Natural Resource Governance Institute

The Extractive Industries Transparency Initiative (EITI)
Using EITI to Promote Policy Reform

KEY MESSAGES

- The Extractive Industries Transparency Initiative (EITI) is an international, multi-stakeholder initiative that promotes transparency and accountability in the oil, gas and mining sectors through the disclosure of government and company data in resource-rich countries.

- To be EITI-compliant, participating countries must meet a minimum set of standards that deal with the quality of reporting and the multi-stakeholder process used to create reports. This is verified through a validation process.

- In 2013, the EITI expanded to require disclosure of information throughout the decision-making chain. It was previously focused on revenues paid to the national government.

"Provide transparency of information along the entire chain of decisions."

— Natural Resource Charter, Precept 2

The Extractive Industries Transparency Initiative (EITI) is at the forefront of the movement for transparency and accountability in extractive industries resource management. This reader discusses the history, structure, status and challenges of the EITI.
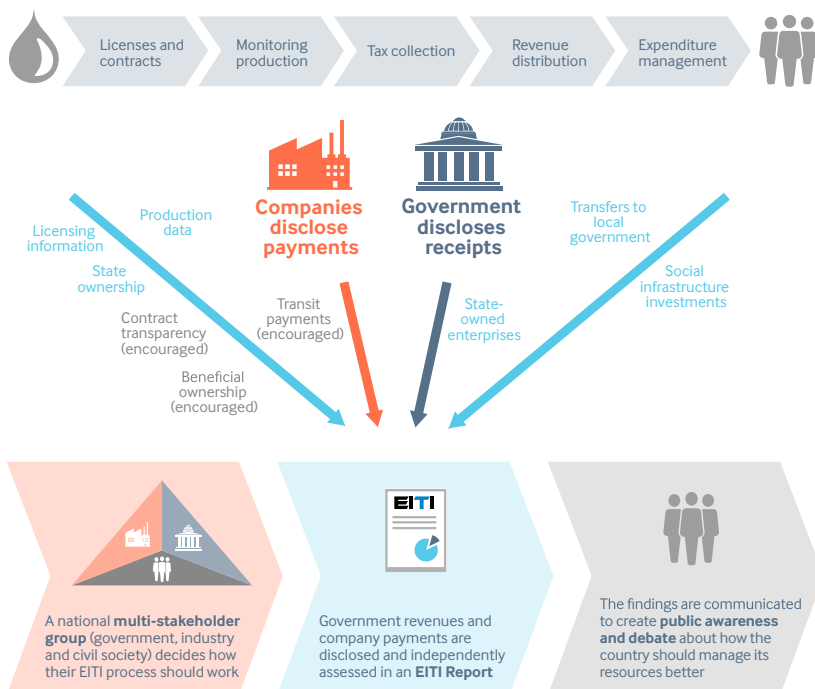

Figure 1. The EITI Standard

Source: EITI Standard, page 8, https://eiti.org/document/standard

This reader is intended for use in conjunction with Precept 2 of the Natural Resource Charter.

EITI GLOBAL STRUCTURE

The EITI is an international multi-stakeholder initiative that aims to promote natural resource transparency and accountability. The EITI is governed by an international board of 20 civil society, government and company representatives. The board makes policy decisions about the EITI, such as the EITI Standard, and assessments about whether countries are meeting those standards. The EITI Standard sets out required and encouraged provisions for countries implementing the EITI. A secretariat based in Oslo is responsible for turning policy decisions of the EITI board into action, and for coordinating worldwide efforts in implementing the EITI.

COUNTRY PROCESS

Countries that wish to participate in the EITI must meet the requirements of the EITI Standard, first becoming a candidate country and then a compliant country. In order to be declared a candidate country, a government must issue an unequivocal public statement of its intention to implement the EITI, appoint a senior individual to lead the implementation of the EITI, commit to work with civil society and companies to establish a multi-stakeholder group (MSG) to oversee the implementation of the EITI, and ensure that the MSG creates a costed work plan. When a country has completed each of these tasks, it may submit a candidate application, and the EITI board, working through its outreach and candidature committee, will review the application and assess whether the sign-up steps have been completed. After being accepted as a candidate, the country has 18 months to publish an EITI report and 2.5 years to commence the validation process.

EITI REPORTS

The MSG in an implementing country is responsible for overseeing the preparation of EITI reports, often supported by a national EITI secretariat. To produce an EITI report, oil, gas and mining companies are required to publish what they pay to governments, and governments are required to publish what they receive. These figures are then reconciled by an independent administrator who is appointed by the MSG, and any discrepancies are investigated. In addition to this payment and revenue data, EITI reports must include information on licenses and license allocations, in-kind revenues, mandated social expenditures, subnational payments, transportation revenues and production data. Disclosure of the text of contracts and licenses and information on the beneficial ownership of extractive companies is encouraged. It is required that EITI data is presented by individual company, government entity and revenue stream. Reporting at project level is required, provided that it is consistent with the United States Securities and Exchange Commission rules and the European Union Accounting Directive.

