unit for approval by the steering group (which the reconciler/administrator or auditor begins to use), while in other countries the reconciler/administrator (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 steering group.
- *Training of users as part of the contract:* Certain reconciler/administrator firms have been required, as part of the contract, to work with the steering group 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 EITI process. 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/administrator (or auditor) to be considered as confidential and/or for data retention periods to be specified.

The following covers the content of EITI reports as well as the reconciler/administrator Terms of Reference.

Key issues of scope

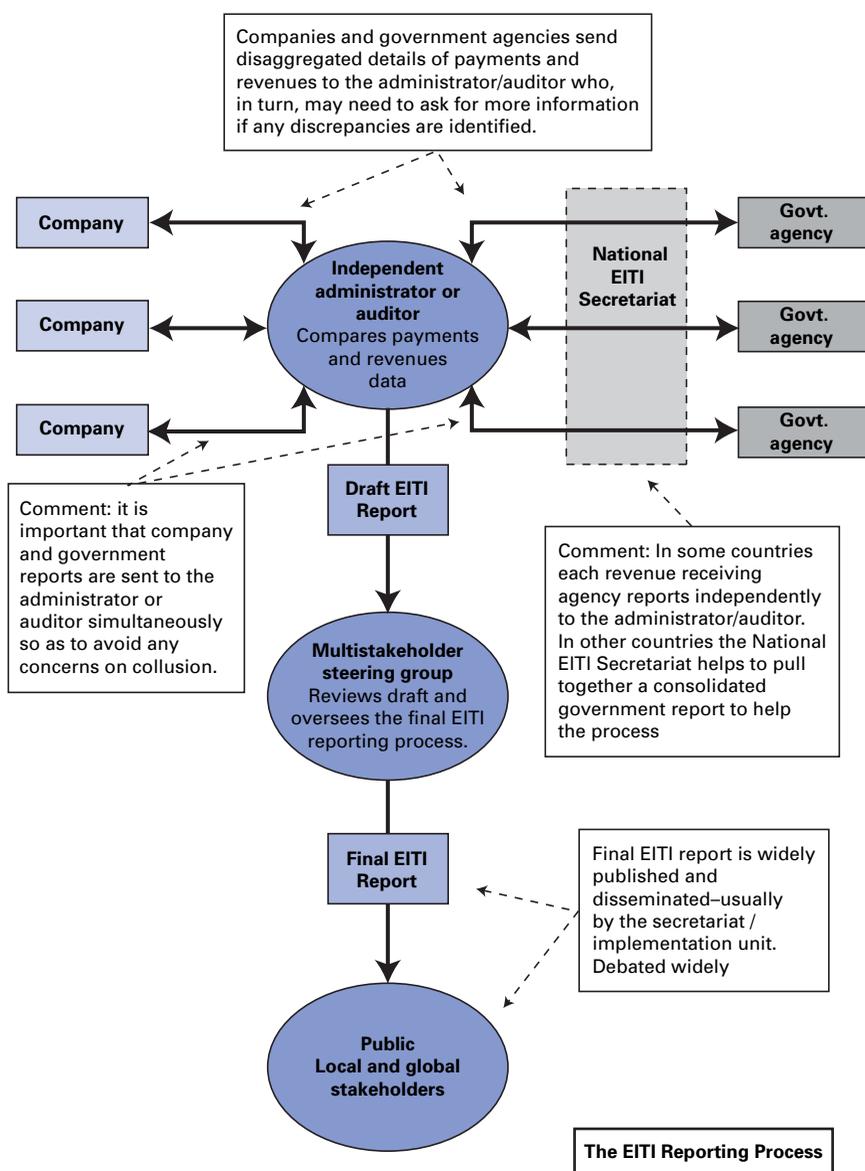
- *The number of participating companies (and government agencies)* involved in the process as determined by the materiality level set by the multistakeholder steering group; in the case of government entities, this is dependent on the country circumstances and whether subnational governments are also involved in the EITI process.
- *Coverage by payment type or size:* Which revenue streams are covered by the process? This is dependent on whether the steering group has set a materiality level below which payments need not be reported under EITI, and/or whether the steering group has decided to exclude certain revenue streams because they are very small.
- *Frequency of EITI report production:* Most countries have chosen to produce EITI reports annually, though some have chosen to produce them biannually. 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 frequency of EITI reports and the years they cover are largely a function of the scope of the national EITI program and the financial resources available to bear the cost of these reconciliation (or audit) services.

Figure 7.1 shows in schematic form how an EITI report is compiled and what roles different stakeholders play in the process.

Reconciliation work and supplementary audit verification (beyond reconciliations)

- *Nature of reconciliation (or audit) work:* As discussed earlier (see Chapter 3: *Determining the Scope of an EITI Program*), the scope of work adopted determines whether the country EITI process is a reconciliation of submitted

FIGURE 7.1 EITI REPORTING PROCESS



data or involves a more extensive audit. Countries that use a reconciliation process assume that the existing financial data are reliable.

- *Additional assurance on data submissions:* In some reconciliation processes, a step has been added to ensure the reliability of data provided by companies. In this step, a company official explicitly “signs off” on the submitted data, or the data are 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:* During the reconciliation process, the question has sometimes arisen: is there any element of the reported data that the reconciler/administrator 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, with additional funds allocated for it.

EITI reports audited to international standards

- *Depth and extent of audit scope:* In cases where the EITI work and report are conducted as full audits, the scope of the audits is a key decision: for example, should the audit go beyond the financial audit of revenues and payments by including fiscal audits, physical audits, and sector processes?
- *Access to company and government records:* As in other audits, the audit firm will need access to company and government financial and production records so that it can verify that the data is complete and accurate.

Handling discrepancies identified by a reconciler/administrator (or auditor)

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

Presentation and publication

- *Report is understandable:* A key function of the EITI process is to take financial data, which are sometimes complicated, and present the data in a form that is clearly understandable. The administrator/auditor will need to prepare a report that is comprehensive but presented in a way that is clear and

easily understood. The Terms of Reference of the work clearly state who will be responsible for printing, publishing, and distributing the report (in most countries, this is the steering group, not the administrator/auditor).

An example of the Terms of Reference for an EITI administrator, from Cameroon, is in annex I on the CD-ROM.

A NOTE ON EITI REPORTING TEMPLATES

The discussion in the preceding sections of this chapter has made reference to EITI reporting templates. These templates are either designed before the reconciler/administrators (or auditors) are selected, or they are designed by the chosen service firm and are a first-deliverable under the Terms of Reference.

The experience of EITI countries suggests that the design of these templates and questions about how they will work when companies and governments use them to submit financial data generate considerable debate among participants in the EITI multi-stakeholder steering groups.

The more common issue that steering groups have had to address with respect to EITI data templates is that companies and government agencies sometimes interpret the template requirements in different ways and don't always know what specific data to enter. Other issues relating to 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 basis of accounting or on an accrual basis of accounting;
- Consistent measures for reporting the quality and quantity of physical volumes of oil, gas, metals, or minerals;
- Consistent treatment of social or “voluntary” payments by extractive companies to local communities or local governments (which are sometimes perceived as nonvoluntary by companies and therefore akin to a tax to be reported in the EITI templates); and
- Foreign exchange translation issues, and so forth.

To address these issues, most countries also develop short guidelines for companies filling in 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.

Annex J on the CD-ROM shows examples of the templates used in Ghana for mining and in Kazakhstan for oil and gas.

Specific training on completing the templates

As noted above, in some cases the reconciler/administrator (or auditor) has been tasked to provide training and to guide users in filling out these templates consistently and accurately. In general, good communication and provision of timely guidance appear to have addressed these problems when they have occurred.

A NOTE ON INTERNATIONAL AUDIT STANDARDS IN RELATION TO EITI CRITERIA

The EITI Criteria include: “Where such audits do not already exist, payments and revenues are the subject of a credible independent audit applying international audit standards.” There is also a reference in the Criteria to the following: “Payments and revenues are reconciled by a credible independent administrator applying international audit standards. ...”

The latter standards are the internationally agreed upon 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 line 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, IAASB) for application by all IFAC members.

The issue of international auditing standards has been discussed in this chapter in relation to two of the EITI Criteria: that the reconciler/administrator (or auditor) will need to apply these accepted standards as they prepare the EITI reports, and that the revenues and payments included in the EITI reports themselves 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 process.

COMMUNICATING EITI

INTRODUCTION

Strategies and tools for conveying information about EITI have received considerable attention by multistakeholder steering groups in many countries. This is because the EITI process focuses heavily not just on the production of payments and revenue data and on a multistakeholder process, but also on assuring accountability by ensuring that citizens know about, understand, and have a stake in the overall EITI program and the information it generates.

In all countries implementing EITI, key documents relating to the program (for example, the Terms of Reference of the stakeholder group, memorandums of understanding, the work plan, and so forth) are made publicly available.

A guiding principle in EITI communications programs is that EITI reports should be presented in a clear and understandable way (yet without oversimplification), and with the aid of diagrams or tables that, for example, provide easy-to-understand summaries of the contents of the report.

COMMON COMMUNICATIONS STRATEGIES AND TOOLS

Many countries implementing EITI have devised comprehensive communications strategies that cover, for instance, ways to (i) identify which stakeholders will be affected by, or are interested in, the EITI; (ii) explain EITI to those stakeholders and decide, with regard to different stakeholders, how they will be involved in the Initiative; (iii) communicate the debate and the decisions that are made about the scope of the EITI program to be implemented; (iv) communicate the eventual results of the EITI program; and (v) review the EITI process periodically.

BOX 8.1 TYPICAL COMMUNICATIONS TOOLS FOR EITI

- 1. STAKEHOLDER MAPPING EXERCISES:** Interviews to determine which stakeholders are interested in, or will be affected by, EITI implementation; used to inform potential stakeholders about EITI and identify potential members of an EITI steering group.
- 2. SURVEYS AND POLLS:** Can be used to determine what the public's level of understanding is about how extractive industries operate and how payments are channeled by companies to governments and communities. Such surveys would also identify key issues that stakeholders would like to see addressed by an EITI process, to help determine the scope of an EITI program. Can also be used during the course of an EITI program as a way of evaluating public impact of the Initiative—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, as well as of public perceptions.
- 3. 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 the Initiative in reaching out to different stakeholders.
- 4. 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 decide how the Initiative could be implemented. In many countries these events have been held in several different areas—for example, in the capital city as well as in important commercial cities and in areas directly affected by oil, gas, or mining operations.
- 5. PUBLIC INFORMATION CENTERS:** Some countries have established physical public information centers where members of the public can go to access information relating to the Initiative, copies of EITI reports, and information about the extractive industry.
- 6. 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.

continued

7. **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, and, where EITI reports have been produced, explanations of those reports.
8. **ESTABLISHING AN EITI WEB SITE:** A large number of national EITI Web sites have been established by governments to act as a source of information on the Initiative and to provide ongoing details, such as minutes of the meetings, notices, and completed EITI reports.
9. **PUBLIC DEBATES:** Some countries have carried out public debates with different individuals or groups presenting different views on how the Initiative should be implemented.

The lack of a broadly defined communications strategy runs the risk that key stakeholders will not know about, or engage in, the EITI process. Countries have found, therefore, that it is important to ensure that a communications strategy reaches out to as many people as possible, recognizes that every citizen is a potential recipient of revenues by way of government expenditure, and helps promote accountability of governments and companies by ensuring that the public is widely involved in the EITI process.

Countries implementing the EITI have used—and can use—a wide variety of different tools to communicate EITI nationally and beyond, as shown in box 8.1.

RESULTS: MONITORING AND EVALUATION OF EITI PROGRAMS

INTRODUCTION

Monitoring and evaluating the results and impact of an EITI program is an important way of ensuring that the adopted EITI program stays on track and ultimately begins to deliver the expected outcomes. Countries that have not reviewed their EITI programs have found it difficult to identify the weaknesses in those programs. In some cases this has led to a weakening of stakeholder support for the EITI process.

EMERGING MONITORING AND EVALUATION PRACTICES

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

The starting point for such stock-taking—monitoring and evaluation (M&E) processes—is the work plan devised and agreed to by stakeholders, which provides a baseline with regard to what was intended to be accomplished. The work plans are then adjusted as deemed necessary by the M&E process, with work steps refined and rescheduled as needed. These M&E reviews have usually been carried out by either the national EITI Secretariat or by an independent consultant hired for that purpose. The M&E reviews are typically overseen by the multistakeholder steering group and may be complemented by public surveys or polls as needed. Stakeholder groups and secretariats could themselves commission reviews of their own activities as part of an M&E program. Note

that for better impact, countries may consider EITI Criteria and EITI validation indicators (appendix B) in these reviews.