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Allocation of rights	Production data	Revenue collection	State-owned enterprises (SOE)	Subnational	Social impact	Revenue management
Legal framework and fiscal regime (§ 3.2)	Exploration activities (§ 3.3)	Taxes and primary revenues (§ 4.2(a))	SOE level of beneficial ownership (§ 3.6(c))	Direct payments/receipts (§ 4.2(d))	Employment (§ 3.4(d))	Revenues in and not recorded in budget (§ 3.7)
License award/transfer process and deviation (§ 3.10)	Production volumes and values (§ 3.5(a) and § 3.4(e))	In-kind revenues (§ 4.1(c))	Government transfers by SOEs (§ 4.2(c))	Mandated national/subnational transfers (§ 4.2(e))	Social payments (§ 4.1(e))	Earmarked revenues and budget/audit process (§ 3.8)
Register of licesenses (§ 3.9)	Export volumes and values (§ 3.5(b))	Infastructure/barter provisions (§ 4.1(d))	SOE quasi-fiscal expenditures (§ 3.6(b))			
Beneficial ownership (§ 3.11)	Economic contrbution (§ 3.4(a)-(c))	Transport revenues (§ 4.1(f))				
Contract/license disclosure (§ 3.12)		Revenue disaggregation (§ 5.2(e))				

Figure 2. EITI requirements and recommendations along the decision-making chain
Source: NRGI

VALIDATION

Validation is a review conducted by an independent agency to verify whether the implementing country has complied with all of the requirements in the EITI Standard. Once the validator has completed its review, it submits a report to the EITI board with an assessment of whether the country has met the requirement, not met the requirement but made meaningful progress, or not met the requirement with no meaningful progress.

The EITI board, through its validation committee, reviews the validator's report. Where validation verifies that a country has met all of the requirements the EITI board designates that country as EITI-compliant. EITI-compliant countries are required to undertake validation every three years.

CIVIL SOCIETY PARTICIPATION

Since its inception, the EITI has held to the principle that "all stakeholders have important and relevant contributions to make to advance the EITI principles and standards." Not only does the EITI Standard require that all country implementation decisions are made through the MSG, but it also requires that civil society has the ability to fully, independently, actively and effectively participate. The EITI Standard contains numerous requirements related to civil society participation. All such requirements are continuing obligations; that is, the requirements must be met by countries at candidacy, throughout implementation, at validation and after obtaining compliant status. The EITI Standard also requires that there must be an enabling environment for civil society participation with regard to relevant laws, regulations and administrative rules, as well as actual practice in implementation of the EITI. And civil society organizations must be

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3

able to speak freely on transparency and natural resource governance issues. Concerns about restrictions on civil society participation in an EITI-implementing country can be raised with the EITI board's Rapid Response Committee. An updated Civil Society Protocol will come into force in 2015, providing more detailed guidance on how the civil society requirements will be assessed.

Case study: Liberia

In 2009, the Liberia Extractive Industries Transparency Initiative Act (LEITI) established the EITI process into national legislation. The LEITI requires disclosure of revenues and payments from the extractive industries, as well as agriculture and forestry. In addition to information about revenues, LEITI requires disclosure of all contracts in the sector and has started disclosing information about the ownership of companies.

LEITI has had positive repercussions far beyond the broad collection and publication of figures. In a country with a violent recent history, the EITI has been able to promote trust between wary stakeholders and made it easier for people to ask the government how money is collected and used. As noted by the Liberian Senator Milton Findley, the EITI process has cut out the suspicion, gossip and hearsay that have plagued previous administrations. Furthermore, by being apolitical, the report is trusted by all stakeholders working toward a common end. Finally, the report has been used by local communities and companies to foster trust, demonstrate social impacts and ensure better local revenue distribution.

BENEFITS OF ENGAGING WITH THE EITI

As of October 2014, there are 31 compliant countries and 17 candidate countries. Lessons from these country experiences illustrate that EITI can be a valuable tool for oversight and reform, or it can be a superficial "box-ticking" exercise. When used as a valued tool, it can:

- **Inform oversight.** Analysis of the information in EITI reports can help identify governance weaknesses, which can help stakeholders monitor the management of the oil, gas or mining sectors and develop recommendations for policy reform.

- **Inform sector lawmaking.** EITI reports can shed light on the allocation of extractive rights, the functioning of state-owned companies, the effectiveness of revenue collection, and shifts in production—all factors that can inform lawmaking.

- **Inform annual appropriation decisions.** EITI reports, particularly if detailed and maintained regularly over time, can lift the veil on where revenue amounts come from and how they are likely to vary from year to year.

- **Ensure the government is working in the public interest.** The general public, civil society and media can ensure the government is getting a good deal for the country's natural resources and allocating extractives revenues for the public good.

- **Root out or uncover corruption.** EITI reports can help in overcoming systemic corruption or misappropriation of funds.

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NRGI'S INTERACTIVE GUIDE TO THE EITI

NRGI has developed an easy-to-use interactive guide on the EITI standards and how the EITI can generate meaningful information that improves natural resource governance. For each policy issue covered by the EITI, the guide provides an overview of the issue and why it matters, explains the reach of the EITI requirements, and provides recommendations, examples and references for further reading. The guide also contains a complete slide set for training purposes. See more at resourcegovernance.org/eitiguide.

Figure 3. NRGI's interactive guide to the EITI

Source: NRGI

QUESTIONS TO ASK

- If information from extractive companies and government agencies is not publicly available in my country, would the EITI be useful?

- If the government is implementing EITI, at what stage of the process is it? Are EITI reports disclosing information that is relevant to the most pressing governance challenges in the country? Are EITI reports being analyzed and used in policymaking?

- Has the multi-stakeholder group been established? Is it equipped to perform its mandate? Has civil society been a part of the process?

- Is civil society able to meaningfully participate in discussion about natural resource governance in my country? If not, what would need to be changed for this to happen?

ADDITIONAL RESOURCES

EITI, *The EITI Standard* (2013), available at: https://eiti.org/files/English_EITI%20STANDARD_11July_0.pdf

NRGI, *Using EITI for Policy Reform: NRGI Guide to the EITI Standard* (2014), available at: http://www.resourcegovernance.org/eitiguide/#

More information about implementation in various countries can be found on the EITI website at: https://eiti.org/countries

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Oil, gas and mining for development