Results measurement framework

Although country experience with EITI is still quite new, the overall results and outcomes of EITI programs have begun to be discussed in EITI countries. The World Bank-managed MDTF has, for example, devised a results measurement framework that is beginning to be applied in certain countries. This results framework is intended to help EITI countries measure results and outcomes of EITI programs over time, using agreed performance indicators. Over time, the use of this or similar results methodologies should enable a picture of the EITI results to be documented.

Appendix C is a representative sample of such a results measurement framework.

INTERNATIONAL EITI STRUCTURES

INTRODUCTION

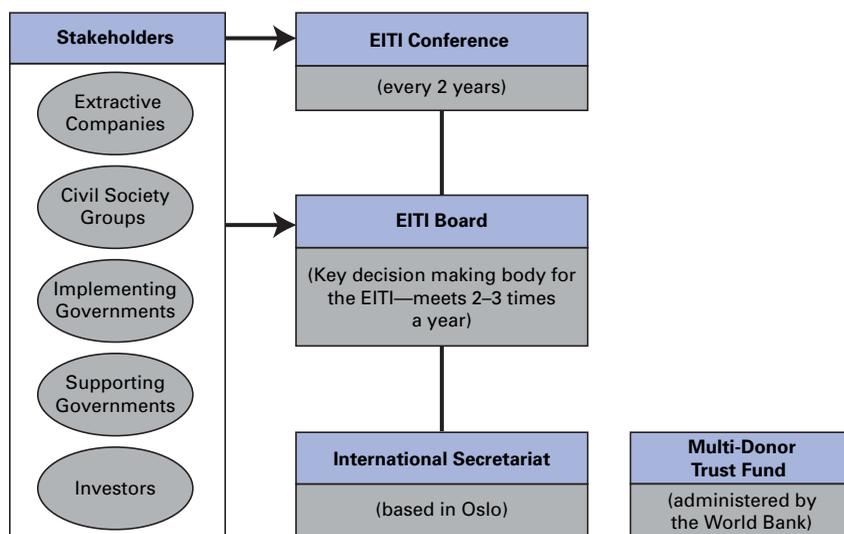
While the discussion in this report has mostly been about EITI at the country level, equally important work on EITI is carried out by the international EITI architecture to oversee EITI globally; support implementing countries; develop EITI policy and goals globally; provide advice and resources to organizations and individuals involved in EITI implementation; and to regularly bring 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 line with the EITI Criteria and Validation Guide, discussed below.

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

EITI'S INTERNATIONAL GOVERNANCE STRUCTURES

Figure 10.1 illustrates the international governance structure of EITI. The key underpinning tenet of this structure is that it is a multistakeholder process that involves implementing governments, extractive industry companies, civil society groups, supporting governments, investors, and international financial institutions.

FIGURE 10.1 EITI'S INTERNATIONAL GOVERNANCE STRUCTURE



The key institutions in this global governance structure are as follows:

- The EITI Board:* The EITI Board is the key decision-making body for the Initiative and is headed by an elected Chair. The membership of the EITI Board is determined at the EITI Conference. The Board also works with various smaller subcommittees covering issues such as mining-specific issues. The key functions of the Board are to: (i) address and define all key policy issues; (ii) make decisions on the overarching policy that determines how EITI functions internationally in consultation with stakeholders; (iii) set minimum standards for governments and companies implementing the Initiative; (iv) oversee the work of the International EITI Secretariat; (v) ensure that adequate resources are available to support the Initiative globally; (vi) support the work of the Secretariat; and (vii) oversee the validation process, which is outlined in appendix B.
- The International EITI Secretariat:* The Secretariat, based in Oslo, is the first point of contact for all organizations involved and interested in the EITI. The key functions of the Secretariat are to support the work of the EITI Board by developing policy and guidance on issues that the Board is considering and researching; to manage all international communication on EITI, and to be a first point of contact for all EITI stakeholders; to work to increase the number of countries, companies, and other groups that support EITI; to organize the periodic EITI conferences; and to coordinate with donors and agencies, such as the World Bank, that provide technical assistance and implementation support to countries, and to liaise with the donors, the World Bank, and the Management Committee of the Multi-Donor EITI

Trust Fund in order to ensure that adequate support is provided to countries implementing the Initiative.

- *The EITI Conference:* The Conference is the major international gathering of all stakeholders involved in the Initiative globally. The key functions of the Conference have included debating and endorsing key policy proposals made by the EITI Board; electing the membership of the EITI Board and the Chairman of the Board; and serving as a forum in which stakeholders from different EITI countries can share experiences and build the Initiative.

INTERNATIONAL DEVELOPMENT AGENCIES' ROLE ON EITI BOARD

International development agencies such as the International Monetary Fund (IMF), African Development Bank (AfDB), and the World Bank Group (WBG) attend meetings of the EITI Board as observers and participate in the EITI conferences.

In addition to, 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 its technical assistance and financial support to countries. As noted, financing for the latter is supported by a Multi-Donor EITI Trust Fund (MDTF), which is managed by the World Bank and overseen by a Management Committee of the donors and the World Bank; the committee meets twice yearly to review progress and the MDTF work plans.

As a separate fiduciary instrument between donors and the World Bank, the MDTF is not a part of the EITI Board or Secretariat as such but coordinates its work to support the goals of EITI and further mutual goals, and a Memorandum of Understanding is in process between the World Bank and the EITI Secretariat and Board to guide the relationship. The MDTF is a major—but not exclusive—source of technical assistance funding for EITI-implementing countries. Many bilateral donors (such as DFID, GTZ, and the Norwegian government) also provide funds and support to implementing countries, and international civil society groups such as the Revenue Watch Institute also provide extensive funding and technical assistance to civil society groups involved in EITI implementation.

THE EMERGING EVIDENCE OF THE IMPACT OF NATIONAL EITI PROGRAMS

EMERGING RESULTS OF EITI PROGRAMS

Since national EITI programs have been in existence only since 2003, in most cases it is still too soon to determine the extent of their impact. Most countries have only joined the Initiative since 2005, and the majority of countries that have produced an EITI report have done so relatively recently.

Enhanced efforts to measure results and to monitor and evaluate EITI arrangements (see *Chapter 9: Results: Monitoring and Evaluation of EITI Programs*) will eventually lead to a more comprehensive analysis of the long-term impact of EITI programs, but in the interim some anecdotal evidence of the results of EITI is beginning to emerge:

- *Tangible demonstration of governments' and companies' commitment:* The growing momentum of EITI globally and within countries is an indication of the commitment to transparency with regard to revenues and payments in the oil, gas, and mining industries, and also constitutes a 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 programs have identified an overreliance on company self-assessment of taxation and/or a lack of capacity in revenue agencies for monitoring company payments. In these cases, some EITI programs have either directly identified payments that should have been paid but were not, or have led to an increase in government revenues.

- *Collection and explanation of disparate sources of financial information:* In many countries, problems with EITI implementation have not been caused by a lack of information on payments and revenues; rather, the problem is that such information is scattered among disparate locations and not available or presented in a way that is readily understandable to citizens. EITI programs have provided an effective mechanism for collecting information into one place, verifying its credibility, and clearly explaining what it means.
- *Collaborative process:* The multistakeholder process has been time consuming but has resulted not only in reduced tensions and risks but has also, in many EITI countries, provided a structure within which government, companies, and civil society have been able to work together to achieve common goals. This has created trust among the parties. In many cases, stakeholders have developed a better appreciation of the operations and motivations of the other stakeholders. This has led to greater contacts among companies and civil society groups, and between civil society groups and the government. It has also provided an opportunity for governments and companies to step outside of their respective roles as “regulators” and “the regulated” as they pursue a mutually advantageous process. These increased contacts can help to avoid conflicts before they occur and mitigate those already underway.
- *Demand for broader governance reform:* By focusing on one important sector and one important set of transactions, EITI programs have often stimulated demand for greater transparency of, and accountability for, other sectors, other transactions, and other areas of governance. While EITI is not always the only (or even appropriate) tool for meeting all of the additional demands it sometimes generates, it is often the first step in helping to create a culture of transparency and accountability over extractive resources in a resource-rich country.

CONCLUSION: IMPORTANT FACTORS IN SUCCESSFUL EITI PROGRAMS

OVERARCHING LESSONS AND THEMES

In this report, we have described the experience of EITI-implementing countries.

Based on this knowledge, it is possible to identify some recurrent themes that the World Bank Group believes countries will find useful, whether the countries are implementing EITI, reviewing their own experience with EITI, or considering implementing EITI.

These lessons and themes include:

- *Leadership matters:* Those countries that have had the most success implementing EITI have been successful because, among other things, they have had consistent, dedicated, and high-level leadership. This has normally meant that the Initiative 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 to acquire the resources needed to fully implement the Initiative.
- *Civil society can participate and engage, not simply observe:* While some countries have needed to adjust to a collaborative EITI process, one that includes civil society, in many cases civil society groups have contributed actively (although some have needed time to adjust from a position of advocacy to one in which they were actively engaged in the Initiative). Where civil society has been actively involved, countries have been successful at delivering a comprehensive EITI program that benefits all involved.

- *Government capacity needs to come online quickly:* Some governments have launched their EITI programs and established multistakeholder steering groups in a timely fashion; early in the process, they have needed to rapidly allocate sufficient human and financial resources to the task of managing implementation.
- *Effective decision making by stakeholders is crucial early in the process:* Some of the most important decisions regarding the scope of the EITI program are made early in the process. Successful EITI implementers are those countries where stakeholders have been able to educate themselves quickly, not only about EITI, but also about the scope of the EITI program that is best for their country.
- *Knowledge sharing is vital, especially regionally:* Many countries beginning their EITI processes have found it particularly useful to learn from countries in their region that are more advanced in their EITI implementation; informal regional groupings of governments and civil society groups involved in EITI are beginning to emerge.
- *Making a start is important—EITI as an iterative process:* Experience shows that beginning an EITI program that is initially limited in scope is better than having no EITI program at all. Conducting even a limited EITI program has fostered mutual understanding and has established both the groundwork and the demand for the eventual implementation of a more extensive EITI program.
- *Countries that publish more, higher-quality information benefit more from their EITI programs:* The amount and the quality of the information produced by EITI-implementing countries have varied. Much variation exists concerning 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 government at the subnational level is involved in the process. The experience of countries is that the more successful programs allow as much useful, quality data as possible to be released into the public domain. This helps to create a greater climate of trust among different stakeholder groups. The more extensive EITI programs do need more resources, but the extra cost could help generate considerable benefits.
- *Legislation can help to create greater certainty:* There has been much debate on the “voluntary” nature of EITI. In so far as it is up to countries to decide whether they implement the Initiative, the EITI is voluntary. But once EITI is adopted in a country, the EITI Criteria require the participation of all material companies and disclosure of all material payments. In this regard, EITI is best seen as a “national mandatory” initiative that will allow the country to be validated as “EITI compliant.” Thus, some countries have found that EITI works best when given legislative or regulatory backing that, among other

things, creates certainty and a well-defined playing field for all those involved in implementing the Initiative.

- *A broad communications program is essential:* EITI programs can be technical and of broad interest among different stakeholders. For these reasons, those countries that have had the most successful EITI programs are those that have developed communications programs to inform, consult with, and engage stakeholders so that EITI is not simply a process of better accounting, but also one that visibly promotes better accountability to citizens.
- *Regular progress reviews help:* As the implementation process progresses, countries have found it useful to carry out in-depth reviews of their EITI programs on a regular basis—for example, after the production of every EITI—report. These reviews facilitate program refinements and improvements.
- *EITI as the first step (or as part of) a broader reform program:* EITI has succeeded in many countries because of its focus on transparency. The focus on transparency is something on which countries can build by instituting broader reforms in oil, gas, and mining sector governance. EITI may not always be the right vehicle for addressing those broader issues, but, ultimately, the principles of transparency and accountability that underlie all EITI programs will have their optimal effect when they become embedded in the day-to-day business of government and sector management.

APPENDIX A: HYDROCARBON- AND MINERAL-RICH COUNTRIES¹¹

11. Source: International Monetary Fund (2007), *Guide on Resource Revenue Transparency*, <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf>.

TABLE A.1 HYDROCARBON-RICH COUNTRIES, 2000–05^{1, 2}

| | AVERAGE ANNUAL HYDROCARBON REVENUES 2000–2005 | | AVERAGE ANNUAL HYDROCARBON EXPORTS 2000–2005 | | ENERGY DEPLETION 2004 ⁴ | OIL PROVED RESERVES (2004) ⁵ | GAS PROVED RESERVES (2004) ⁵ |
|--------------------|---|----------------------|--|----------------------|--|---|---|
| | IN PERCENT OF TOTAL | | IN PERCENT OF TOTAL | | IN PERCENT OF GROSS | IN PERCENT OF WORLD | IN PERCENT OF WORLD |
| | FISCAL REVENUE ³ | IN PERCENT OF GDP | OF TOTAL EXPORTS | IN PERCENT OF GDP | NATIONAL INCOME | OF WORLD RESERVES | OF WORLD RESERVES |
| | | | | | | | |
| Algeria* | 70.5 | 26.3 | 97.6 | 36.8 | 35.2 | 0.99 | 2.54 |
| Angola | 77.2 | 32.8 | 90.2 | 66.1 | 45.0 | 0.76 | — |
| Azerbaijan* | 32.7 | 8.3 | 87.3 | 36.1 | 54.6 | 0.59 | 0.77 |
| Bahrain | 71.3 | 23.2 | 74.4 | 53.7 | 35.7 | — | 0.05 |
| Brunei Darussalam | 87.7 | 40.5 | 90.1 | 58.6 | — | 0.09 | 0.19 |
| Cameroon* | 27.7 | 4.8 | 44.7 | 8.3 | 10.8 | — | — |
| Colombia* | 10.0 | 3.0 | 26.7 | 4.4 | 7.2 | 0.12 | 0.07 |
| Congo, Republic of | 69.6 | 22.2 | 88.3 | 68.7 | 54.1 | 0.15 | — |
| Ecuador** | 26.0 | 6.6 | 46.9 | 11.8 | 19.0 | 0.42 | — |
| Equatorial Guinea* | 88.2 | 26.7 | 92.1 | 95.3 | — | 0.15 | — |
| Gabon* | 60.5 | 19.1 | 81.7 | 46.9 | 25.5 | 0.18 | — |
| Indonesia* | 30.3 | 5.5 | 22.8 | 7.3 | 9.4 | 0.36 | 1.55 |
| Iran* | 65.5 | 14.7 | 82.2 | 24.2 | 36.0 | 11.12 | 14.94 |
| Iraq ⁶ | 79.2 | 69.5 | 97.0 | 69.4 | — | 9.63 | 1.77 |
| Kazakhstan* | 25.1 | 6.3 | 52.6 | 24.1 | 39.9 | 3.32 | 1.68 |
| Kuwait | 74.7 | 46.1 | 92.2 | 45.1 | 46.8 | 8.50 | 0.88 |

| | | | | | | | |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Libya | 80.2 | 44.6 | 92.1 | 50.8 | 60.7 | 3.28 | 0.83 |
| Mexico* | 33.3 | 7.5 | 17.2 | 3.0 | 7.4 | 1.24 | 0.23 |
| Nigeria | 78.9 | 32.3 | 97.2 | 45.8 | 49.1 | 3.00 | 2.92 |
| Norway | 24.0 | 13.0 | 60.4 | 20.0 | 10.9 | 0.81 | 1.33 |
| Oman | 83.4 | 38.6 | 80.9 | 45.3 | 58.8 | 0.47 | 0.56 |
| Qatar | 68.4 | 26.0 | 78.5 | 46.8 | — | 1.27 | 14.40 |
| Russia* | 21.0 | 7.8 | 54.0 | 17.9 | 29.7 | 6.07 | 26.70 |
| Saudi Arabia | 83.1 | 31.3 | 88.8 | 39.8 | 50.1 | 22.13 | 3.82 |
| Sudan | 49.8 | 8.3 | 80.6 | 12.9 | 15.1 | 0.54 | — |
| Syria | 46.3 | 12.8 | 70.2 | 24.6 | 38.6 | 0.26 | 0.17 |
| Trinidad and Tobago | 36.4 | 9.3 | 59.9 | 28.4 | 46.2 | 0.07 | 0.30 |
| Turkmenistan | 43.2 | 8.7 | 83.5 | 28.7 | — | 0.05 | 1.62 |
| United Arab Emirates | 66.1 | 19.7 | 42.4 | 32.6 | 29.2 | 8.19 | 3.39 |
| Uzbekistan | — | — | — | — | 59.3 | 0.05 | 1.04 |
| Venezuela | 48.8 | 15.8 | 82.5 | 25.8 | 34.7 | 6.68 | 2.39 |
| Vietnam | 31.2 | 7.4 | 21.3 | 11.0 | 9.5 | 0.26 | 0.13 |
| Yemen | 71.5 | 24.9 | 88.1 | 32.7 | 44.2 | 0.24 | 0.27 |
| Average | 55.1 | 20.7 | 70.8 | 35.1 | 34.4 | 2.93 | 3.25 |

continued

TABLE A.1 **HYDROCARBON-RICH COUNTRIES, 2000–05**^{1, 2} *continued*

| | AVERAGE ANNUAL HYDROCARBON REVENUES 2000–2005 | | AVERAGE ANNUAL HYDROCARBON EXPORTS 2000–2005 | | ENERGY DEPLETION 2004 ⁴ | OIL PROVED RESERVES (2004) ⁵ | GAS PROVED RESERVES (2004) ⁵ |
|---|--|----------------------|--|----------------------|--|---|---|
| | IN PERCENT OF TOTAL FISCAL REVENUE ³ | | IN PERCENT OF TOTAL EXPORTS | | IN PERCENT OF GROSS NATIONAL INCOME | IN PERCENT OF WORLD RESERVES | IN PERCENT OF WORLD RESERVES |
| | IN PERCENT OF GDP | IN PERCENT OF GDP | IN PERCENT OF GDP | IN PERCENT OF GDP | | | |
| COUNTRIES WITH POTENTIALLY LARGE MEDIUM- AND LONG-TERM HYDROCARBON REVENUE | | | | | | | |
| Bolivia | 20.9 | 5.6 | 23.0 | 5.0 | 15.4 | — | 0.42 |
| Chad ⁸ | 31.0 | 3.8 | 80.8 | 42.9 | 79.1 | 0.08 | — |
| Mauritania* | — | — | — | — | — | — | — |
| São Tomé and Príncipe ⁷ | 57.7 | 73.4 | — | — | — | — | — |
| Timor-Leste | 63.8 | 38.8 | 72.1 | 26.0 | — | — | — |

Sources: Executive Board documents, WEO database and IMF staff estimates; World Bank Development Indicators.

1. For countries with an asterisk (*), a fiscal Report on the Observance of Standards and Codes (ROSC) has been prepared and published by the IMF. A double asterisk (**) indicates that the ROSC has not been published.

2. Table A.1 includes all countries that are considered rich in hydrocarbons and/or mineral resources on the basis of the following criteria:

- (i) an average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenue of at least 25 percent during the period 2000–2005 or
- (ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25 percent

3. Revenues including grants.

4. World Bank Development Indicators definition. Energy depletion is equal to the product of unit resource rents and the physical quantities of energy extracted. It covers coal, crude oil, and natural gas.

5. Source: British Petroleum Statistics, June 2006.

6. Fiscal information available for 2004–2005.

7. Information available for 2005.

8. Information available for 2004–2005.

TABLE A.2 MINERAL-RICH COUNTRIES, 2000–05^{1,2}

| COUNTRY | MINERAL | AVERAGE ANNUAL MINERAL REVENUES 2000–2005 | | AVERAGE ANNUAL MINERAL EXPORTS 2000–2005 | | MINERAL DEPLETION (2004) ⁴ |
|------------------------|---------------------------|---|-------------------|--|-------------------|---------------------------------------|
| | | IN PERCENT OF TOTAL FISCAL REVENUE ³ | IN PERCENT OF GDP | IN PERCENT OF TOTAL EXPORTS | IN PERCENT OF GDP | IN PERCENT OF GROSS NATIONAL INCOME |
| Botswana | Diamonds | 62.5 | 20.6 | 79.5 | 32.3 | — |
| Chile* | Copper | 6.5 | 1.6 | 39.1 | 11.7 | 10.8 |
| Dem. Republic of Congo | Diamonds | — | — | 52.7 | 11.9 | — |
| Ghana* | Gold | — | — | 33.4 | 11.0 | 0.2 |
| Guinea | Bauxite/alumina | 17.8 | 2.4 | 87.7 | 19.0 | 1.9 |
| Indonesia* | Tin, copper, gold, silver | — | — | 7.3 | 2.3 | 1.6 |
| Jordan* | Phosphates, potash | 0.7 | 0.2 | 12.4 | 3.5 | 0.1 |
| Kyrgyz Republic* | Gold | 1.7 | 0.3 | 39.1 | 12.5 | — |
| Liberia | Diamonds | — | — | — | — | — |
| Mauritania | Iron ore | — | — | 53.4 | 16.2 | 10.9 |
| Mongolia* | Copper, gold | 8.2 | 2.9 | 51.2 | 26.3 | 8.4 |
| Namibia | Diamonds | 5.9 | 1.9 | 59.9 | 20.0 | — |
| Peru* | Gold, copper silver | — | — | 50.8 | 8.1 | 2.1 |
| Papua New Guinea* | Gold | 17.9 | 5.6 | 77.6 | 47.9 | 25.1 |
| Sierra Leone | Diamonds, bauxite, rutile | 0.8 | 0.2 | 87.0 | 10.1 | — |

continued

TABLE A.2 MINERAL-RICH COUNTRIES, 2000-05^{1,2} *continued*

| COUNTRY | MINERAL | AVERAGE ANNUAL MINERAL REVENUES 2000-2005 | | AVERAGE ANNUAL MINERAL EXPORTS 2000-2005 | | MINERAL DEPLETION (2004) ⁴ |
|----------------|----------------------|---|-------------------|--|-------------------|---------------------------------------|
| | | IN PERCENT OF TOTAL FISCAL REVENUE ³ | IN PERCENT OF GDP | IN PERCENT OF TOTAL EXPORTS | IN PERCENT OF GDP | IN PERCENT OF GROSS NATIONAL INCOME |
| South Africa** | Gold, platinum, coal | — | — | 27.2 | 6.4 | 0.6 |
| Uzbekistan | Gold | — | — | 29.8 | 8.6 | — |
| Zambia** | Copper | — | — | 67.9 | 18.2 | 3.7 |
| Average | | 13.6 | 4.0 | 50.3 | 15.7 | 6.0 |

1. For countries with an asterisk (*), a fiscal Report on the Observance of Standards and Codes (ROSC) has been prepared and published by the IMF. A double asterisk (**) indicates that the ROSC has not been published.

2. Table A.2 includes countries that are considered rich in hydrocarbons and/or mineral resources on the basis of the following criteria:

(i) an average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenue of at least 25 percent during the period 2000-2005 or

(ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25 percent during the period 2000-2005.

Two countries (Indonesia and Jordan) do not meet the data criteria to be in the list but are included due to the relevant importance of minerals in their economies.

Indonesia, Mauritania and Uzbekistan have substantial hydrocarbon resources.

3. Revenues including grants.

4. World Bank Development Indicators definition. Mineral depletion is equal to the product of unit resource rents and the physical quantities of minerals extracted. It refers to tin, gold, lead, zinc, iron, copper, nickel, silver, bauxite, and phosphate.

APPENDIX B: EITI VALIDATION PROCESS

A SUMMARY OF THE EITI VALIDATION PROCESS AND INDICATORS

(Summary notes based on the “EITI Validation Guide” issued under EITI Board auspices)

IMPORTANT CAVEAT: This is a summary of the Validation Guide and the related validation indicators. It is important to read the Validation Guide and indicators and the assessment tables in full, as this summary has been prepared for ease of readers’ use, not as official literature on this topic.

The EITI validation process

The EITI Conference of October 2006 endorsed an external, independent validation mechanism, whereby all EITI countries will need to undergo (and bear the cost of) such a validation periodically—at least every two years. At the time of writing, the first few groups of EITI countries were still in the planning phase of launching their first EITI validations.

The agreed EITI validation process consists of a prescribed methodology and set of indicators that are contained in the “EITI Validation Guide” published under the auspices of the EITI Board. The complete validation guide is included on the CD-Rom as annex L. Below are a brief description of the validation process and a summary of the validation indicators.

The purpose of the validation process is:

1. To provide, for countries that are in the process of implementing EITI but which have not yet fully implemented, a measure of progress in implementation.

2. To provide, for each country that has fully implemented EITI, an independent assessment of whether that country's EITI process is compliant with the EITI Principles and Criteria—or not.

This process is intended to provide successful EITI implementers with an independent assessment of whether or not those countries have met an internationally agreed upon standard on transparency and accountability—that is, the EITI Criteria.

Based on the validation methodology, there are intended to be two categories of EITI countries:

1. *Candidate countries* are those that have signed up to implement EITI but which have not yet finished a full round of EITI reporting. In order to be acknowledged as an EITI Candidate Country, the government needs to fulfill at least the following first four validation indicators:
 - a. Issue an unequivocal public statement of its intention to implement EITI.
 - b. Commit to working with civil society and companies on EITI implementation.
 - c. Appoint a senior individual to lead EITI implementation (an EITI champion).
 - d. Have a fully costed work plan which has been published and made widely available. The work plan should contain measurable targets, a timetable for implementation, and an assessment of capacity constraints.
2. *Compliant countries* are those that have fully implemented EITI. They have met all the indicators in the Validation Guide, including the publication and distribution of an EITI report.

The intent of the validation process is thus to allow a clear distinction between those countries that have endorsed the EITI and are in the process of implementing EITI (at least the first four EITI validation indicators listed above)—and those countries that have fully implemented EITI in line with EITI Criteria and have been validated as such.

Mechanics of EITI validation

At the time of writing, it is intended that validation be carried out by a country and its multistakeholder steering group by choosing from an approved set of professional firms that have been prescreened by the International EITI Secretariat. The intent is for countries to contract with one of these firms directly (and pay their cost) to carry out a validation process using the standard set out in the Validation Guide. The validating firm will review all of the key steps and documents in a country's EITI process (for example, the work plan, EITI reports) and will meet with all key stakeholders involved in EITI implementation in that

country. The validation firms will also review the degree of involvement of companies and civil society in an EITI process.

The Validation Guide indicates that the validating firm will prepare draft copies of its validation reports that contain a report on progress and an overall assessment of compliance or otherwise with the Validation Guide indicators. These drafts are to be provided to government and the country's multistakeholder steering group, and to the EITI Board. Once it is revised and/or any disputes in interpretation are resolved, the validation report should be published in the country concerned, and will also be made available on the international EITI Web site. The Validation Guide further states that when the validator recommends delisting of a country from EITI, the EITI Board will have to make a decision.

Finally the Validation Guide encourages countries to undergo the validation process regularly, at least every two years or more often. It also encourages countries to think about the validation indicators at the very start of an EITI program because they provide a clear standard for EITI implementation and an efficient way to map an EITI work plan around the different validation indicators of the Validation Guide to ensure compliance with the Validation Guide.

EITI validation indicators

The "EITI Validation Guide" sets out progress indicators that are to be assessed by a validation. These indicators are summarized below (those marked with an asterisk [*] have a detailed indicator assessment table provided in the "EITI Validation Guide"):

Sign-up

1. Has the government issued an unequivocal public statement of its intention to implement EITI?
2. Has the government committed to work with civil society and companies on EITI implementation?
3. Has the government appointed a senior individual to lead EITI implementation?
4. Has a fully costed work plan been published and made widely available, containing measurable targets, a timetable for implementation, and an assessment of capacity constraint (government, private sector, and civil society)?*

Preparation

5. Has the government established a multistakeholder group to oversee EITI implementation?*
6. Is civil society engaged in the process?*

7. Are companies engaged in the process?*
8. Did the government remove any obstacles to EITI implementation?*
9. Have reporting templates been agreed to?*
10. Is the multistakeholder committee content with the organization appointed to reconcile figures?*
11. Has the government ensured that all companies will report?*
12. Has the government ensured that company reports are based on accounts audited to international standards?*
13. Has the government ensured that government reports are based on accounts audited to international standards?*

Disclosure

14. Were all material oil, gas, and mining payments by companies to government (“payments”) disclosed to the organization contracted to reconcile figures and produce the EITI report?
15. Were all material oil, gas, and mining revenues received by the government (“revenues”) disclosed to the organization that was contracted to reconcile figures and produce the EITI report?
16. Was the multistakeholder group content that the organization contracted to reconcile the company and government figures did so satisfactorily?
17. Did the EITI report identify discrepancies and make recommendations for actions to be taken?

Dissemination

18. Was the EITI report made publicly available in a way that was:
 - Publicly accessible,
 - Comprehensive, and
 - Comprehensible?*

Company validation. How have oil, gas, and mining companies supported EITI implementation?*

Review. What steps have been taken to act on lessons learned, address discrepancies, and ensure that EITI implementation is sustainable?*

**APPENDIX C: SAMPLE EITI
RESULTS MEASUREMENT TEMPLATE
(AND INDICATORS)**

| WHAT ARE THE MDTF ACTIVITIES TO HELP ACHIEVE EITI RESULTS? | WHAT ARE THE PROGRESS INDICATORS/ HOW DO WE MEASURE PROGRESS? | EITI RESULTS – INTERMEDIATE OUTCOMES | INDICATORS OF FINAL OUTCOMES | FINAL OUTCOMES – EITI GOALS |
|---|--|---|---|---|
| <p><u>Capacity Building and Outreach</u></p> <ul style="list-style-type: none"> – public information campaigns – training for government officials <p><u>Technical Assistance</u></p> <ul style="list-style-type: none"> – implementation support – financial support for report publishing | <p>OF MDTF ACTIVITIES</p> <ul style="list-style-type: none"> • number of participants • user feedback <ul style="list-style-type: none"> • number of supported activities • quality of reports | <p>OF MDTF ACTIVITIES</p> <ul style="list-style-type: none"> • can be linked to country intermediate outcomes, specifically to sustainability • TF-funded work plan completed successfully on _____, and on budget • country phase-out reliance on MDTF funded TA support (assessment) | <ul style="list-style-type: none"> Improved TI Rankings Better CPIA Ratings | <p>Improved Transparency and Accountability in Extractive Industries</p> |
| <p>WHAT ARE THE COUNTRY WORK PLAN ACTIVITIES TO ACHIEVE EITI RESULTS?</p> <p><u>EITI sign-up</u></p> <ul style="list-style-type: none"> – government intention publicly announced – MSG formed with _____ participants – Work plan – Designated senior official leading EITI <p><u>Reports</u></p> | <p>OF COUNTRY EITI ACTIVITIES</p> <ul style="list-style-type: none"> • decree issued DONE • MSWG formed DONE • work plan agreed DONE • lead role allocated • reports validated • quality improved | <p>OF COUNTRY ACTIVITIES</p> <ul style="list-style-type: none"> • EITI reports produced satisfactorily • wide consensus on EITI • improved EI tax and revenue collection (calculation) • EI validation successful • EITI sustainable (people, funding, legal basis) • Trend in reported discrepancies, if any, in successive EITI reports published by the country | <ul style="list-style-type: none"> Increased Flow of FDI Improved Sovereign Country Credit Rating (by rating agencies) Corporate Uptake of EITI Better CPIA Ratings | <p>Better Investment Climate for Extractive Industries Sector</p> <p>Overall Improved Platform for Governance and Public Financial Management</p> |

1. EXAMPLES OF INDICATORS: CHOOSE FROM THE RELEVANT INDICATORS BELOW, ACCORDING TO THE COLORS (3 TO 4 EACH), AND OVERWRITE SAMPLE TEMPLATE

SAMPLE INDICATORS

1. Activity Progress Indicators of MDTF – Funded Actions

Technical assistance

- Number of activities (count)
- Feedback on quality/usefulness (quality)
- Etc.

Civil society training, capacity building, and outreach

- Number of workshops/conferences (count)
- Number of participants in training (count)
- Number of visitors to public information centers (count)
- Number of cross-country EITI best-practice events (count)
- Feedback on quality/usefulness on training

Financial flows

- TF disbursement rates (in comparison to plan)
- Additional donor or country resources mobilized for EITI
- (leverage ratio-calculation)

Quality

- QAQ quality review ratings, for Bank-executed TA if sampled (QAG rating)
- Periodic MDTF program evaluation findings (external evaluation)

Country EITI work plan assessment (assessment as “done” or “not done”)

- Effective multi-stakeholder working groups in place and meeting regularly
- EITI strategies and work plans adopted and implemented
- Enabling legislation and/or executive decrees issued
- Lead role allocated
- Maximum participation of companies ensured
- And so forth

2. EITI Results – Intermediate Outcomes

of MDTF-funded EITI activities

- Increased capacity to strategize and manage EITI process (assessment)
- Country phaseout of reliance on MDTF-funded TA support (assessment)
- Country “graduates” and begins to help newer EITI countries (assessment)

of country EITI work plan activities:

EITI process

- Wide consensus/buy-in by stakeholders including civil society (assessment)
- Active engagement by companies in EITI (participation count)
- EITI Criteria met effectively in the country process (assessment)
- EITI Reports produced satisfactorily (wording of EITI Report)
- Improved EI tax and revenue collection on like-for-like fiscal systems (calculation)
- EITI validation is successful – declared compliant (assessment)
- EITI process is well-rooted/sustainable – people; funding; legal basis (assessment)

Strengthened institutions and civil society

- Strengthened oil, gas, and mining regulatory capacity (assessment)
- Strengthened oil/gas/mining fiscal systems + tax management capability (assessment)
- Greater number of NOCs applying GAAP standards in financial statements (count)
- Strengthened and financially sustainable civil society capabilities (assessment)

3. Final Outcomes – EITI Goals

Improved EI sector transparency and accountability:

- Wide media coverage and informed public debate (assessment)
- Improved public understanding of EI revenues – and usage (public surveys)
- Changes in TI ratings (published data)

Better investment climate:

- Changes in volume of FDI in EI sector (published data)
- Strength of corporate commitment to EITI by IOCs/ mining houses (assessment)
- Improved sovereign country credit ratings (by credit rating agencies)

Beyond EITI – Platform for improved governance

- Government plan for reforms beyond EITI (CAS; PFM improvement strategies)
- Increased capacity to manage petroleum and mineral resources (assessment)
- Changes in CPIA ratings (published data)

APPENDIX D: USEFUL RESOURCES

INTERNATIONAL AND NATIONAL EITI WEB SITES

International EITI Web site: <http://www.eitransparency.org>

Government of Azerbaijan (in English and Azerbaijani): <http://www.oilfund.az/>

Government of Gabon (in French): <http://www.eitigabon.org/FRAN/index.htm>

Government of Ghana (in English): <http://www.geiti.gov.gh>

Government of Kazakhstan (in Russian, with some Kazakh and English content): <http://www.eiti.kz>

Government of Liberia: <http://eitiliberia.org/>

Government of Mauritania: <http://www.mauritania.mr/itie/>

Government of Mongolia (in Mongolian and English): <http://eitimongolia.mn/>

Government of Nigeria: <http://www.neiti.org/>

Government of Peru: (in Spanish): <http://www.minem.gob.pe/eiti/default.asp>

RESOURCES FOR CIVIL SOCIETY GROUPS

Publish What You Pay Coalition: <http://www.publishwhatyoupay.org>

Revenue Watch: <http://www.revenuwatch.org>

Transparency International: <http://transparency.org/> (global site—country sites also exist)

Global Witness: <http://www.globalwitness.org/>

WORLD BANK WEB SITES

World Bank Oil, Gas, Mining, and Chemicals Department Web site: <http://www.worldbank.org/ogmc>

World Bank EITI Web site: <http://www.worldbank.org/eititf>

SELECT PUBLICATIONS

EITI Secretariat. 2006. The “EITI Validation Guide” describes the validation process. It outlines and defines the validation criteria that will be used every two years to provide an independent measure of progress in EITI implementing-countries. It can be found at <http://www.eitransparency.org/document/validationguide>.

EITI Secretariat. 2005. The “EITI Source Book” outlines the EITI Principles and Criteria and provides guidance on implementation of the Initiative and some examples of how EITI has been implemented in various countries. It can be found at <http://www.eitransparency.org/document/sourcebook>.

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World Bank Group
Extractive Industries Transparency Initiative (EITI)

**“Implementing EITI –
Applying Early Lessons from the Field”**

Listing of Annexes
(documents in electronic form – accompanying CD-ROM media)

- Annex A: Excerpts from Terms of Reference for an EITI Scoping Study – Zambia
- Annex B: Memorandum of Understanding on EITI Implementation – Azerbaijan
- Annex C: EITI Organization – Guinea
- Annex D: Decree for Stakeholder Working Group – Peru
- Annex E: Excerpts from Inception Report – Ghana
- Annex F: EITI Work Plan – Timor Leste
- Annex G: Terms of Reference of the EITI Council – Mongolia
- Annex H: NEITI Act (REPRODUCTION) – Nigeria
- Annex I: Sample Terms of Reference for an EITI Administrator – Cameroon
- Annex J: Sample EITI Reporting Templates – Ghana (Mining) and Kazakhstan (Petroleum)
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 - f. The Kyrgyz Republic
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ECO-AUDIT
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Saved:

- 5 trees
- 4 million BTUs of total energy
- 589 lbs. CO₂ equivalent of greenhouse gases
- 1,932 gallons of waste water
- 320 pounds of solid waste



The Extractive Industries Transparency Initiative (EITI) was established as a global initiative in 2002. The EITI has since become the highest profile international standard for promoting transparency and accountability in countries dependent on oil, gas, minerals, and metals. As it is built around cooperation among governments, companies, and civil society organizations, the EITI has been called a “curious coalition” by some. However, this coalition now helps drive transparency in revenues and payments in resource-rich countries across the world as part of their good governance programs.

Implementing the Extractive Industries Transparency Initiative builds on the lessons learned by the countries that have led the way in implementing the EITI. A CD-ROM, which contains sample documents produced in the EITI process, supplements the presentation. The book will help those new to the initiative navigate their way through the various steps in implementing an EITI program and will be of interest to readers working in the areas of transparency; governance and anticorruption; mining; oil, gas, and chemicals; and overall corporate governance.



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